The ISG Index™

Global Combined Sourcing and As-a-Service Market Insights

Third Quarter 2016

Hosted by:
Joe Foresi,
Cantor Fitzgerald

13 October 2016

Welcome to the 56th Quarterly ISG Index™ Review

Covering the state of the combined sourcing and as-a-service industry for global, commercial contracts

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Partner

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Research Director and Principal Analyst

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GLOBAL 3Q16

At a Glance

3Q COMBINED MARKET UP 11% Y/Y WITH GROWTH FUELED BY STEADY GAINS IN TRADITIONAL SOURCING, RECORD-HIGH VALUE IN AS-A-SERVICE SEGMENT;
YTD COMBINED MARKET UP 16% DRIVEN BY 40%+ AS-A-SERVICE GROWTH

AMERICAS 3Q ACV UP Y/Y ON AS-A-SERVICE STRENGTH; TRADITIONAL SOURCING AWARDS ACHIEVE 11TH STRAIGHT QUARTER OVER $2B; YTD, AMERICAS RISES 21%

EMEA 3Q ACV UP 10% AS BOTH TRADITIONAL SOURCING AND AS-A-SERVICE GENERATE MODERATE GAINS; RESURGENCE IN MANUFACTURING OFFSETS SLOWING FINANCIAL SERVICES

ASIA PACIFIC 3Q ACV GAINS 12% Y/Y AS PUBLIC CLOUD INFRASTRUCTURE ACV MAKES UP FOR UNEVEN CONTRACT FLOW IN SOURCING MARKET

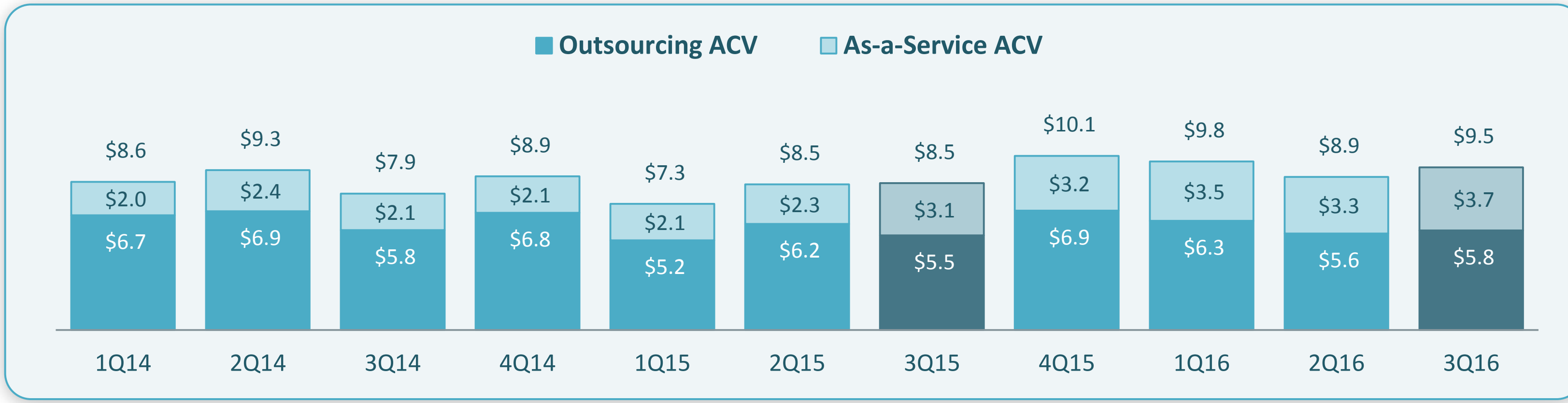
Scorecard		3Q16 ACV ($B)*	3Q Y/Y Change	3Q Q/Q Change	YTD ACV ($B)*	YTD Change
Global Combined Market		$ 9.5	11%	6%	$ 28.2	16%
By Type	Outsourcing	$ 5.8	5%	3%	$ 17.7	5%
	As-a-Service	$ 3.7	20%	12%	$ 10.5	41%
By Service	ITO	$ 4.5	27%	8%	$ 13.1	11%
	BPO	$ 1.3	-34%	-10%	$ 4.6	-9%
	IaaS	$ 2.7	37%	16%	$ 7.1	50%
	SaaS	$ 1.0	-8%	3%	$ 3.4	24%
By Region	Americas	$ 4.5	11%	-3%	$ 13.9	21%
	EMEA	$ 3.8	10%	22%	$ 11.0	11%
	Asia Pacific	$ 1.2	12%	0%	$ 3.3	15%

