

IT Services Valuation Multiples: 2015-2023

Q1 2024 update

About Aventis Advisors

We advise founders of **technology and growth** companies on company exits and strategy.

Our focus sectors are **Software and IT Services**.

Our job is to make sure you **sell at the right time to the right people** for a fair valuation.

Technology M&A focus

New York & Warsaw

Cross-border expertise

Thought leadership

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Table of Contents

1. IT services valuations: Listed companies
2. IT services valuations: M&A transactions



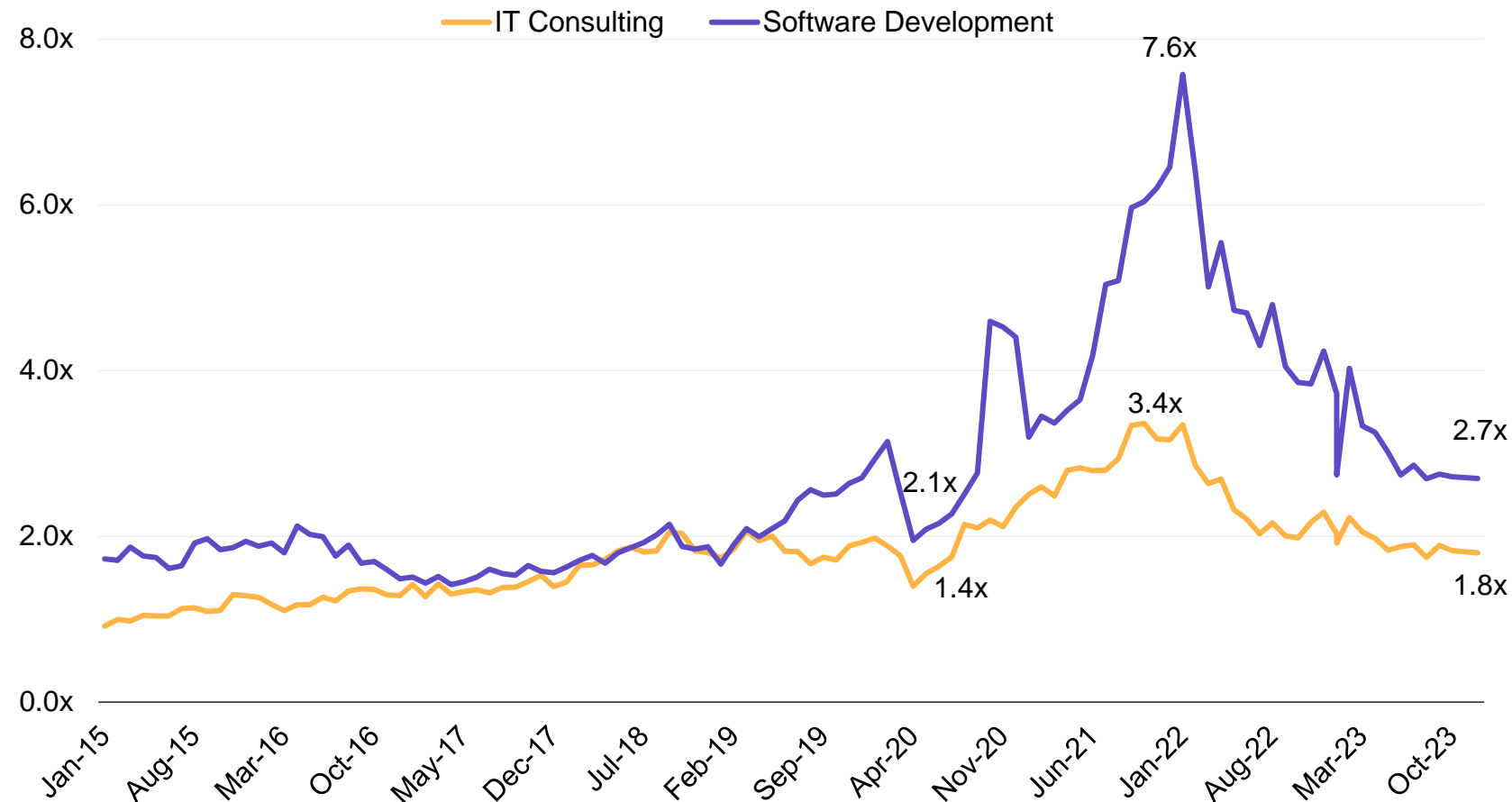
Listed IT services: Scorecard

Median metrics		IT consulting: Q4 2023	vs. Q3 2023	Software development: Q4 2023	vs. Q3 2023
EV/Revenue	x	1.8x	unch.	2.7x	unch.
EV/EBITDA	x	13.4x	+0.2x	16.2x	unch.
Revenue growth	%	2.3%	-1.7pp	6.3%	-3.7pp
Gross margin	%	30.1%	-0.8pp	29.3%	-2.0pp
EBITDA margin	%	15.5%	+0.5pp	14.0%	-1.9pp

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 – Q4 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 Q4 2023
- After its fallback in late 2020, the median revenue multiple grew steadily throughout 2021, from 3.2x to 7.6x for Software Development.

