

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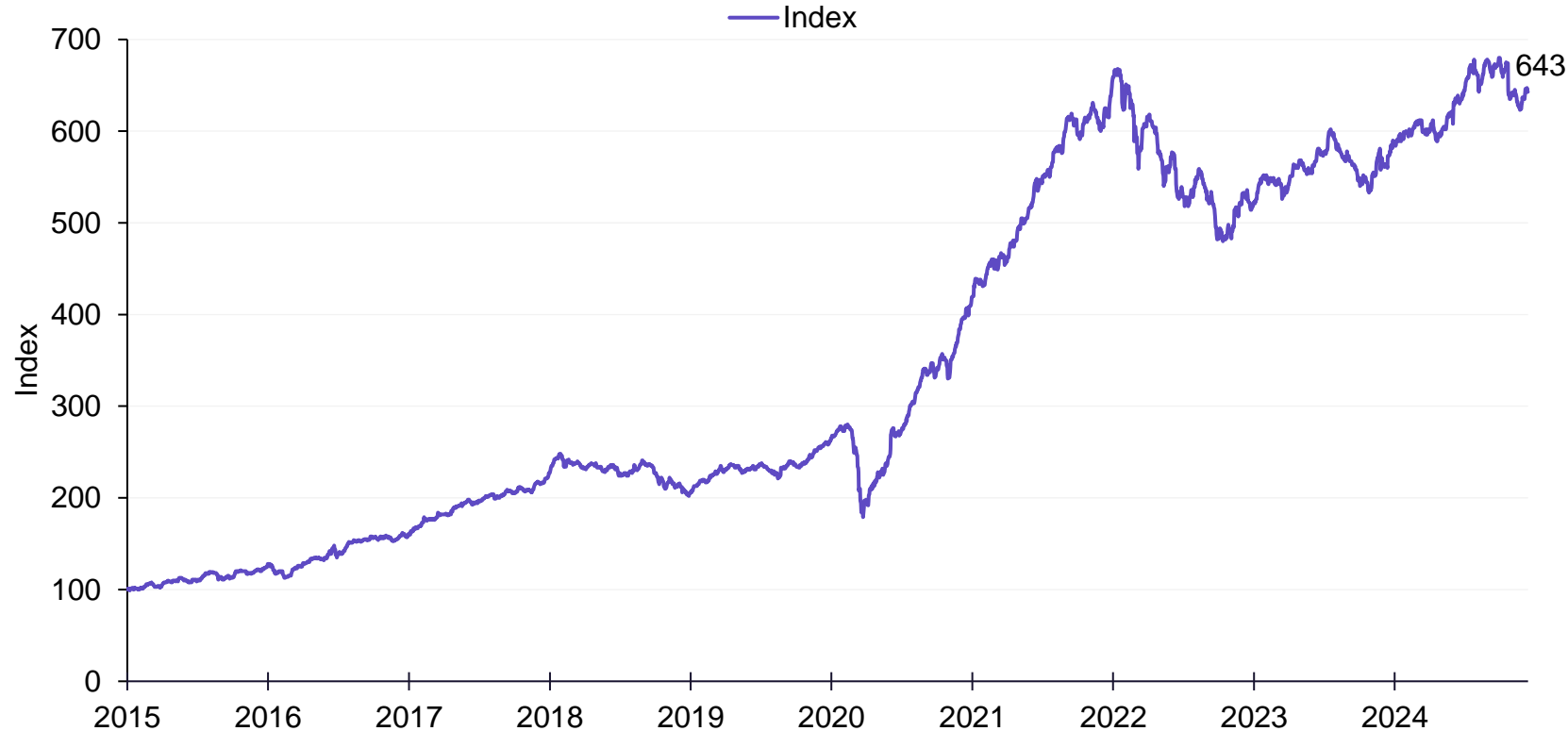
1. [Aventis IT Services Index](#)
2. Index composition