Contracts with ACV ≥ $5M from the ISG Contracts Knowledgebase®

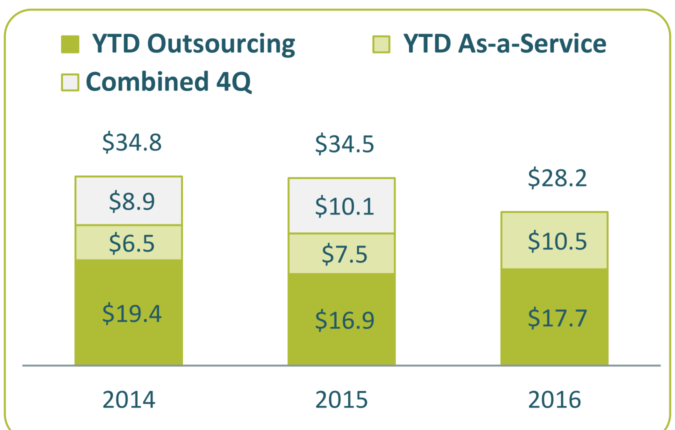
Global Combined Market Contracting Trends

3Q16 Combined Market ACV up 11% Y/Y on traditional sourcing gains; As-a-Service reaches all-time quarterly high; Combined Market up 16% YTD driven by 40%+ growth in As-a-Service value.

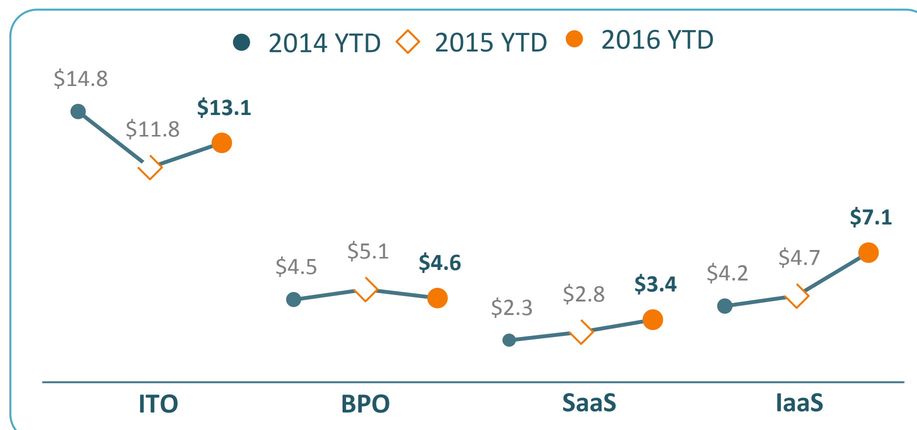
Global Combined Quarterly ACV ($B)



Global Combined YTD ACV ($B)



Global Combined YTD ACV by Type ($B)



