

*Aventis Advisors*

# Aventis IT Services Index

November 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

Cross-border expertise

Thought leadership

*Aventis Advisors*



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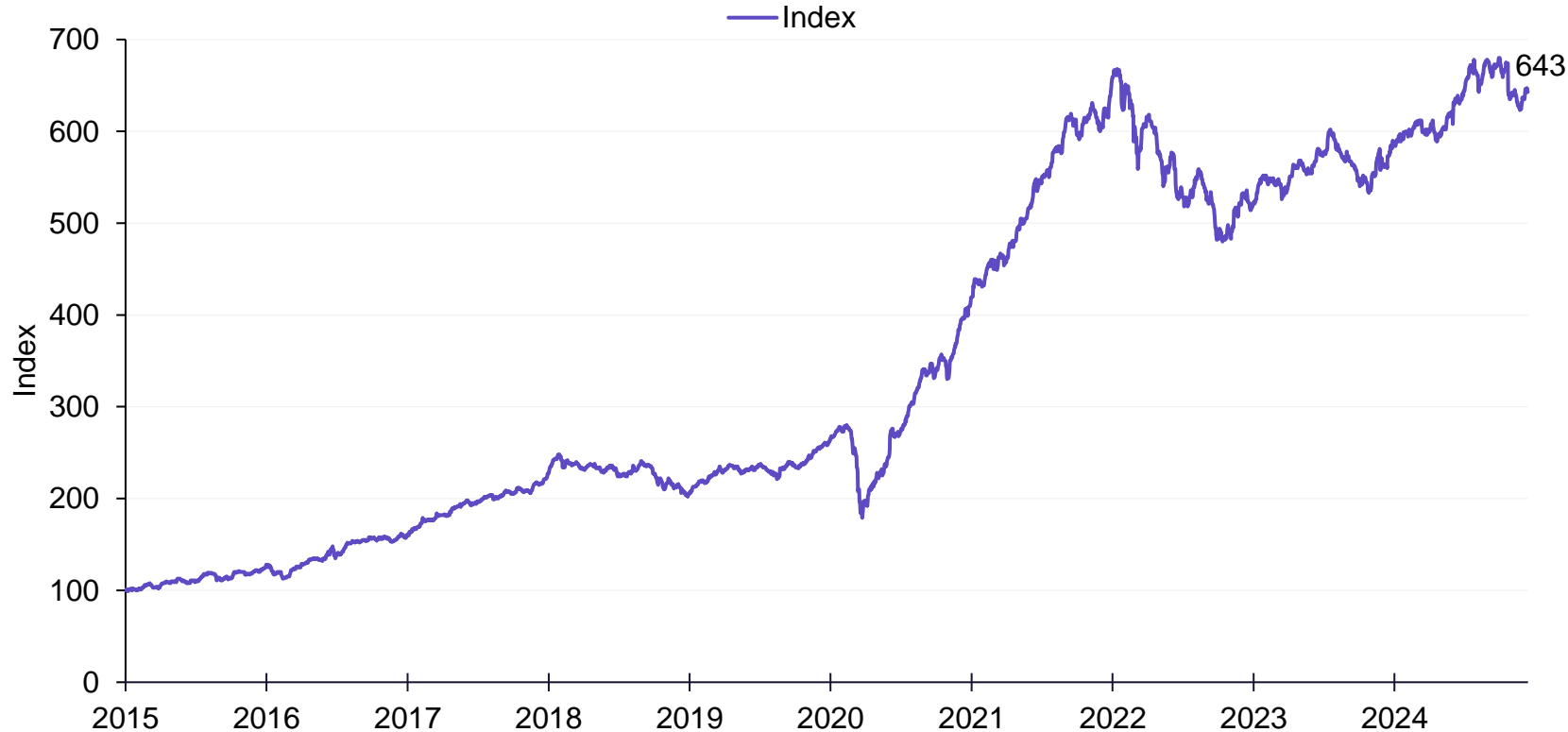
1. [Aventis IT Services Index](#)
2. Index composition



# Aventis IT Services Index

Our IT services companies index has grown by 6x over the past 9 years

## Aventis IT Services Index, 2015-2024



## Comments

- The Aventis IT Services Index constitutes small, medium, and large enterprises, making it one of the most comprehensive in the industry.
- Over the analyzed period, the Aventis IT Services index grew by 6x, i.e., a compounded growth rate of ~22%

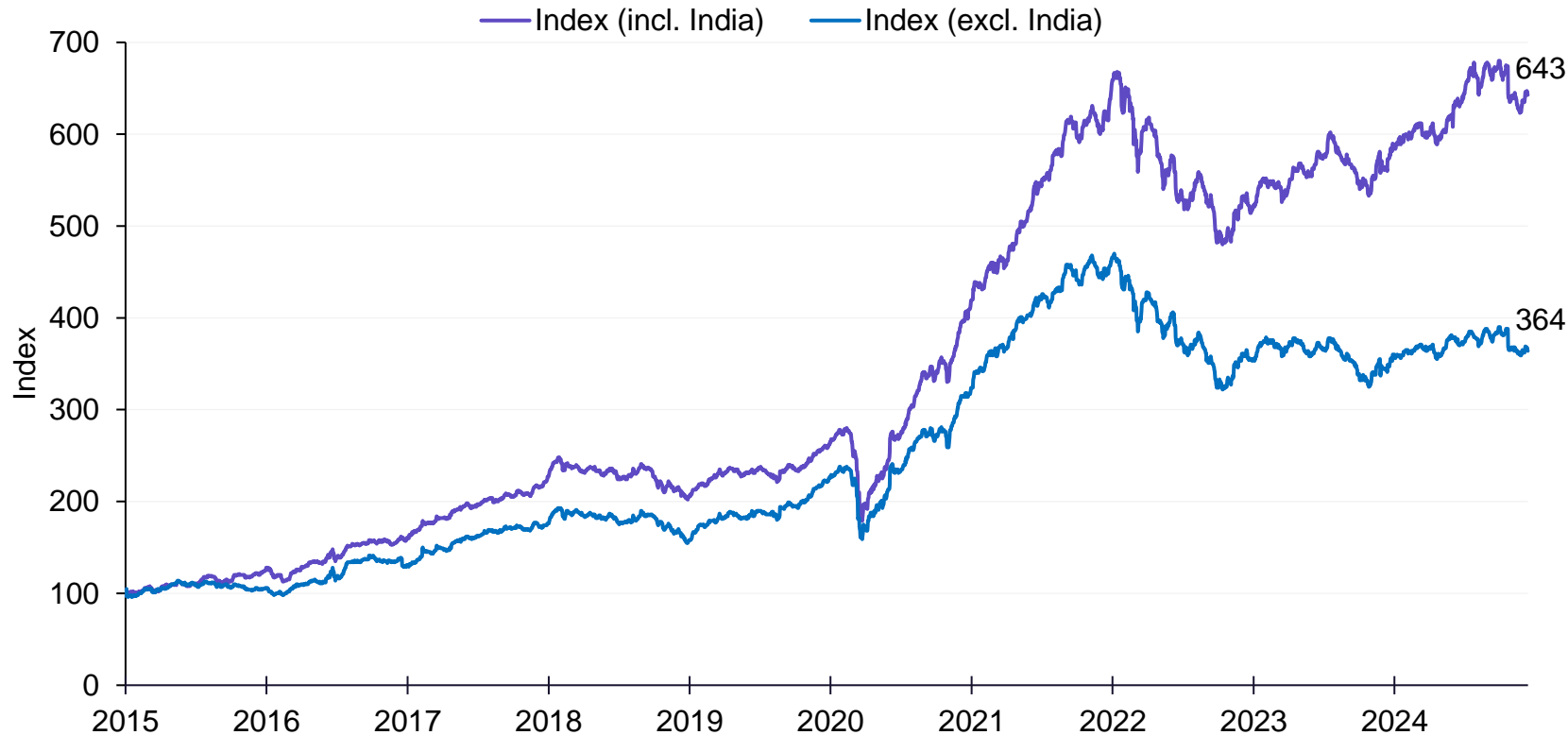
Note: includes 187 IT services companies from 31 countries with a revenue of \$10M+ as of 03.06.2024