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%

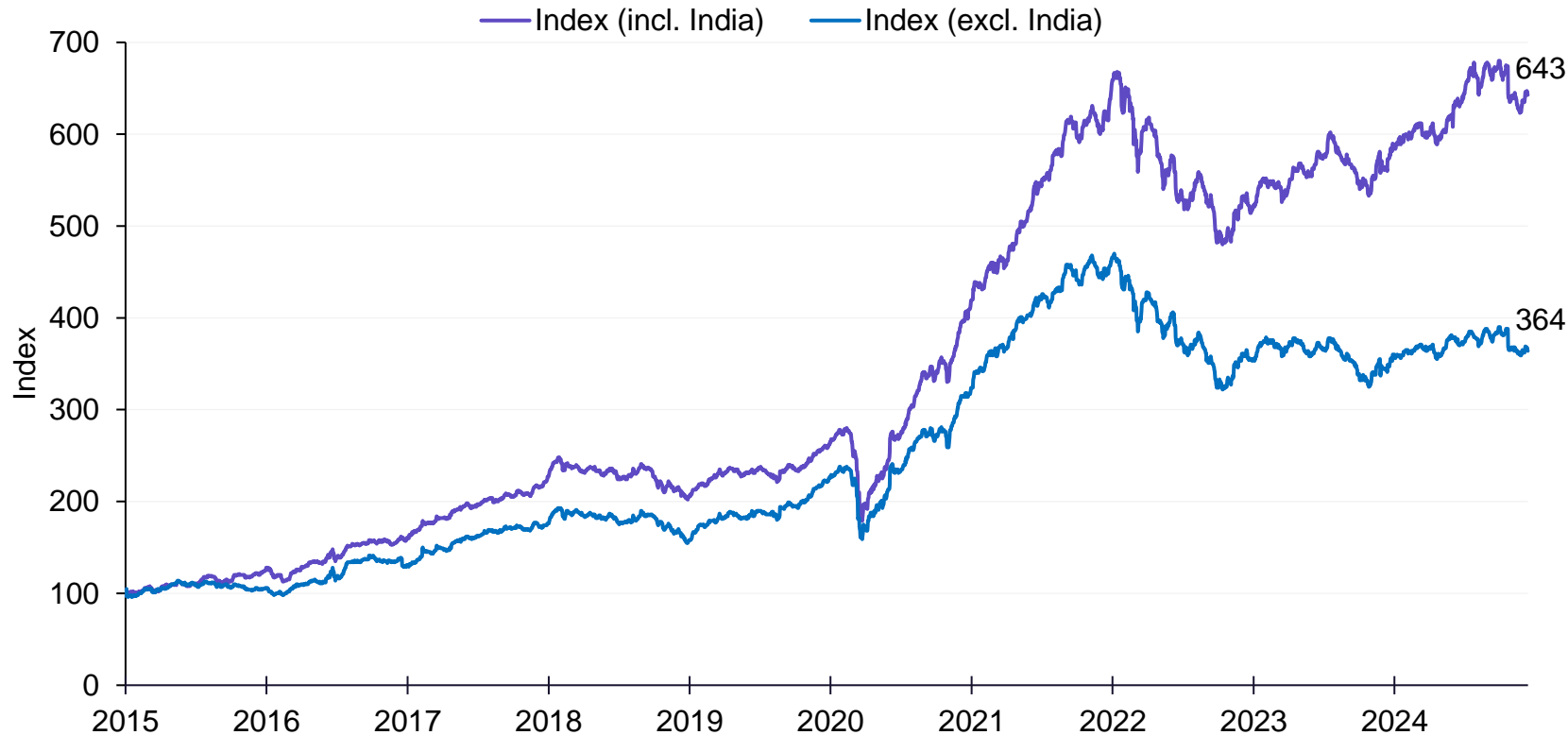
Note: includes 187 IT services companies from 31 countries with a revenue of \$10M+ as of 03.06.2024

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

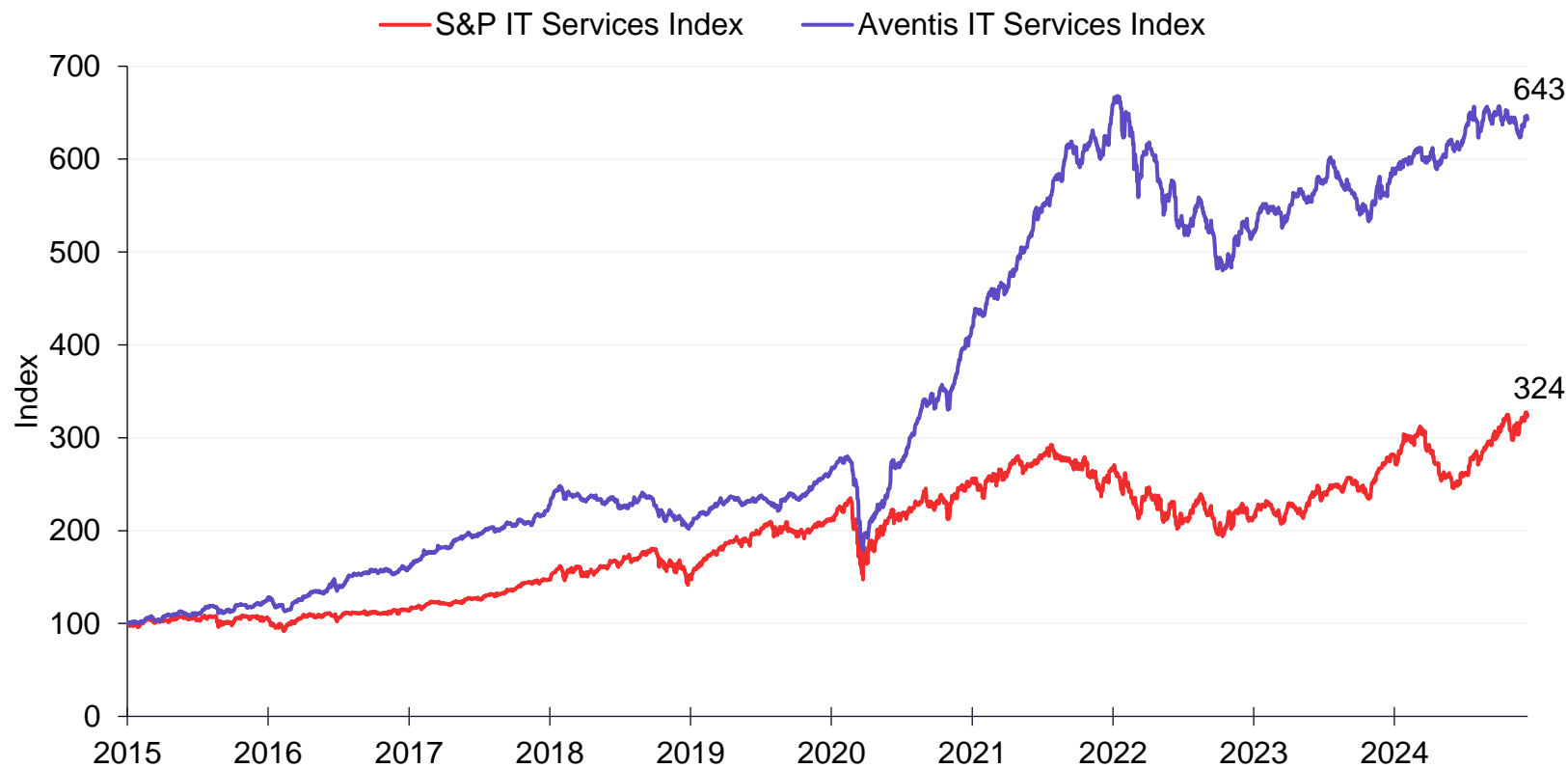
Note: includes 187 IT services companies from 31 countries with a revenue of \$10M+ as of 03.06.2024