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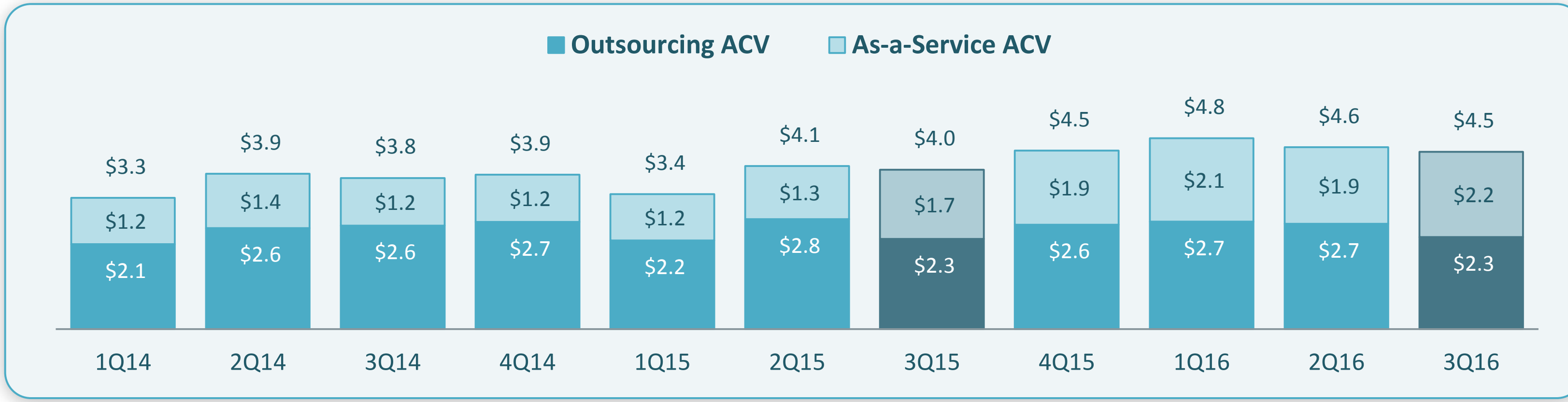
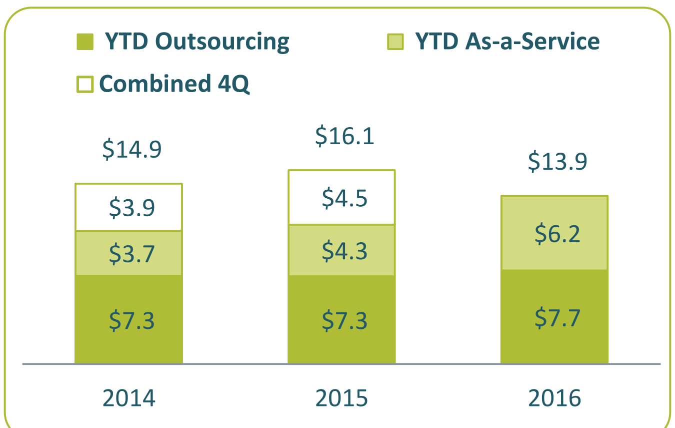
Americas Combined Market Contracting Trends

3Q Combined Market ACV up 11% Y/Y with sixth straight quarter above $4B; Public cloud infrastructure drives As-a-Service activity to all-time high; Americas YTD up 20% versus 2015.

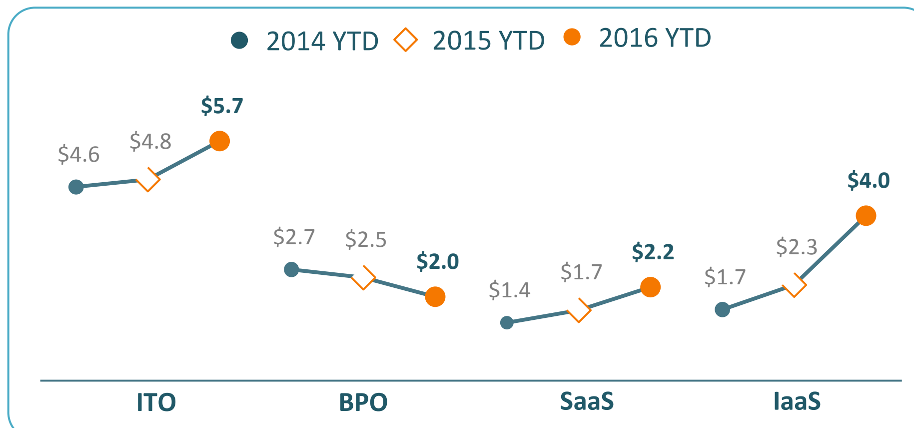
Americas Combined Quarterly ACV ($B)



Americas Combined YTD ACV ($B)



Americas Combined YTD ACV by Type ($B)



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ISG Combined Market Standouts in the Americas

European-based firms join the Big 15 Sourcing Standouts while India-based firms dominate the Building 15 category.