Equal-weighted index; rebalanced monthly at the last business day of the month. Click [here](#) for the full methodology.

# Aventis IT Services Index

Indian IT services companies play a major role in driving the industry's growth

## Aventis IT Services Index, 2015-2024



## Comments

- If Indian IT services firms were excluded from the index, the Aventis IT Services Index grew by only 4x, i.e., a CAGR of 16% vs. 22% with the all-inclusive index
- The strong performance of the India-inclusive index suggests that investments in Indian IT services companies could yield higher returns, albeit with potentially higher volatility

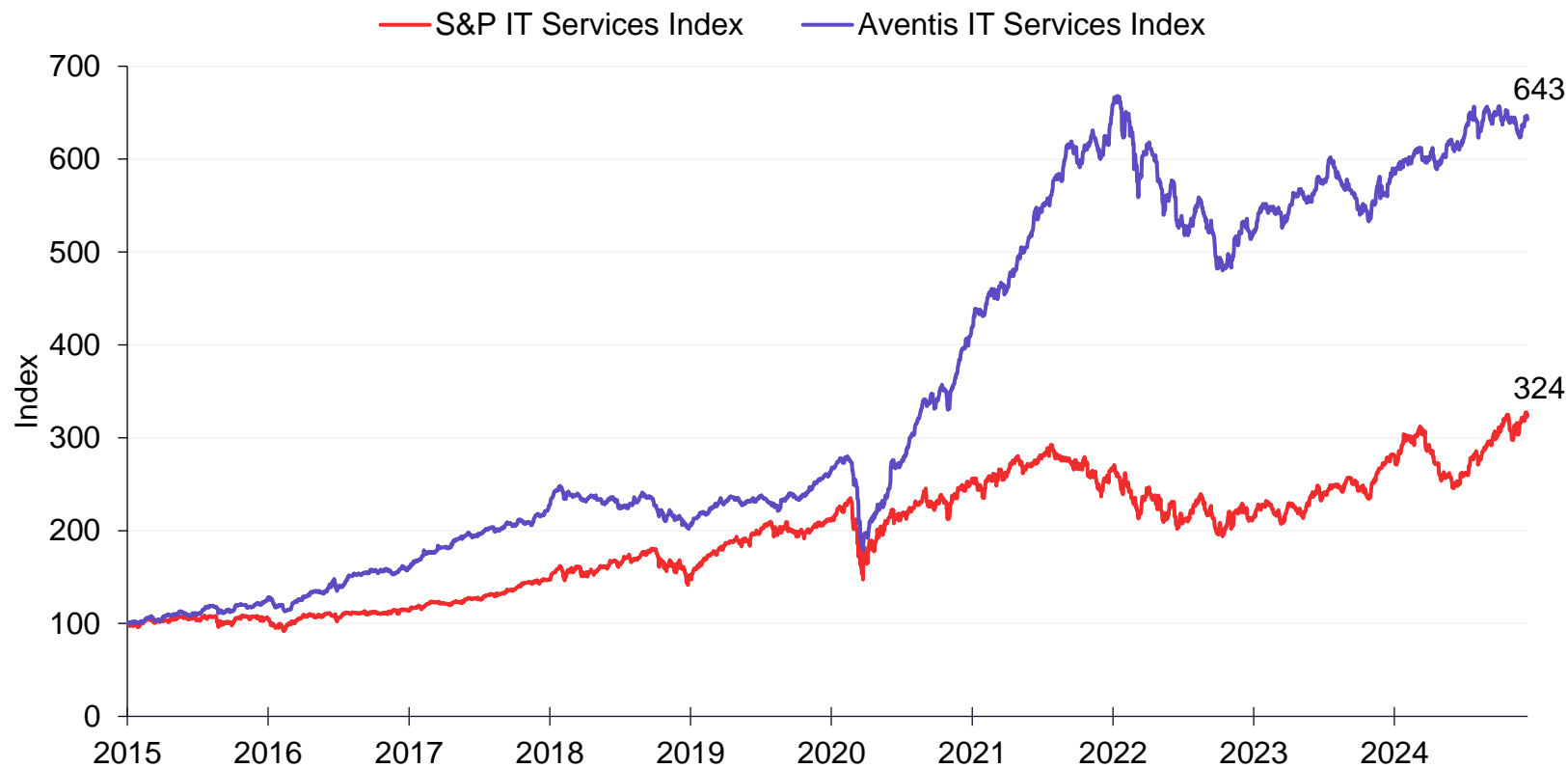
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Equal-weighted index; rebalanced monthly at the last business day of the month. Click [here](#) for the full methodology.