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

Aventis 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

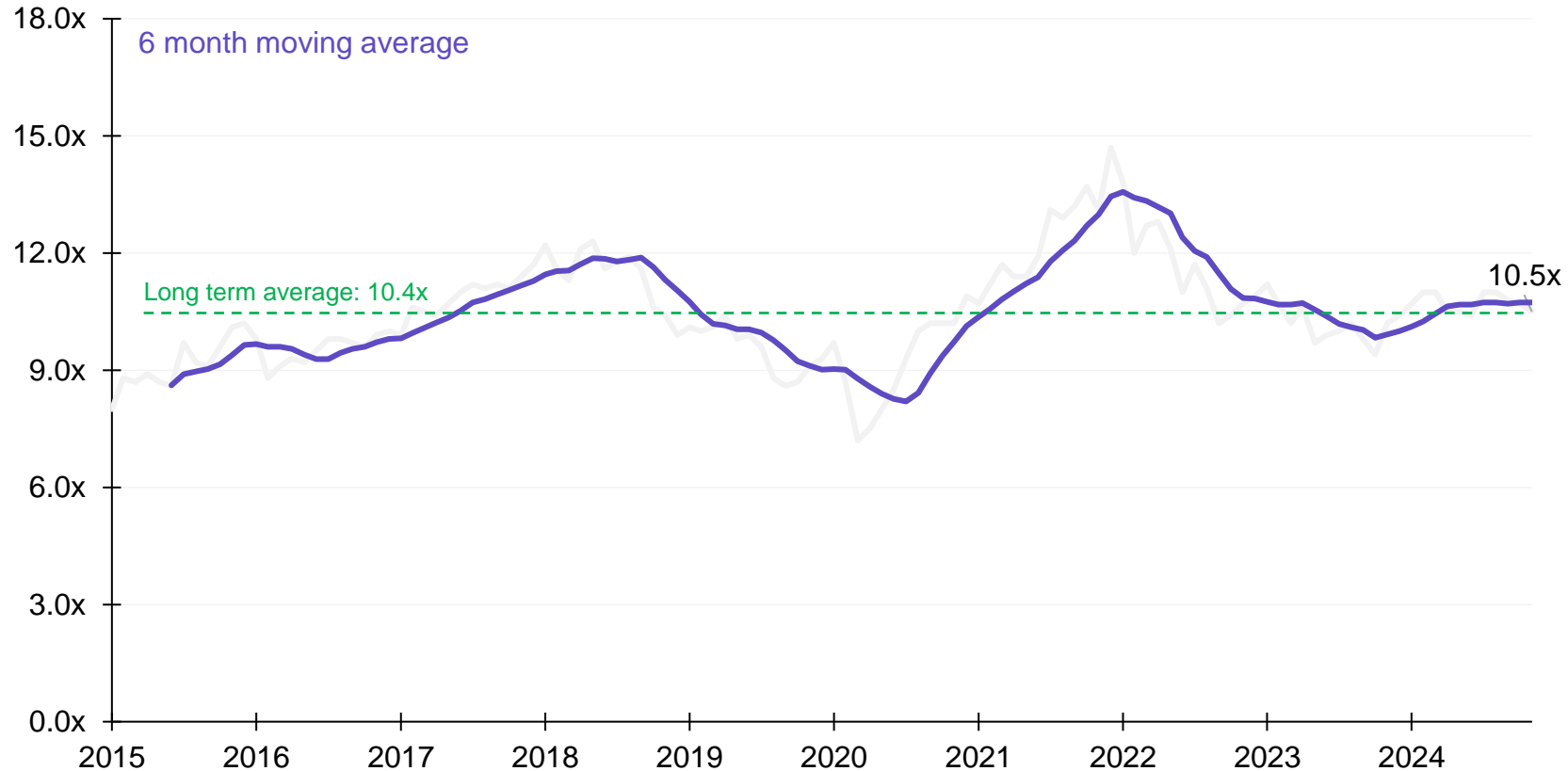
- The Aventis IT services index mimics the general trend of the S&P IT services index but overall, Aventis index outperforms S&P IT services index in most years
- Our index comprised of IT services firms of varying sizes and from different geographies
- Hence, it is evident that foreign IT services companies,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