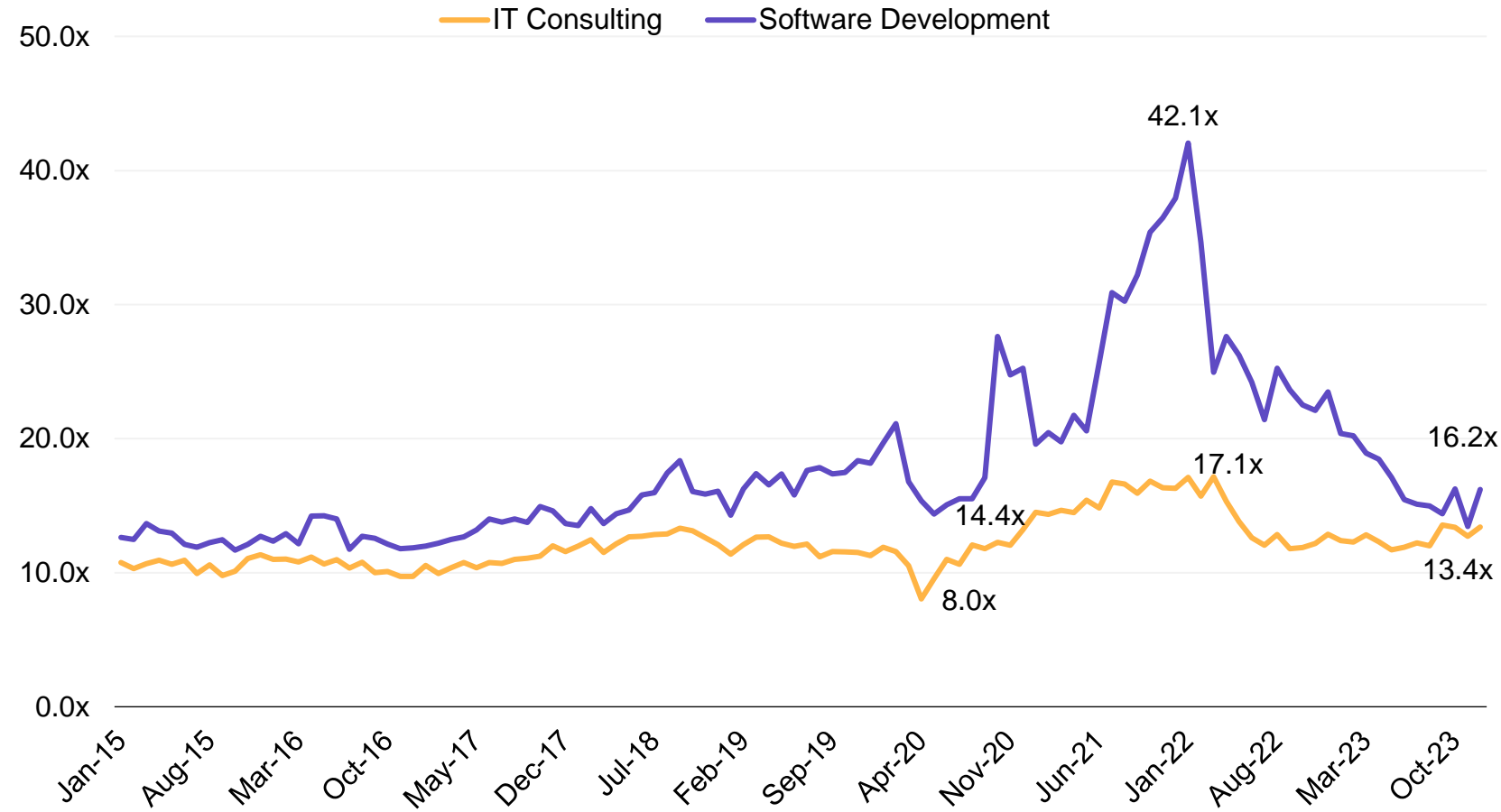
Q4 2023 update

- At the end of Q4 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 Q4 2023

Median EV/EBITDA Multiple, 2015 – Q4 2023, (IT Consulting n=26 and Software Development n=10)