# Aventis Vs S&P IT Services Index

Aventis IT services index is a more comprehensive and global benchmark of IT services companies as compared to S&P 500 IT services index

**Aventis IT Services Index and S&P IT Services Index, 2015-2024**



Note: S&P index value is rebased and starts from '100' from 01/01/2015 for a fair comparison and understanding  
CAGR calculated for nine-year period from 2015 to 2023

## Comments

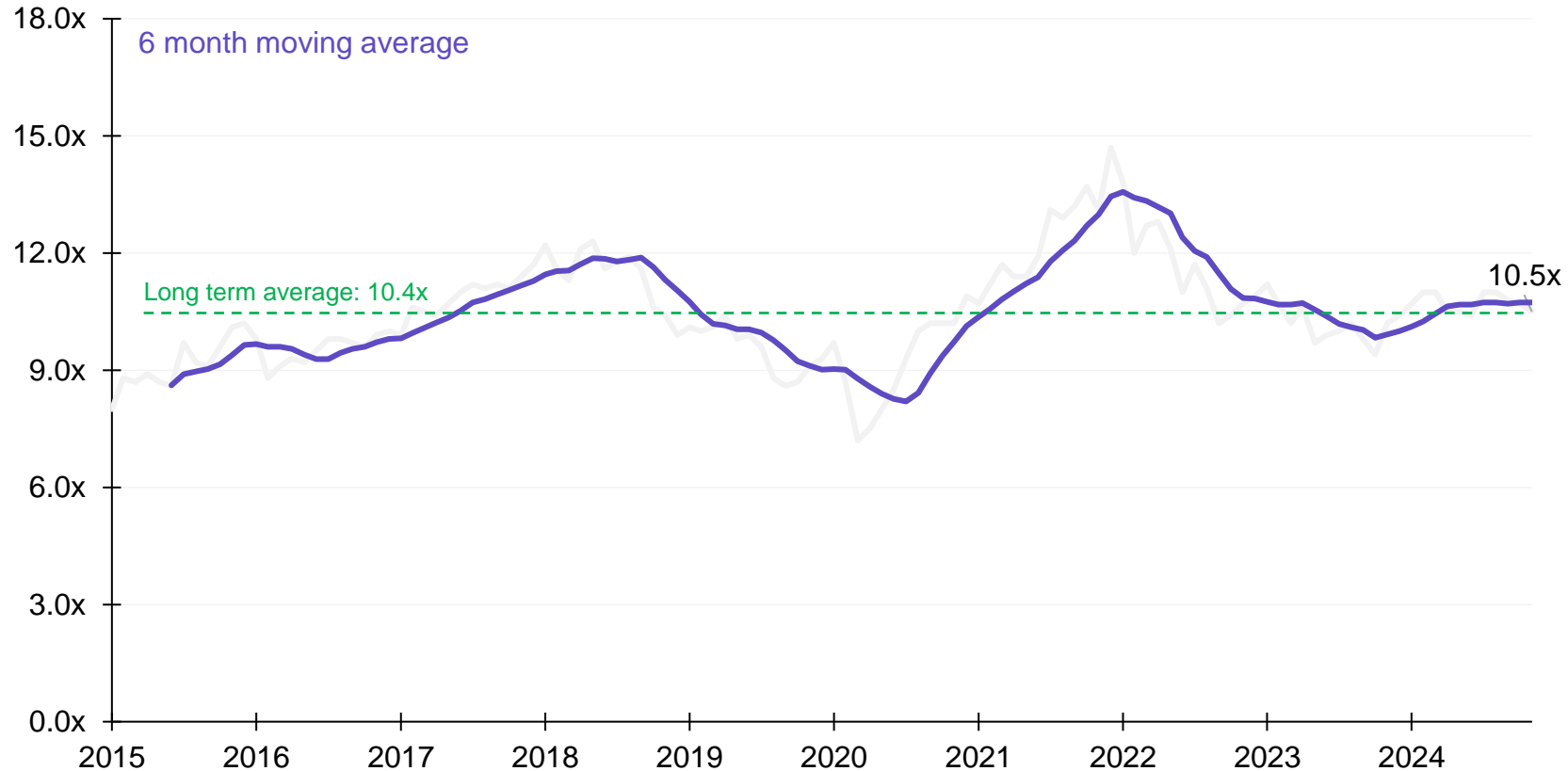
- The Aventis IT services index mimics the general trend of the S&P IT services index but overall, Aventis index outperforms S&P IT services index in most years
- Our index comprised of IT services firms of varying sizes and from different geographies
- Hence, it is evident that foreign IT services companies, especially the smaller firms in the Aventis Index outperformed IT Services companies in the US

| Comparison          | S&P IT Services | Aventis IT Services incl. India | Aventis IT Services excl. India |
|---------------------|-----------------|---------------------------------|---------------------------------|
| No. of constituents | 7               | 187                             | 151                             |
| Geography           | USA             | Global                          | Global excl. India              |

# Valuation: EV/EBITDA Multiples

IT company EBITDA multiples have seen high volatility over the past 9 years

Median EV/EBITDA multiples, 2015-2024 (n=187)