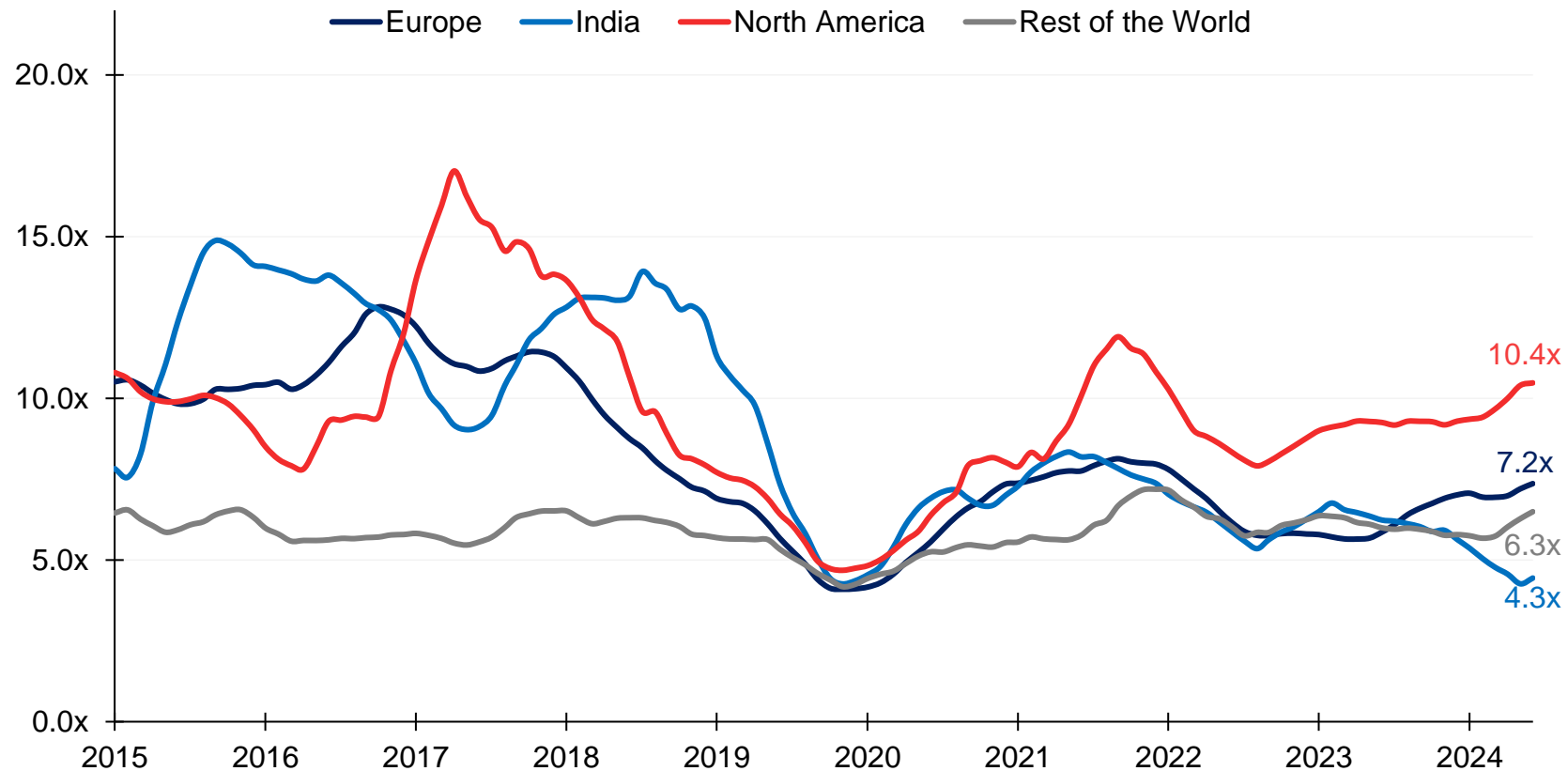
Comments

- 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

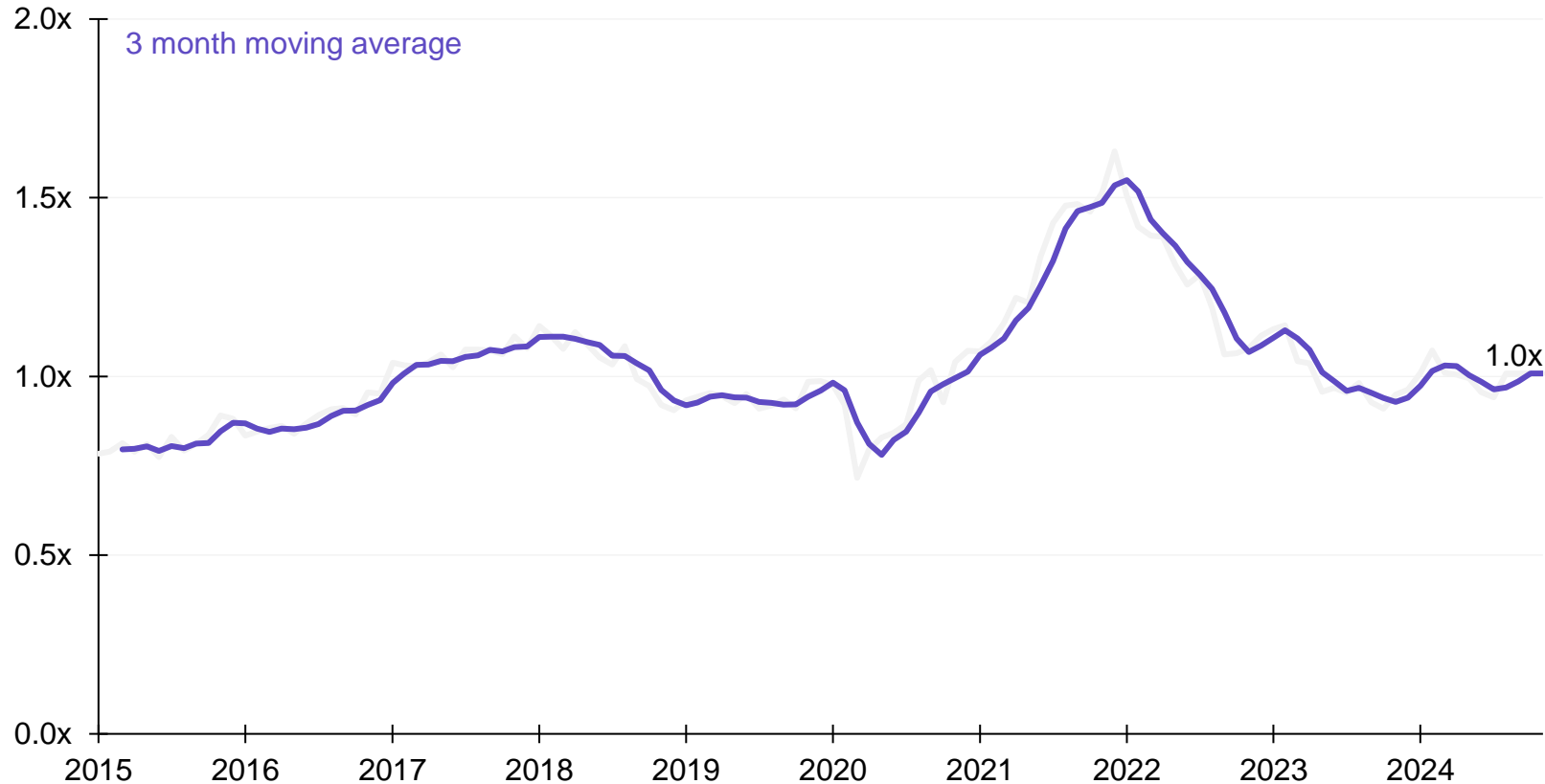
Comments

- 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)