AMERICAS TOP 15 SOURCING STANDOUTS GROUPED BY COMPANY SIZE

The Big 15 Sourcing Standouts

Outsourcing Market
Accenture
Atos
Capgemini
Cognizant
CSC
HPE
IBM
SYNNEX
TCS
T-Systems

As-a-Service Market
Amazon Web Services
Google
Microsoft
Oracle
SAP

Co. Revenues > $10 B

The Building 15 Sourcing Standouts

Outsourcing Market
CGI
CompuCom
Dell
DST Systems
Genpact
HCL
Infosys
Tech Mahindra
Teleperformance
Wipro

As-a-Service Market
Adobe Systems
Equinix
FIS Global
Rackspace
Salesforce.com

Co. Revenues $2 -10 B

The Breakthrough 15 Sourcing Standouts

Outsourcing Market
Hexaware
Hinduja Global Solutions
KPIT Technologies
Luxoft
Mindtree
Mphasis
SITEL
Sutherland Global
Synacor
Syntel
VirtusaPolaris

As-a-Service Market
Digital Realty
ServiceNow
Workday
Zayo

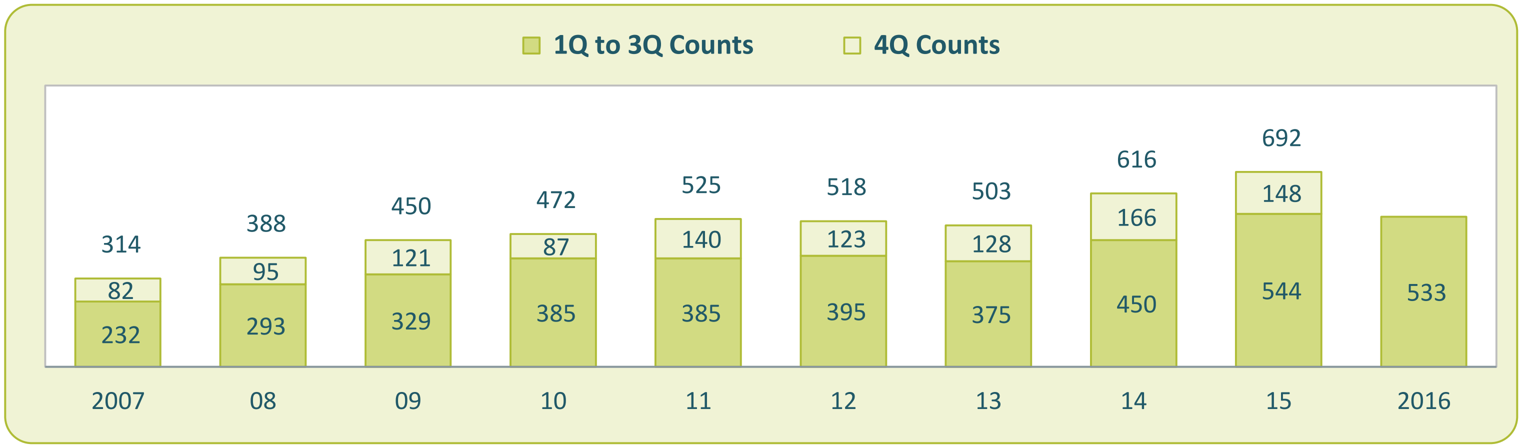
Co. Revenues < $2 B

Placements based on the annual value of commercial contract awards in the past 12 months sourced from ISG Contracts Knowledgebase®. Service providers in alphabetical order; no rankings implied. Revenues sourced from Hoovers and individual company financial fillings