Comment

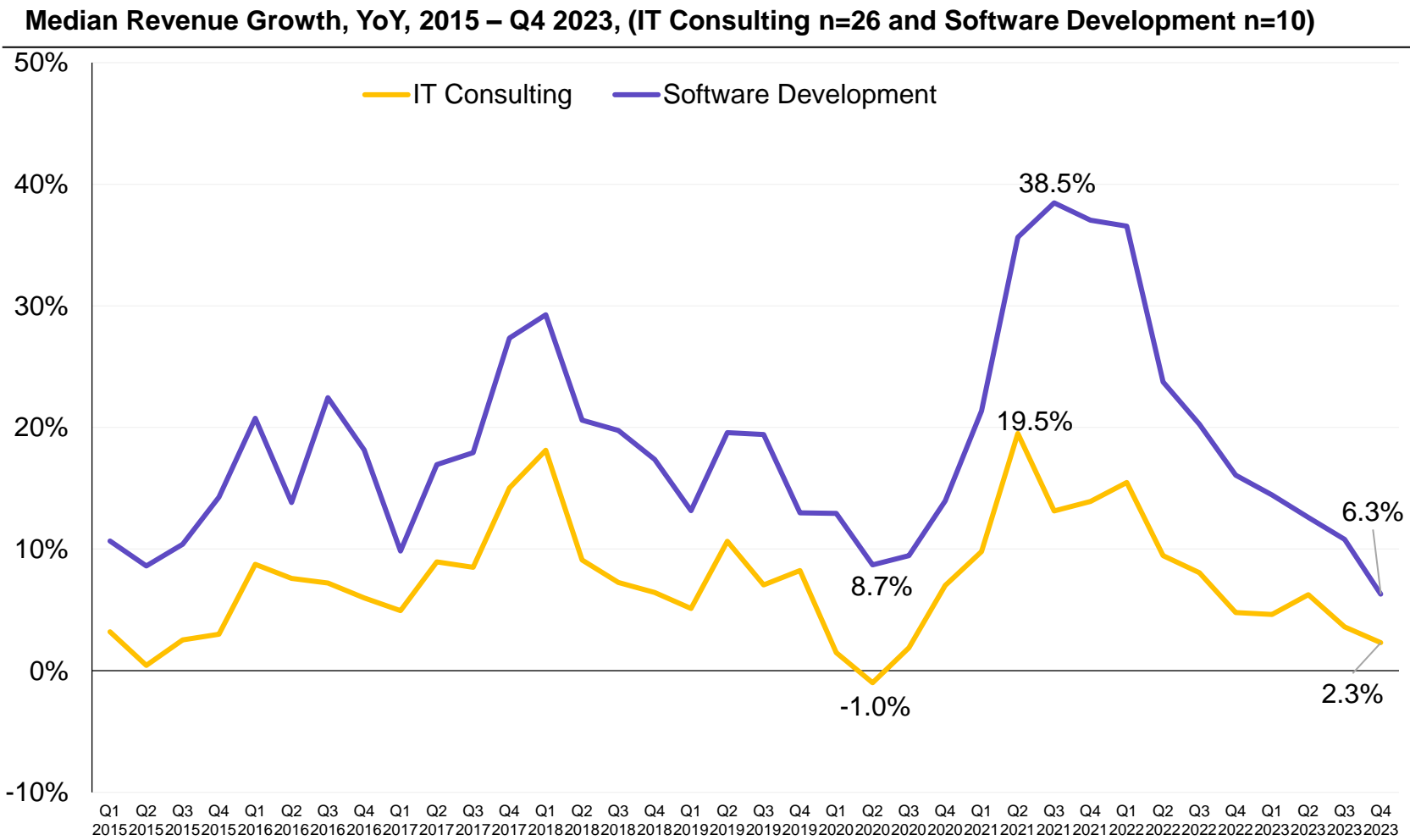
- IT Consulting had a relatively stable median multiple with very little volatility before the pandemic outbreak.
- The median multiple of IT Consulting peaked in late 17.1x and has been declining since.
- The median multiple of Software Development was constantly higher than that of IT Consulting.
-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

Q4 2023 update

- The median EV/EBITDA multiple in Q4 2023 was 13.4x for IT Consulting and 16.2x for Software Development