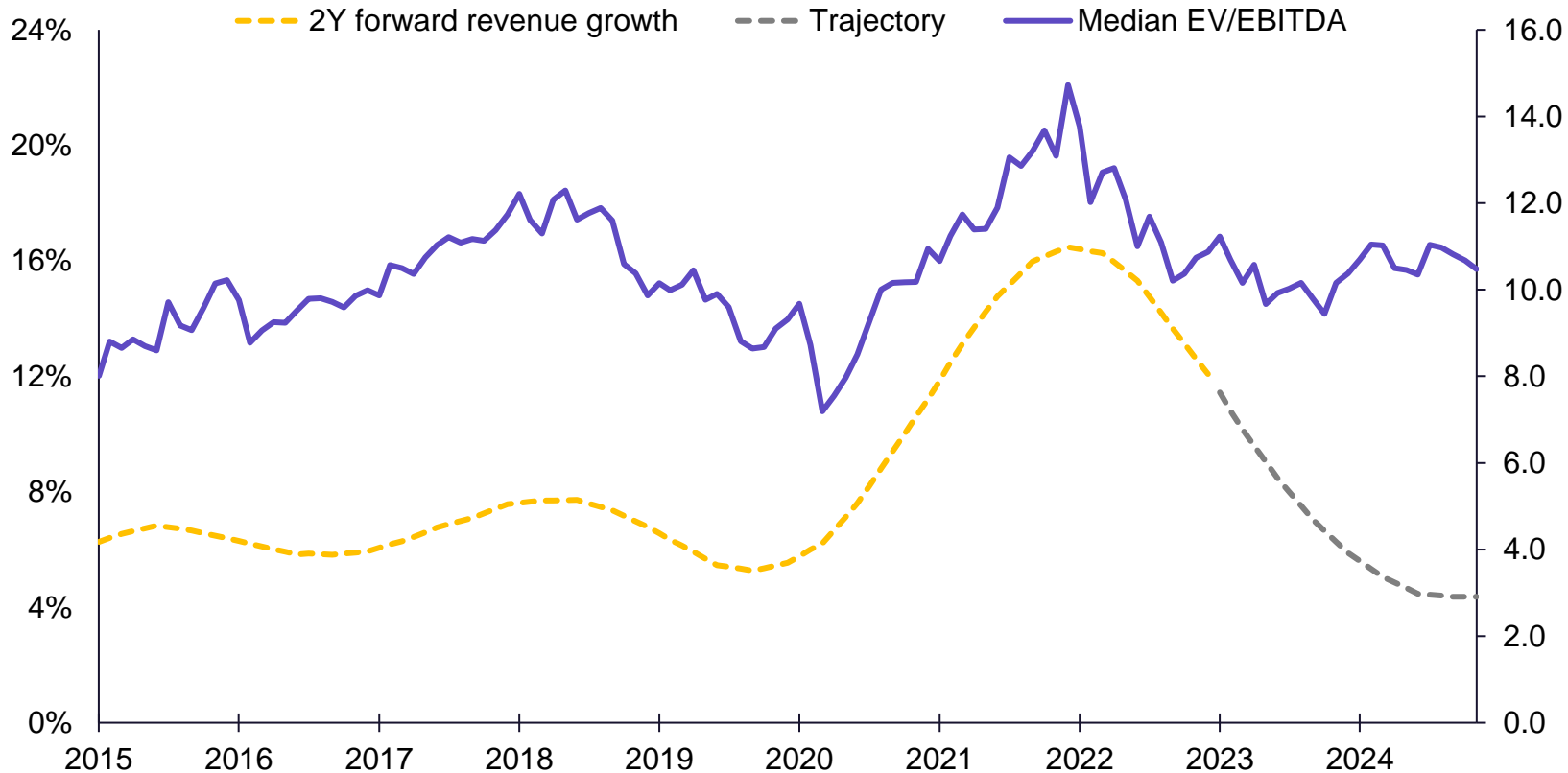
Comments

- 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



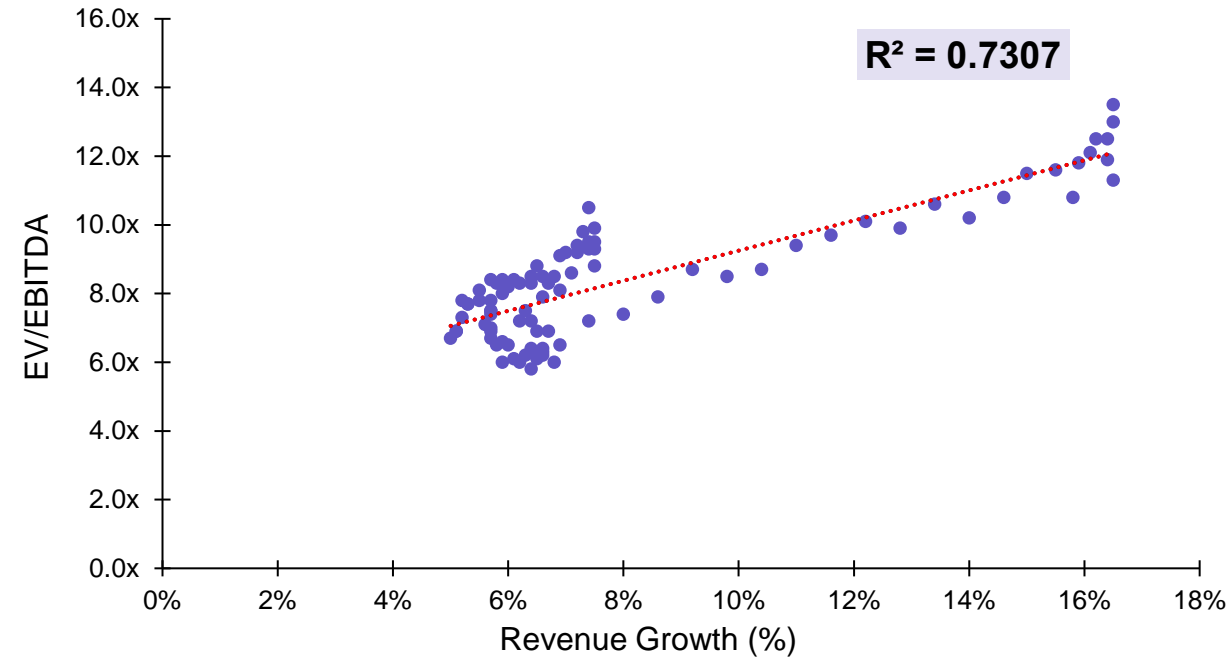
Comments