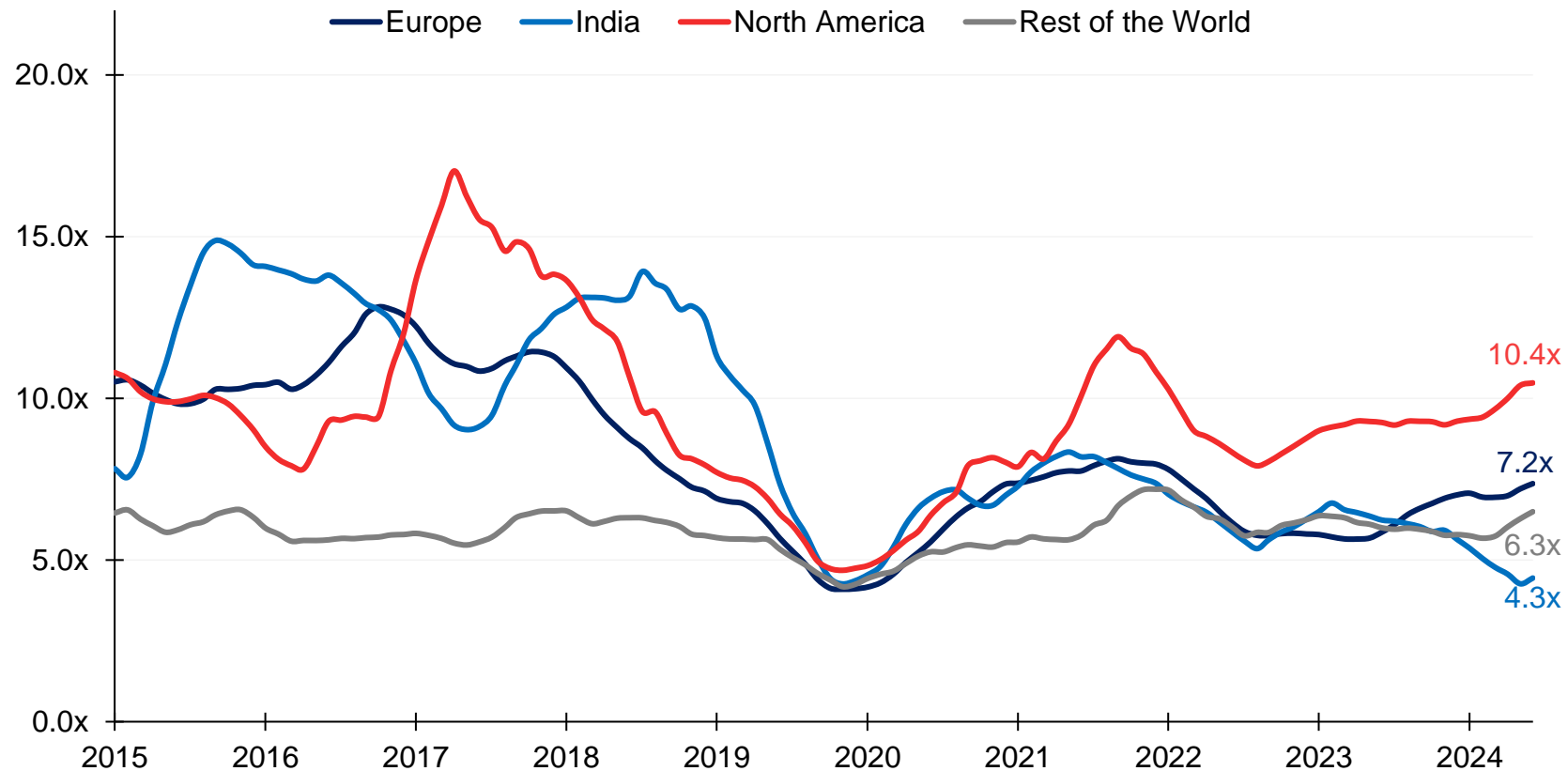
## Comments

- The EV/EBITDA multiple serves as the primary valuation tool for IT companies due to their simple business model and strong cash generation potential
- EV/EBITDA multiple for IT services companies fluctuated over the past 10 years, primarily driven by revenue growth and cycles in IT spending (see slide 10-11)
- The EV/EBITDA multiple rose dramatically during the pandemic, as did all tech and software as lower interest rates increased intrinsic value
- The long-term average EV/EBITDA multiple for IT services companies stood at 10.4x

# Valuation: EV/EBITDA Multiples by Geography

Median EBITDA multiples vary by region with India leading the way

Median EV/EBITDA multiples by region, 2015-2024 (n=187)



Note: EV/EBITDA multiples are presented on a 6-month rolling average basis

## Comments

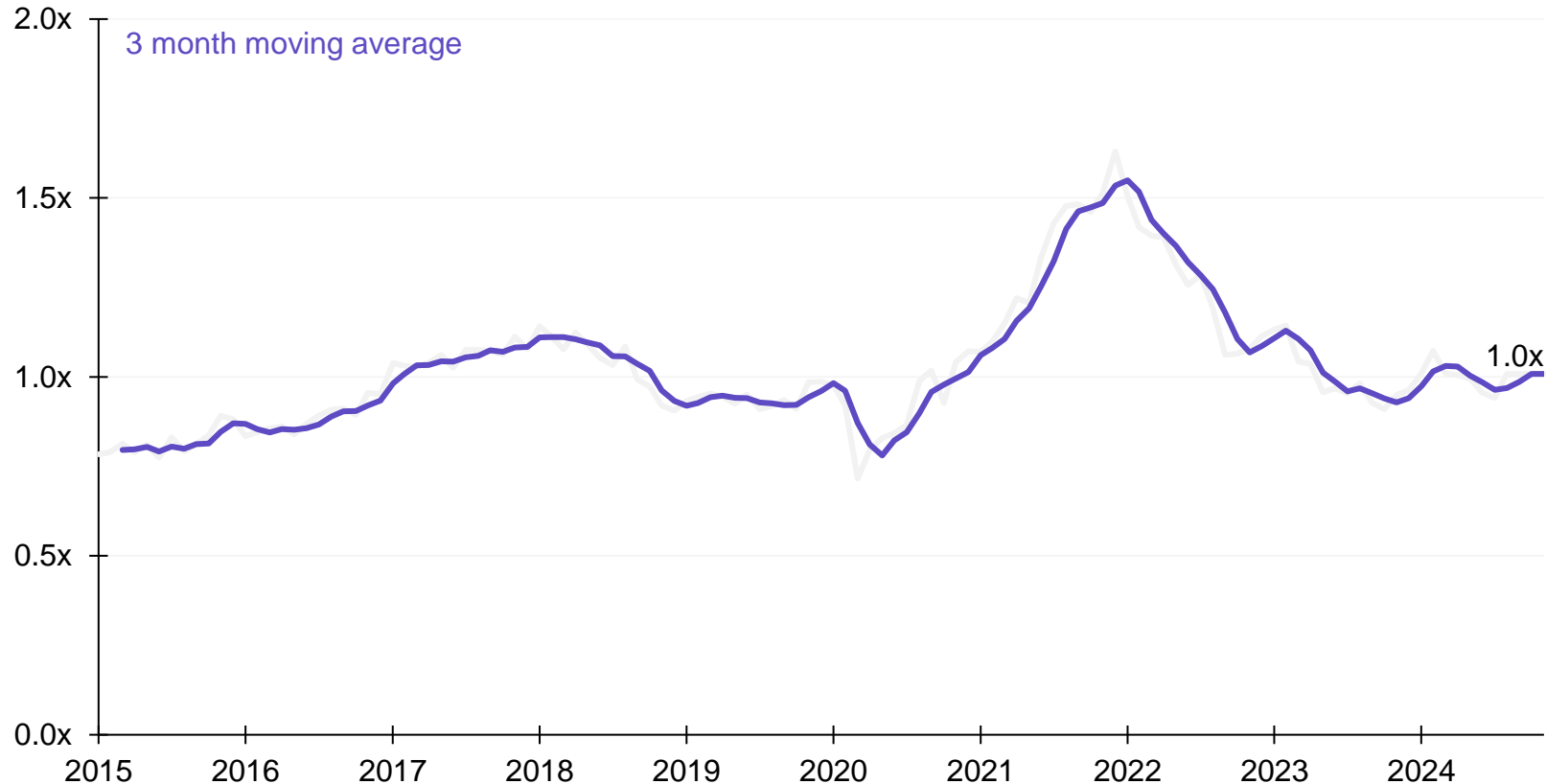
- The median 6-month rolling average EV/EBITDA multiple for IT services companies in India was at its lowest in the beginning of the pandemic at ~4.0x
- Multiples from Europe and the RoW seem to stagnate and decrease slightly due to the overall macro environment headwinds
- Indian companies' valuations have been growing in line with the broader Indian stock market with a significant premium over other firms in 2024



# Valuation: EV/Revenue Multiples

Over the last decade, the average EV/Revenue multiple for IT companies in our index was 1.0x

Median EV/Revenue multiples, 2015-2024 (n=187)