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

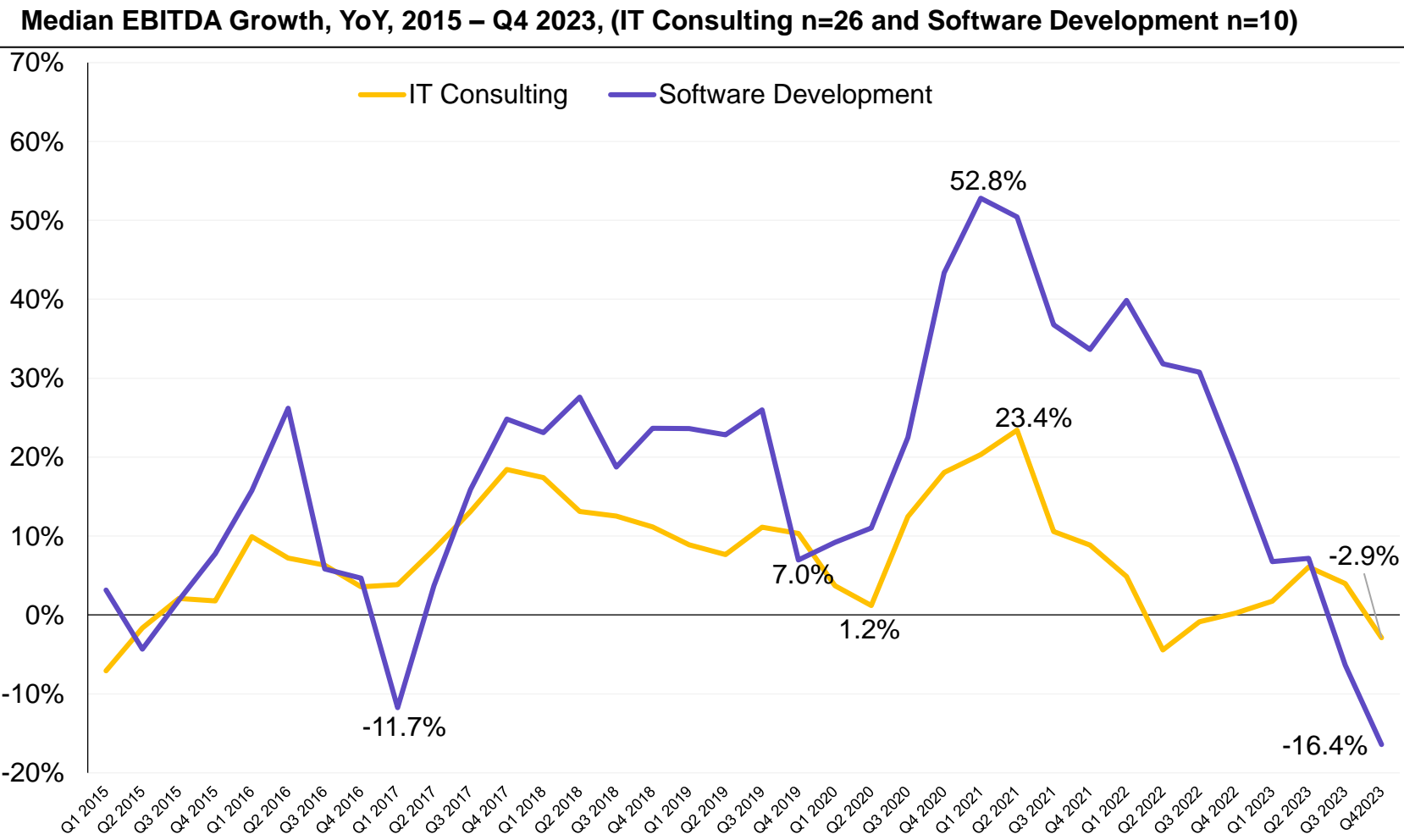
- The pandemic rapidly accelerated the demand for both types of IT Consulting and Software Demand – a pull-forward effect as companies had to prioritize their expenditure on digitalization.
- After the turning point in H2 2021, revenue growth of both IT Consulting and Software Development has been declining.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

Q4 2023 update

- At the end of Q4 2023, the slowdown in revenue growth continues. The median revenue growth was 2.3% for IT Consulting and 6.3% 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 Q4 2023