- 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

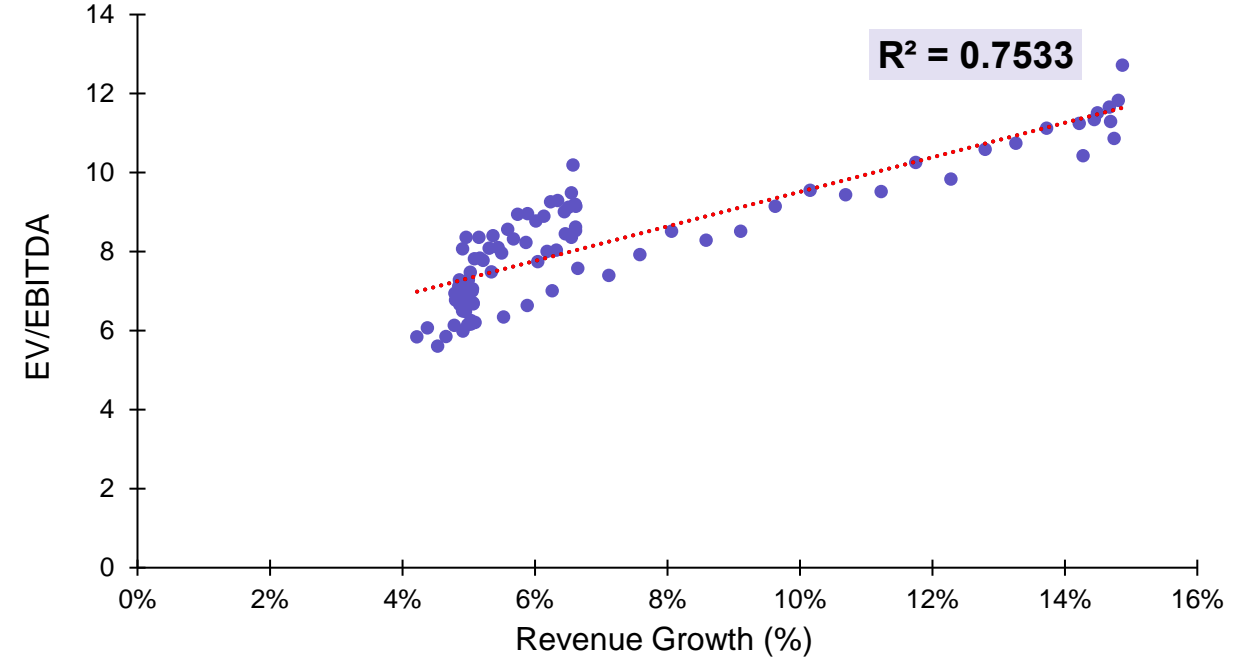
Valuation drivers: Revenue growth (2/2)

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)