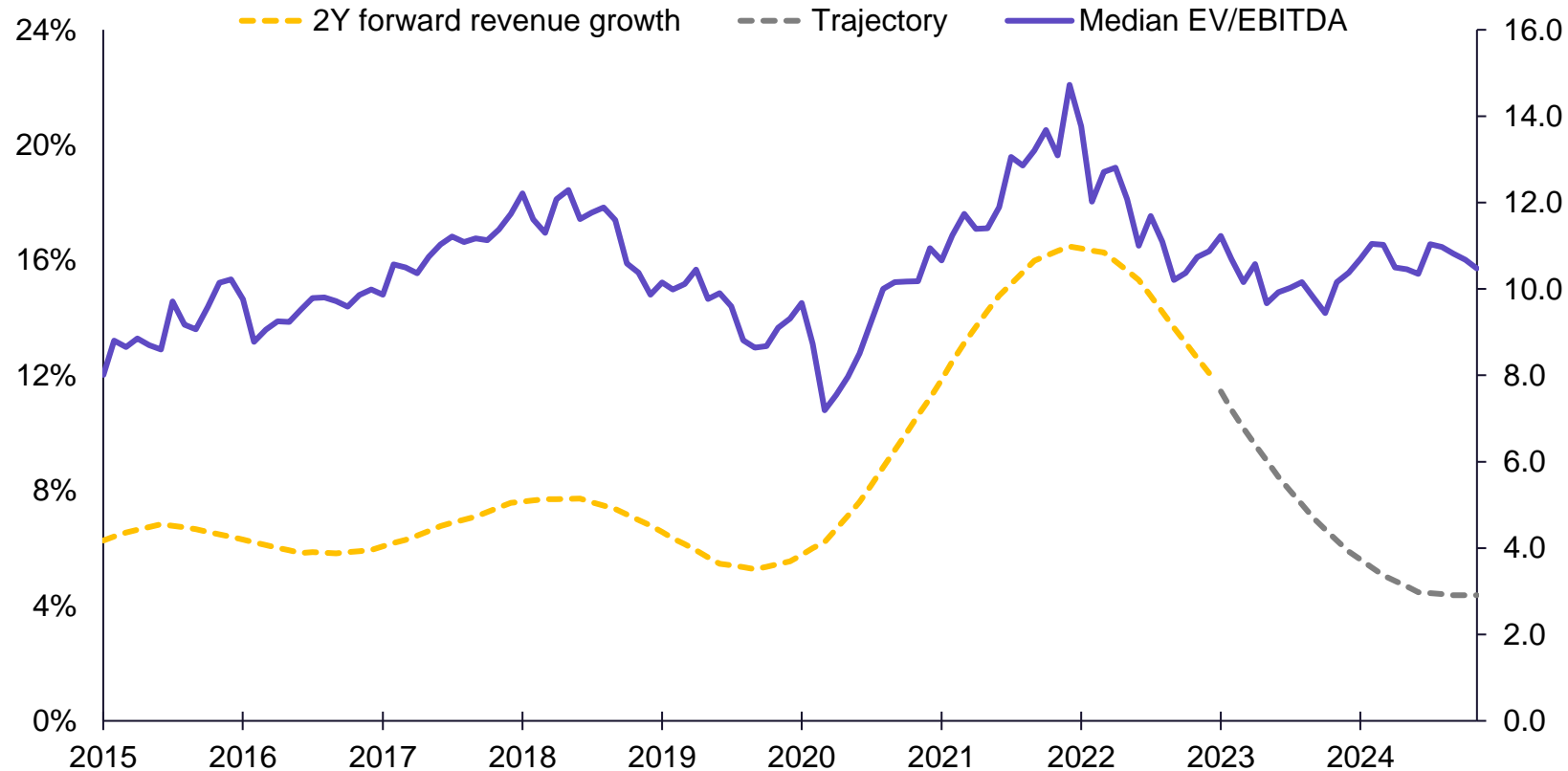
## Comments

- Over the analyzed period, revenue multiples have been growing as the companies analyzed have been growing margins (same EBITDA multiple corresponds to the larger revenue multiple)
- Revenue multiples peaked at the start of 2022 and have been slowly declining ever since
- As of August 2024, the median EV/Revenue multiple for an IT company stands at 1.0x

# Valuation drivers: Revenue growth (1/2)

Valuation multiples are directly impacted by investor expectations such as expected revenue growth in the next twenty-four months period

Median EV/EBITDA multiple vs next 2Y average revenue growth



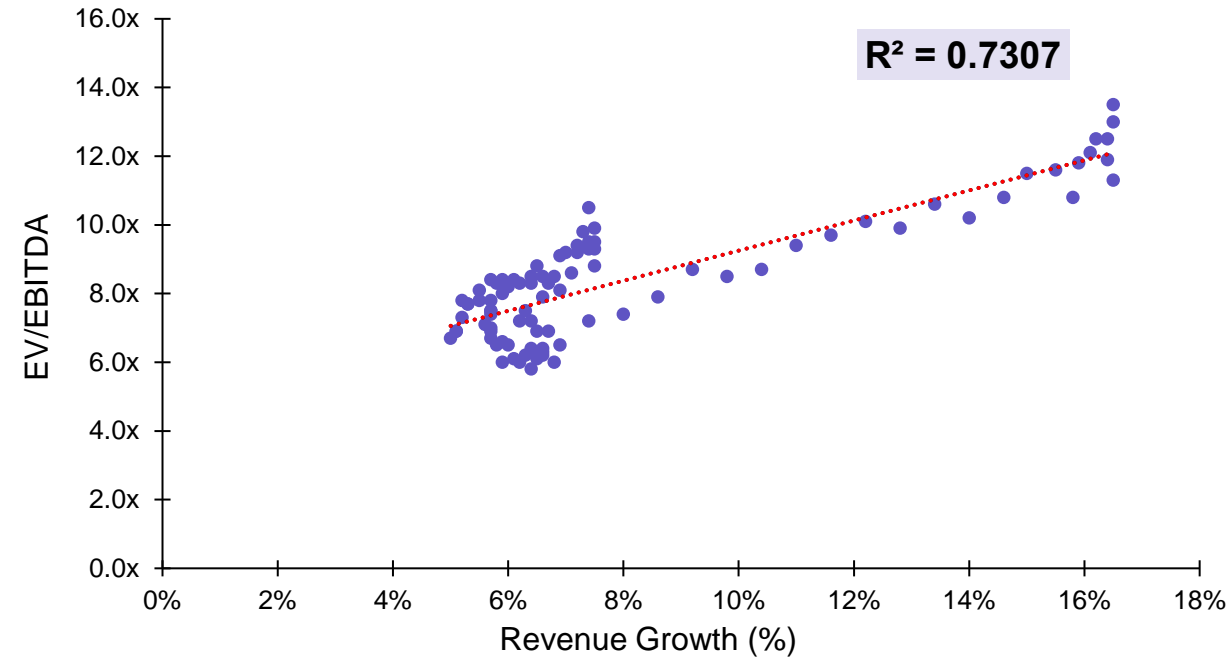
## Comments

- The EV/EBITDA multiple for IT services companies increases when there are positive revenue and earnings growth expectations in the future
- The 2020-21 period illustrates how EV/EBITDA multiple increases with investor expectations of revenue growth over the next-24-months period
- In 2022 and 2023, the valuation multiples decreased in anticipation of the slowdown in IT spending due to higher interest rates and the pull-forward effect
- Assuming the revenue growth in the coming months remains at 4.9% as currently (August 2024), the 2Y forward revenue growth will gradually decline as shown in our forecast growth trajectory