Comment

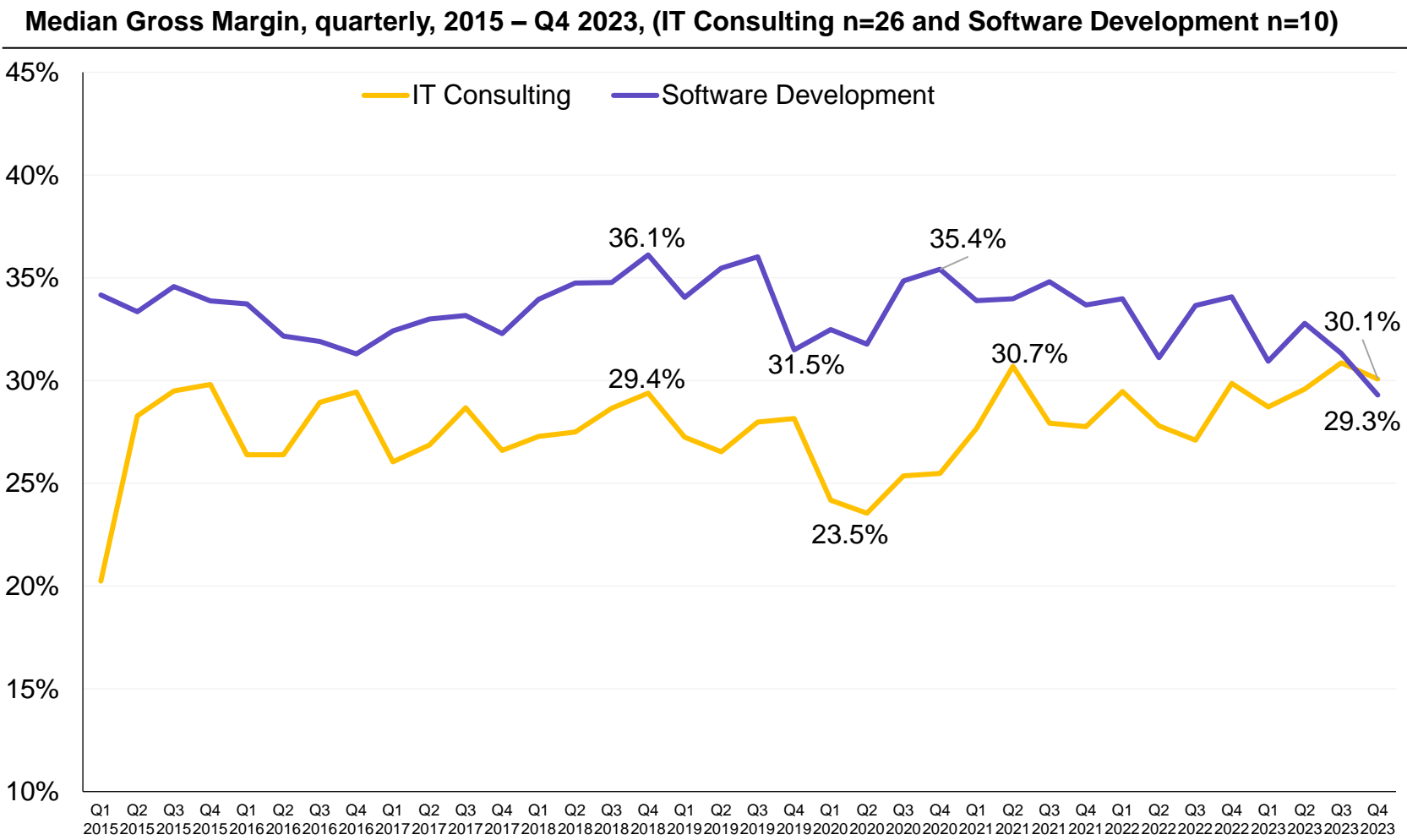
- Since late 2015, IT Consulting has maintained a positive median EBITDA growth rate, only dipping into negative territory from 2022 as the macro environment worsened.
- The median EBITDA growth of IT Consulting hovered between -7.1% and 23.4% and averaged at 7.4% throughout the analyzed period.
- The median EBITDA growth rate of Software Development skyrocketed with the pandemic outbreak, increasing by 49pp between Q4 2019 to Q1 2021

Q4 2023 update

- In Q4 2023, IT Consulting followed Software Development to record negative EBITDA growth. For IT Consulting, median EBITDA growth was -2.9% while