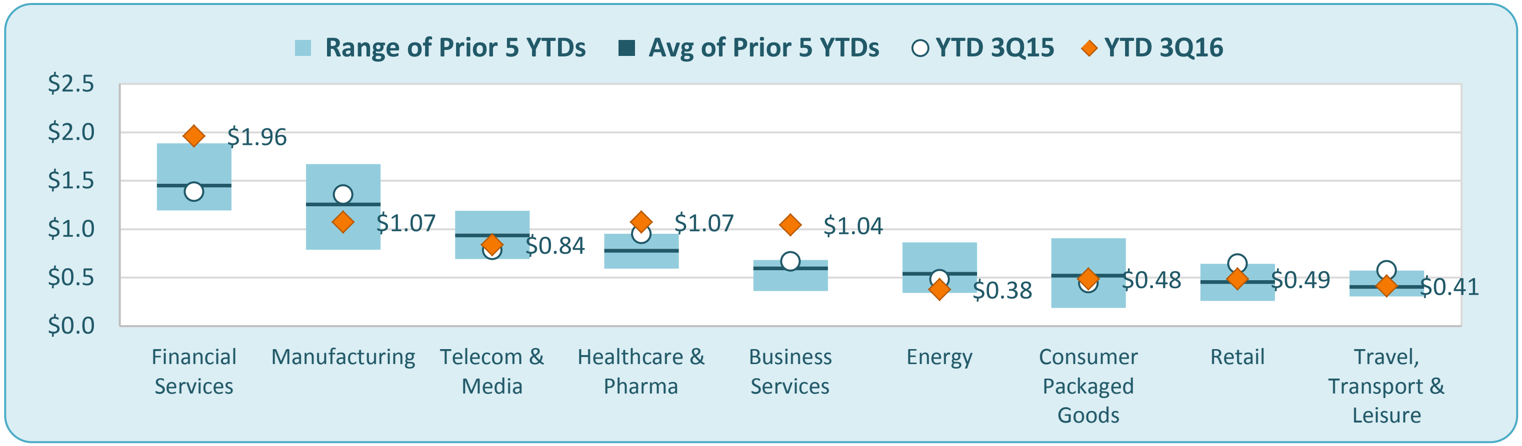
Americas Traditional Outsourcing Award Trends

Sourcing contract activity essentially flat, down 2% YTD; Financial Services and Healthcare Markets lead in ACV growth while Energy struggles, down 21% from last year.

Americas YTD Contract Counts - Traditional Outsourcing Only



Americas Industry YTD ACV ($B) - Traditional Outsourcing Only



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Asia Pacific Combined Market Contracting Trends

3Q16 Combined Market ACV up 12% Y/Y with as-a-service offsetting slight decline in traditional sourcing; YTD, Asia Pacific increases 15% with solid gains in cloud infrastructure.