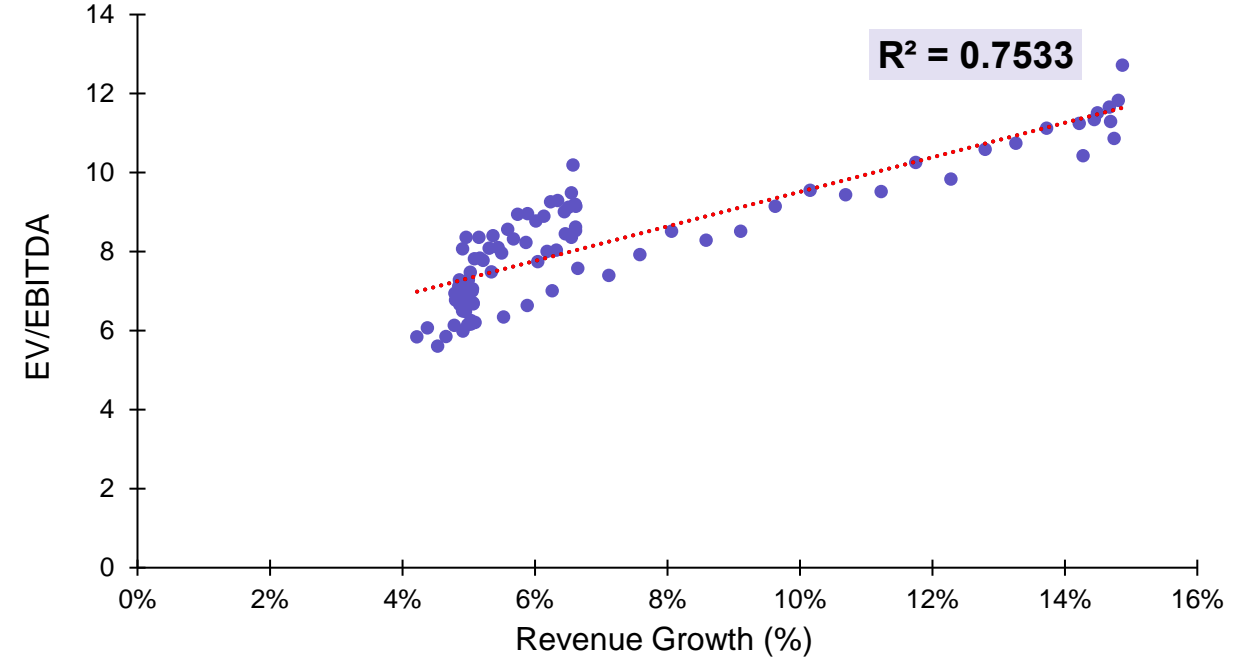
## Valuation drivers: Revenue growth (2/2)

The EV/EBITDA multiple of IT services companies is influenced by the expected revenue growth of the company in the next 2 years

EV/EBITDA vs 2Y average future revenue growth (incl. Indian companies)



EV/EBITDA vs 2Y average future revenue growth (excl. Indian companies)

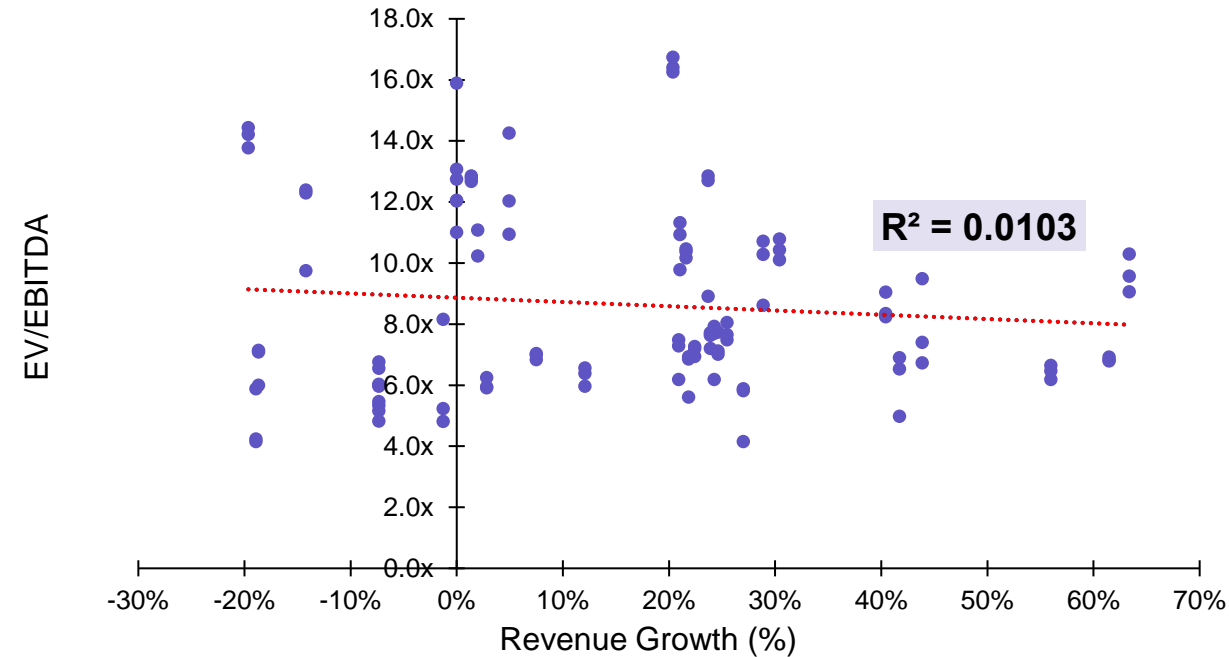


- R-squared tells us **how strong the relationship is** between two variables; in our case it is **EV/EBITDA multiple** and **future revenue growth**. The max value for R2 can be 100% or 1.
- From our analysis, **we can be certain that EV/EBITDA multiple of IT services companies depends heavily on the anticipated revenue growth in the next two years** in 75% of the cases.