for Software Development the slowdown continued as they fell deeper into negative territory with -16.4%.

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



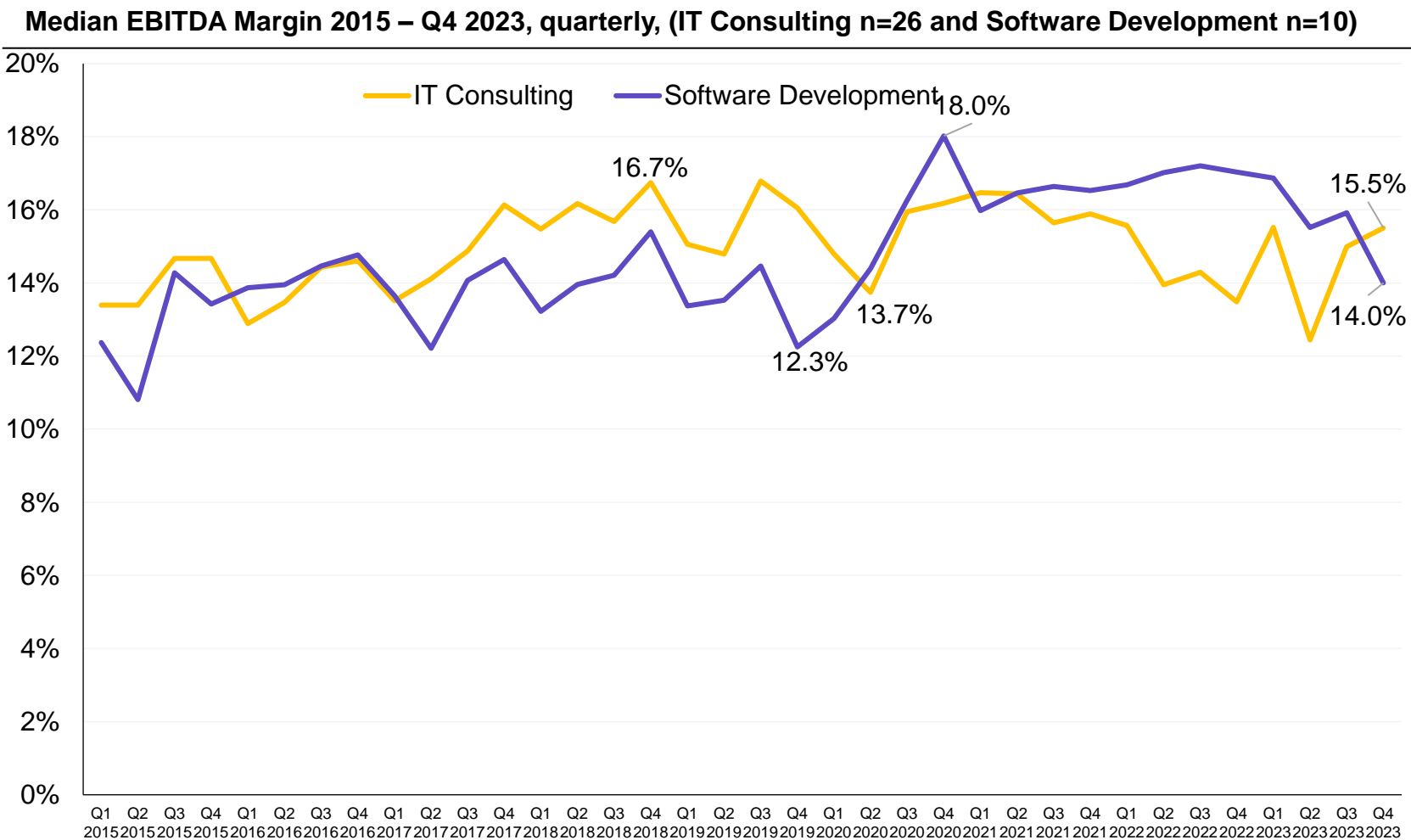
- Comment**
- From 2015 to 2020, the quarterly median gross margin for Software Development companies have consistently outperformed that of IT Consulting
 - While Software Development median gross margins still beat IT Consulting, there is an evident new trend starting to form post Q2 2020
 - IT Consulting median gross margins have improved from 25% in Q4 2020 to 30% in Q4 2023 while Software Development still hovers between 31% to 35%