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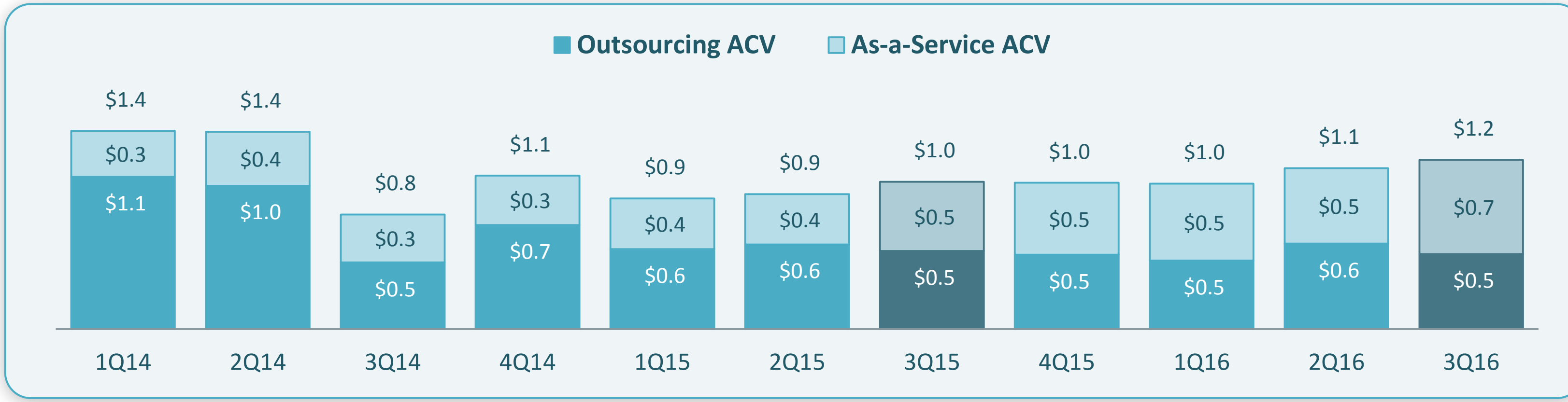
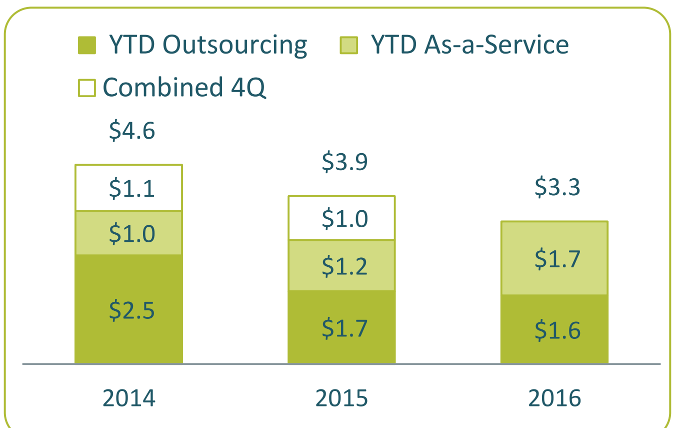
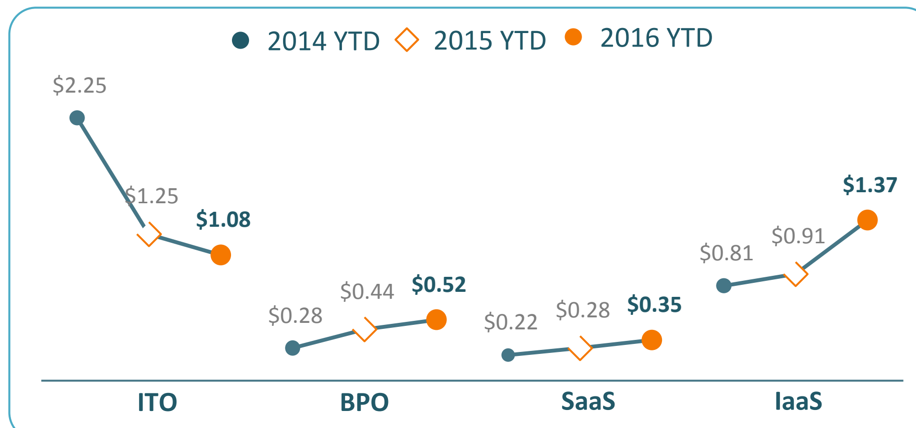
Asia Pacific Combined Quarterly ACV ($B)



Asia Pacific Combined YTD ACV ($B)



Asia Pacific Combined YTD ACV by Type ($B)



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ISG Combined Market Standouts in Asia Pacific

Carrier Cloud Providers dominate the Big 15 Standouts, while many India-heritage firms proliferate the smaller, high-growth segments.

Asia Pacific TOP 15 SOURCING STANDOUTS GROUPED BY COMPANY SIZE

The Big 15 Sourcing Standouts

Outsourcing Market

Capgemini
Cognizant
Fujitsu
HPE
IBM
Singapore Telecom
Sodexho
TCS
Visionstream

As-a-Service Market

Alibaba
Amazon Web Services
China Telecom
KT
Microsoft
NTTa

Co. Revenues > $10 B

The Building 15 Sourcing Standouts

Outsourcing Market

Amadeus
Avaya
CGI
Emcor Group
HCL
Indra Sistemas
Infosys
Sabre
Tech Mahindra
Unisys
Wipro

As-a-Service Market

Adobe Systems
Equinix
Rackspace
Salesforce.com

Co. Revenues $2 -10 B

The Breakthrough 15 Sourcing Standouts

Outsourcing Market

Aegis
Ajilon
Ebix
Hollysys Automation
Interactive
KPIT Technologies
Luxoft
Sutherland Global
WEX
WNS