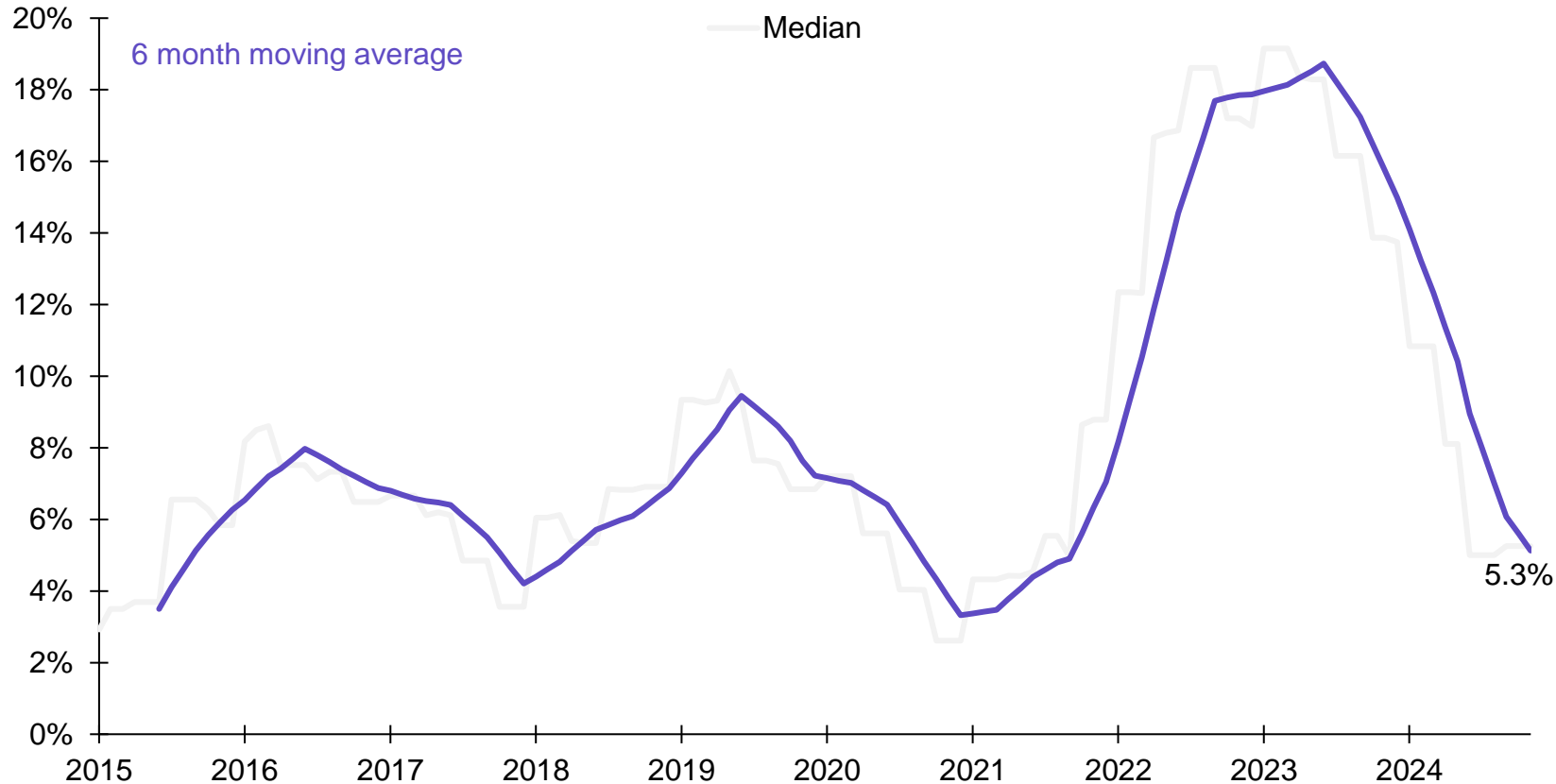


- R-squared tells us **how strong the relationship is** between two variables; in our case it is **EV/EBITDA multiple** and **future revenue growth**. The max value for R2 can be 100% or 1.
- From our analysis, **we can be certain that EV/EBITDA multiple of IT services companies depends heavily on the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

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



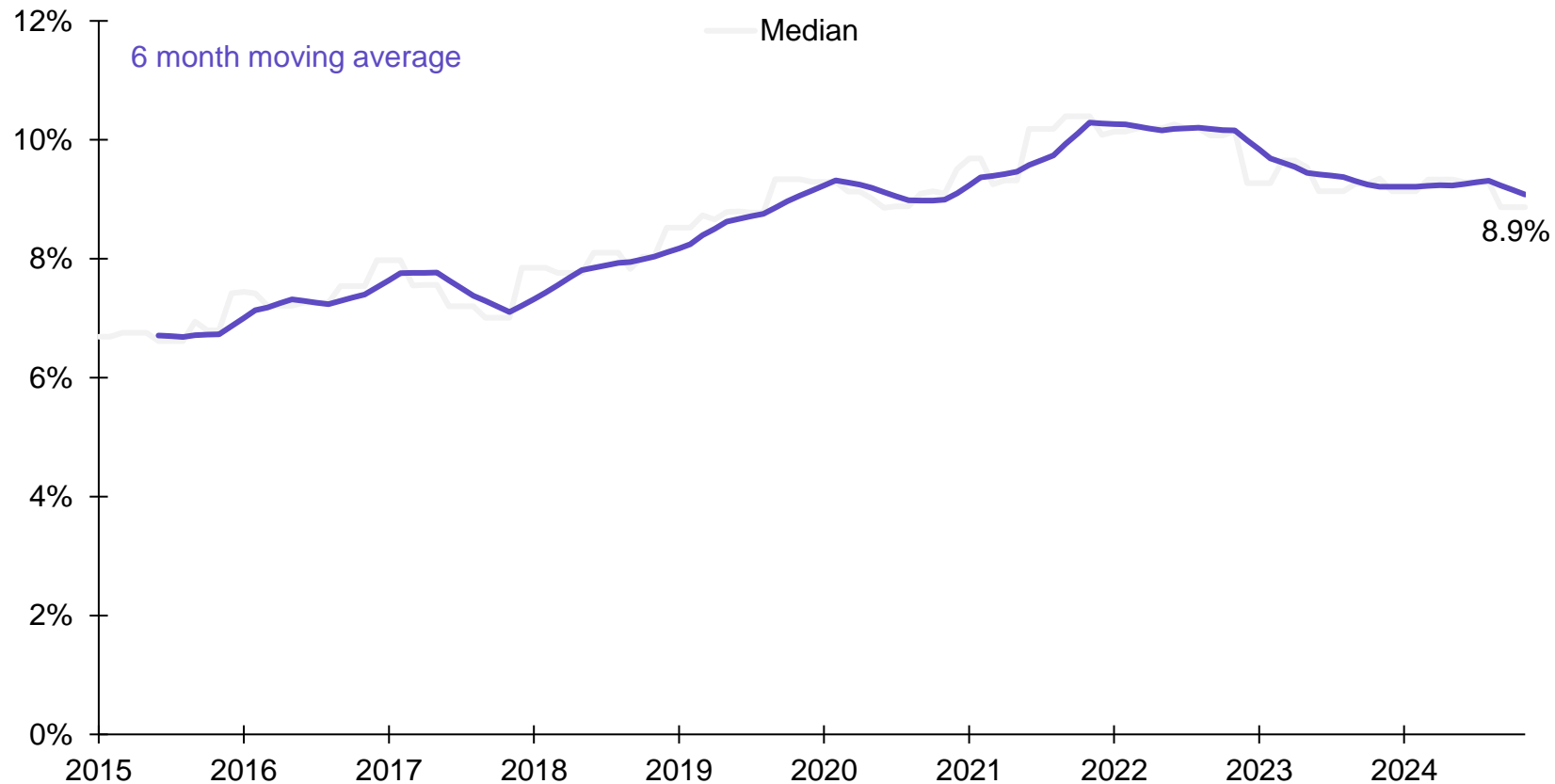
Comments

- 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
Total	187

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
Total	187

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
Total	187

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
Total	187

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
Total	187

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
Total	187

Note: Growth and margins considered as of LTM June 2024

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



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