Q4 2023 update

- As of Q4 2023, gross margins of software development businesses have fallen below their IT Consulting peers. In the final quarter of 2023, the median gross margin for Software Development was 29.3% Vs 30.1% for IT consulting

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.

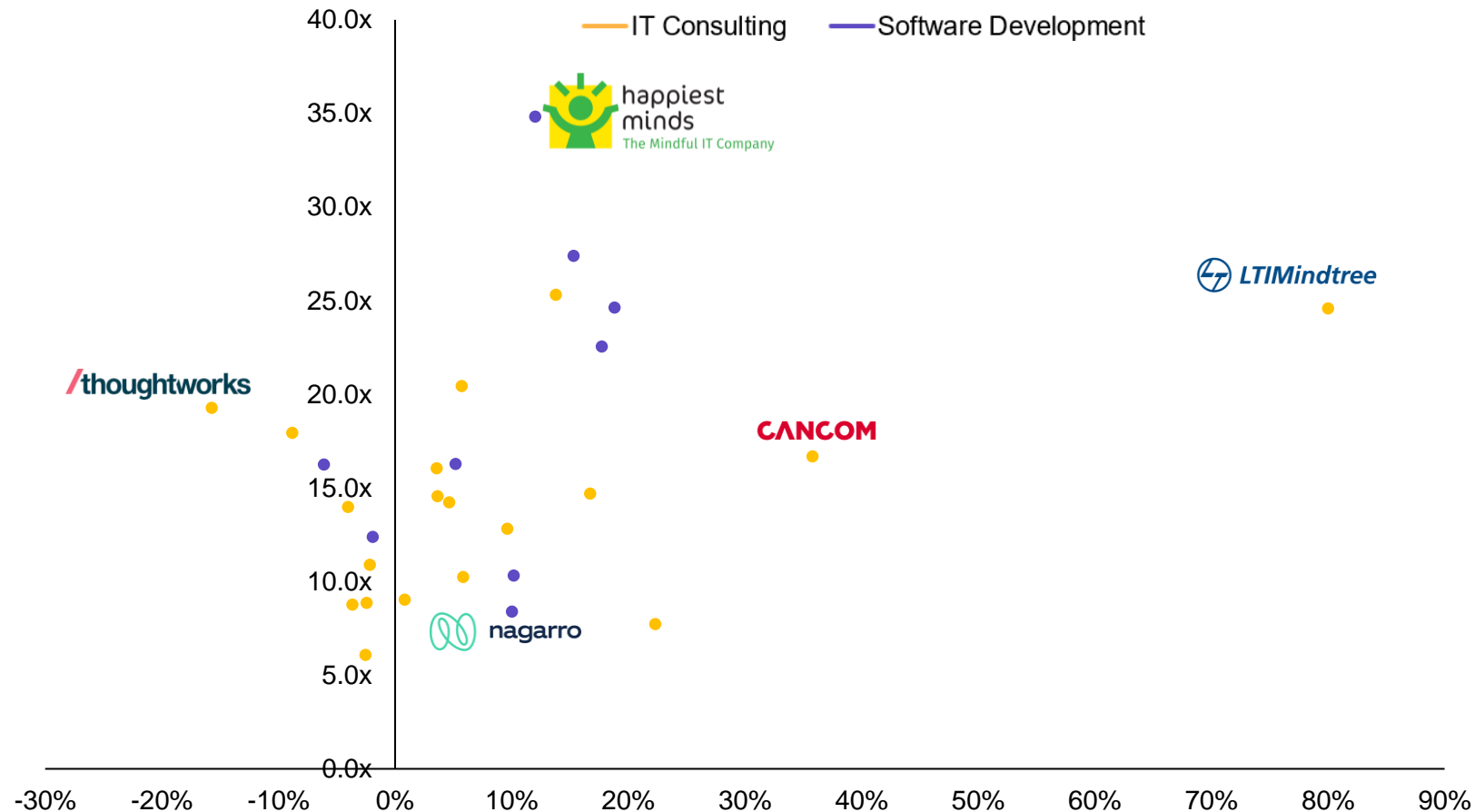
Q4 2023 update

- At the end of Q4 2023, the median EBITDA margin for Software Development dipped below IT Consulting, like the trend observed in Gross Margin. The median EBITDA margin was 15.5% for IT Consulting and 14.0% 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 31.12.2023



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

Q4 2023 update

- While in Q3 2023 we concluded a 1% increase in revenue adds 0.3x to EV/EBITDA, we see in Q4 2023 that the same percentage change in revenue results in just 0.02x expansion in EV/EBITDA multiple