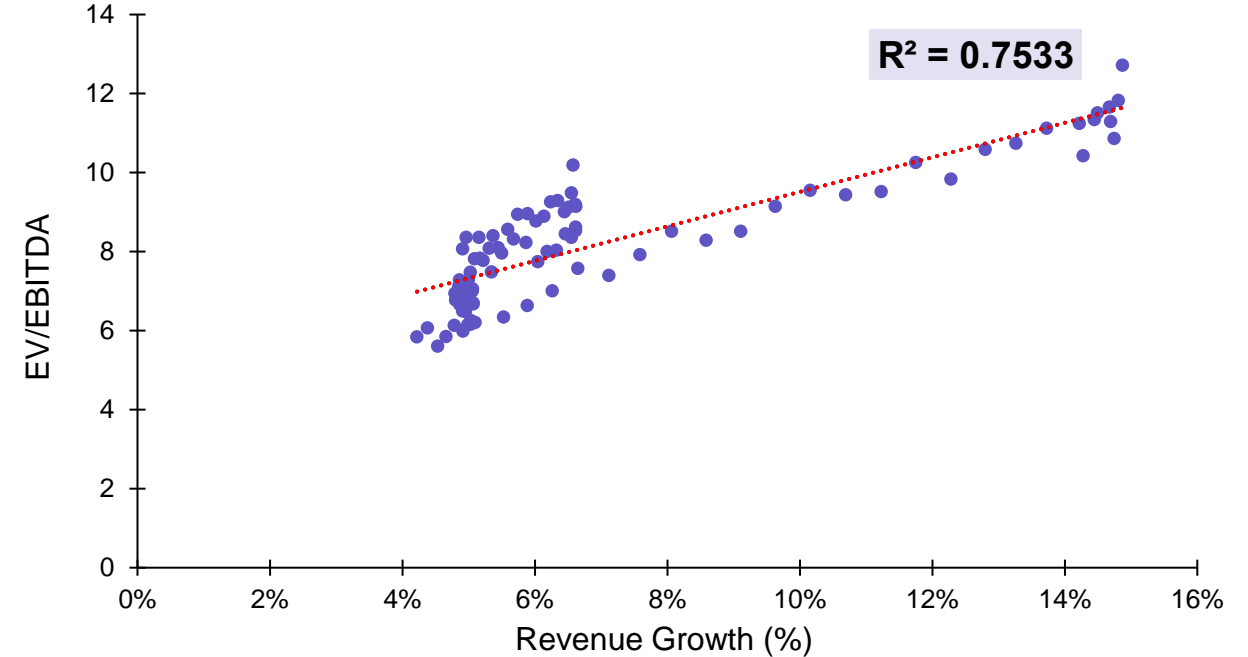
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EV/EBITDA vs 2Y average future revenue growth (excl. Indian companies)

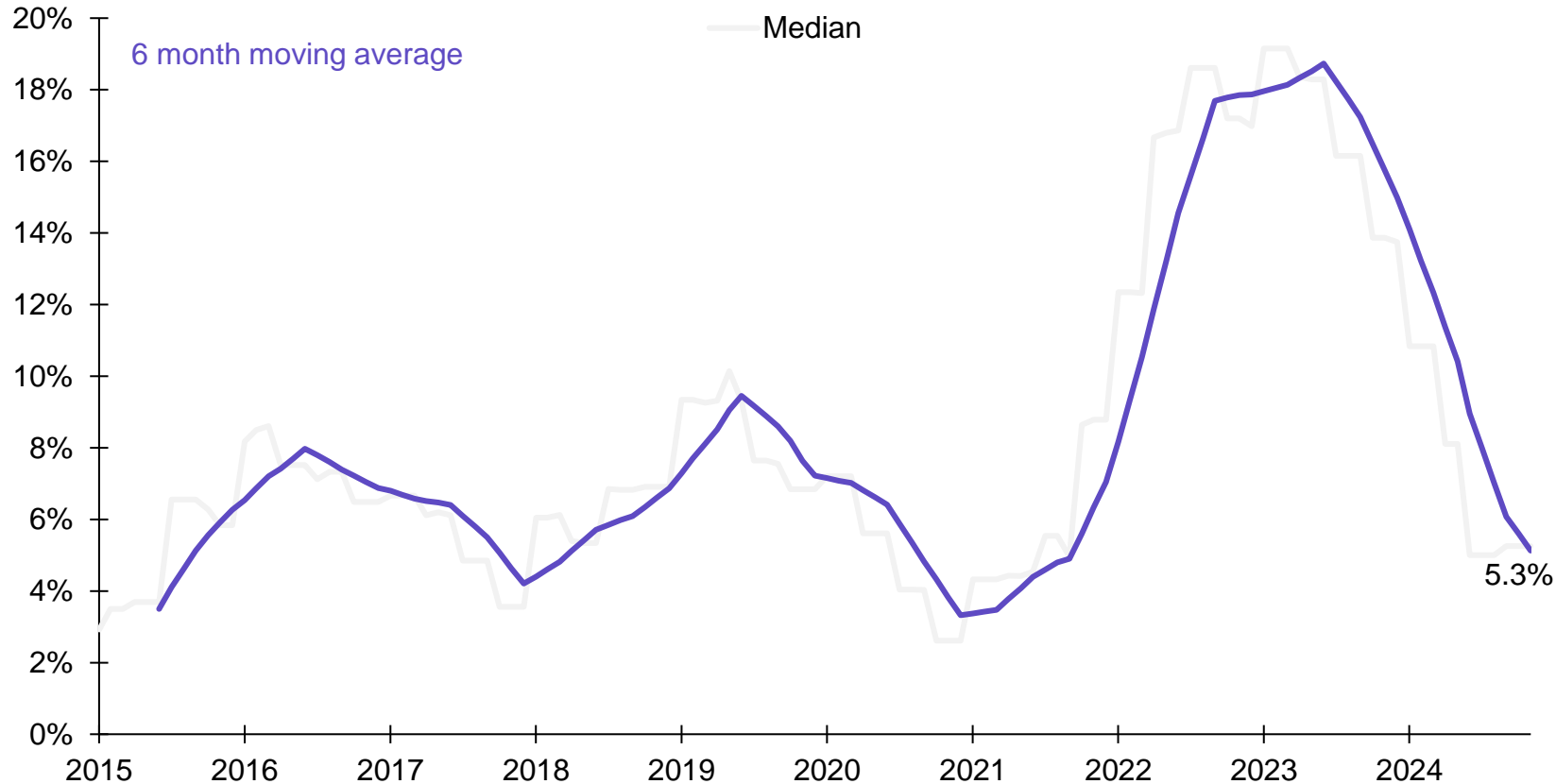


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# IT Services benchmarks: Revenue growth

Revenue growth of IT services companies has been decelerating rapidly from the second half of 2022; having dropped from 19% to 5% in 2024