Table of Contents

1. IT services valuations: Listed companies
2. IT services valuations: M&A transactions



M&A Transactions: IT Services multiples

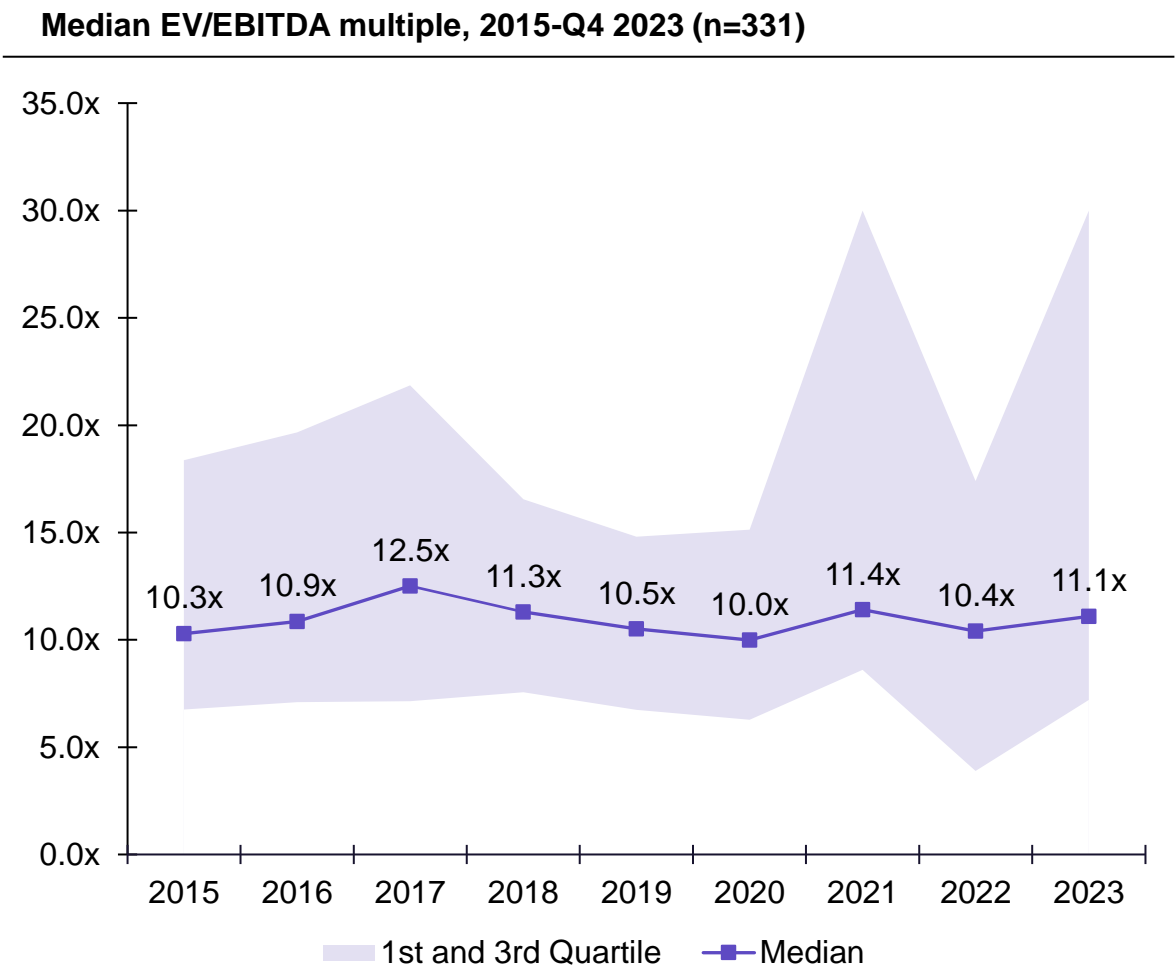
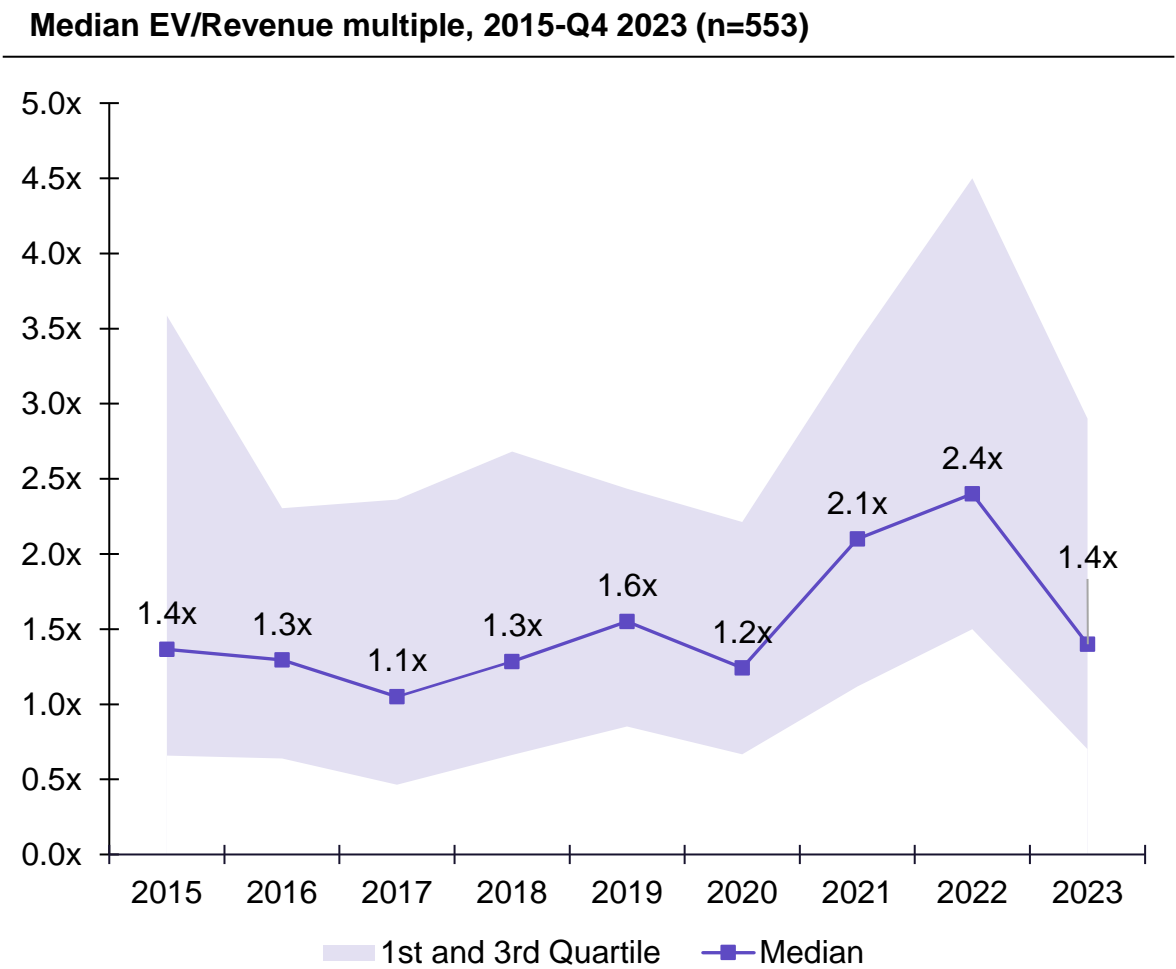
Over the past 8 and a half years, IT service companies have been valued at around 11.1x EBITDA or 1.4x Revenue

Multiple	Sample (n)	1st quartile	Median	3rd quartile
EV/Revenue	553	0.7x	1.4x	3.0x
EV/EBITDA	331	7.3x	11.1x	18.1x
EV/EBIT	248	10.3x	15.6x	29.7x

Search criteria:
Industry is Computer services
Deal value is disclosed
Period: 01.01.2015 – 14.03.2024
N=553 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 March 2024



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	51	0.9x	6.2x
5-20	172	1.1x	8.0x
20-50	78	1.3x	10.8x
50-100	71	1.3x	11.8x
100-500	113	2.0x	13.7x
500+	68	2.1x	12.6x
Total	553	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	255	34	1.2x	10.0x
Asia	147	38	2.1x	12.9x
North America	114	77	1.5x	12.5x
Other	37	19	1.0x	7.7x
Total	553	42	1.4x	11.1x

Search criteria:

Industry is Computer services

Deal value is disclosed

Period: 01.01.2015 – 14.03.2024

N=553 transactions

Contact us

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



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