Median revenue growth LTM YoY, 2015-2024



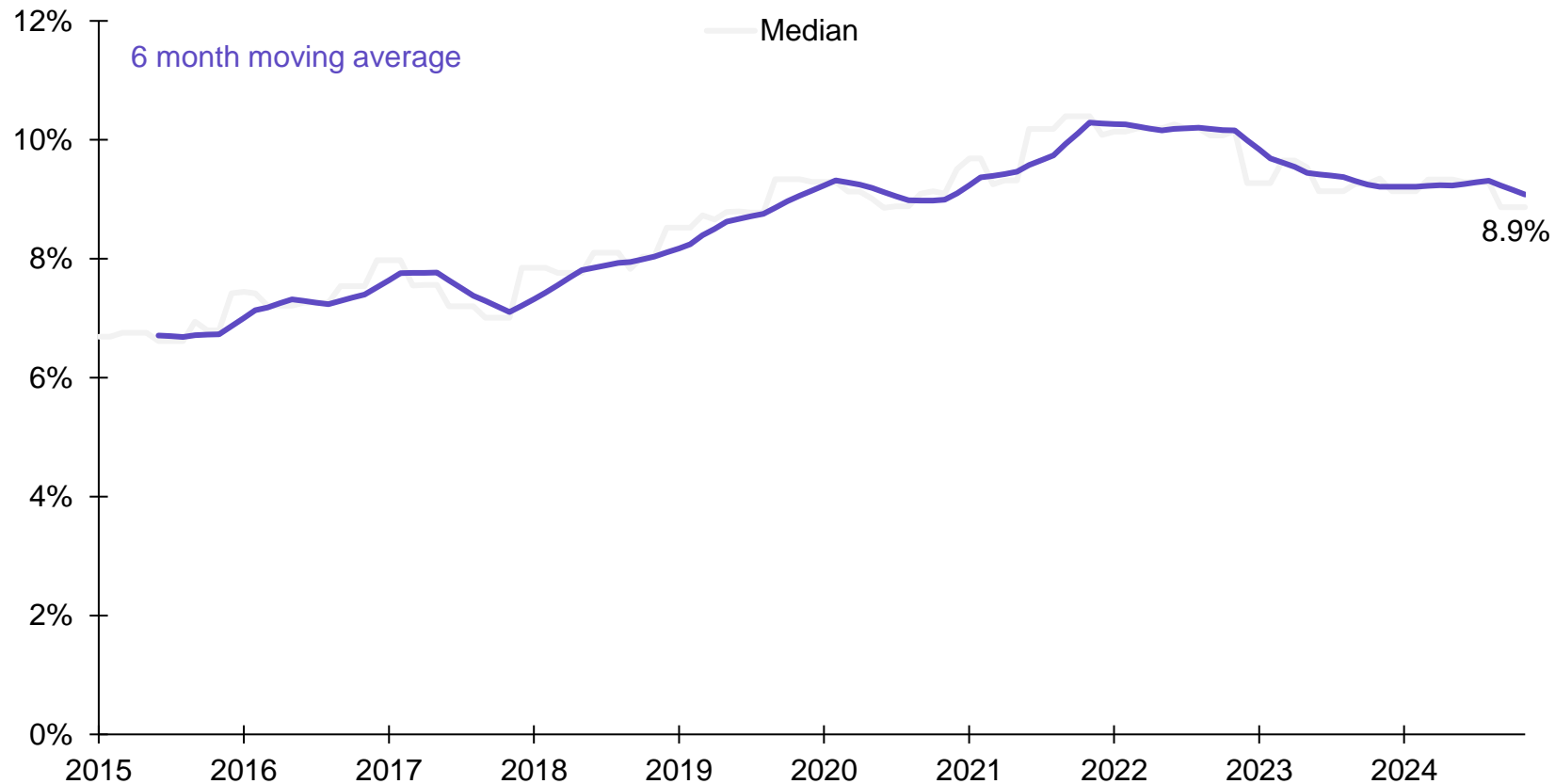
## Comments

- We notice a cyclical trend in IT services revenue growth over the analyzed period
- The long-term average revenue growth for IT services companies is 9%
- Revenue growth accelerated during 2020-2022 on the back of a surge in demand for IT projects in digital transformation, remote work infrastructure, and cloud computing
- The increasing demand for IT companies during the pandemic allowed them to hike prices for projects, leading to higher YoY revenue growth

# IT Services benchmarks: EBITDA margin

The long-term average median EBITDA margin for IT services companies has been 8%

Median EBITDA margin LTM, 2015-2024



## Comments

- The EBITDA margin of IT services companies has remained impressively stable in the last decade; if not it has been steadily on the rise
- In 2022, the median EBITDA margins were 10% for IT services while the long-term average EBITDA margin has been 8%

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1. Aventis IT Services Index
2. Index composition



# By Revenue size and Market Capitalization

Our index is a valuable benchmark for different sizes of IT services companies as it constitutes small, medium, and large listed companies

**Index composition by revenue size, \$M**

| Rev. group   | No. of constituents |
|--------------|---------------------|
| \$1B+        | 43                  |
| \$500M-1B    | 18                  |
| \$200-500M   | 28                  |
| \$100-200M   | 23                  |
| \$50-100M    | 30                  |
| \$20-50M     | 28                  |
| \$10-20M     | 17                  |
| <b>Total</b> | <b>187</b>          |

**Index composition by market capitalization, \$M**

| Market cap group | No. of constituents |
|------------------|---------------------|
| \$1B+            | 42                  |
| \$500M-1B        | 15                  |
| \$200-500M       | 30                  |
| \$100-200M       | 20                  |
| \$50-100M        | 25                  |
| \$20-50M         | 26                  |
| \$10-20M         | 29                  |
| <b>Total</b>     | <b>187</b>          |



# By Country and Year founded

Our index includes the highest number of companies from India given its reputation as a global IT outsourcing hub, followed by USA and Europe

## Index composition by geography

| Country      | No. of constituents |
|--------------|---------------------|
| India        | 39                  |
| USA          | 17                  |
| Germany      | 14                  |
| France       | 14                  |
| Poland       | 14                  |
| Sweden       | 11                  |
| Others       | 78                  |
| <b>Total</b> | <b>187</b>          |

## Index composition by year founded

| Year founded          | No. of constituents |
|-----------------------|---------------------|
| Pre-1930s             | 3                   |
| Between 1930 to 1960s | 7                   |
| Between 1960 to 1990s | 54                  |
| Between 1990 to 2000s | 67                  |
| Between 2000 to 2010  | 31                  |
| Between 2010 to 2020  | 23                  |
| Post-2020             | 2                   |
| <b>Total</b>          | <b>187</b>          |

# By Revenue growth and EBITDA margin

IT services companies in our index commonly have a revenue growth rate between 10-30% and EBITDA margin of 5-20%

Index composition by revenue growth, as of LTM May 2024

| Rev. growth group | No. of constituents |
|-------------------|---------------------|
| Negative          | 33                  |
| 0-5%              | 33                  |
| 5-10%             | 28                  |
| 10-20%            | 55                  |
| 20-30%            | 17                  |
| 30-40%            | 8                   |
| >40%              | 13                  |
| <b>Total</b>      | <b>187</b>          |

Index composition by EBITDA margin, as of LTM May 2024

| EBITDA margin group | No. of constituents |
|---------------------|---------------------|
| Negative            | 15                  |
| 0-5%                | 30                  |
| 5-10%               | 56                  |
| 10-20%              | 73                  |
| 20-30%              | 11                  |
| 30-40%              | 1                   |
| >40%                | 1                   |
| <b>Total</b>        | <b>187</b>          |

Note: Growth and margins considered as of LTM June 2024

# Contact

[Get in touch with our advisors](#) to discuss our research and M&A services



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