As-a-Service Market

Digital Realty
Kingdee
ServiceNow
Xero
Zoho

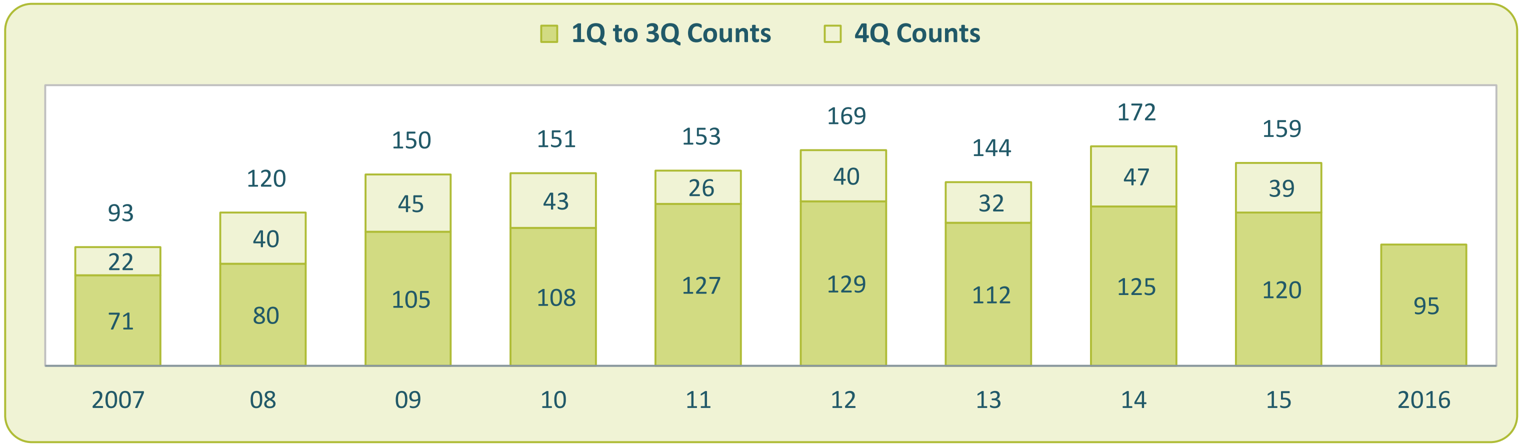
Co. Revenues < $2 B

Placements based on the annual value of commercial contract awards in the past 12 months sourced from ISG Contracts Knowledgebase®. Service providers in alphabetical order; no rankings implied. Revenues sourced from Hoovers and individual company financial fillings

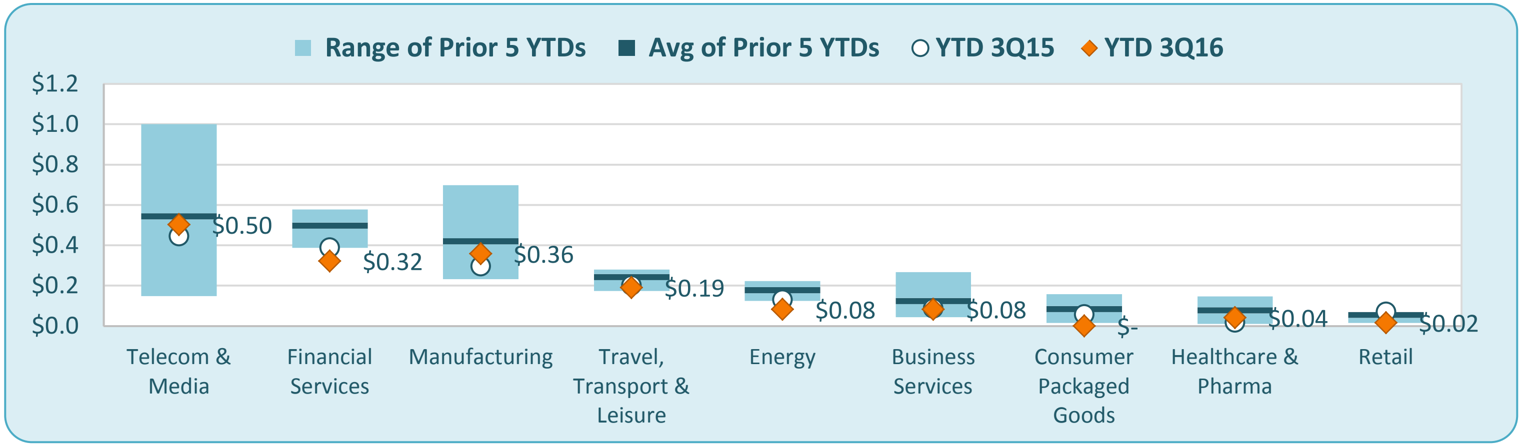
Asia Pacific Traditional Outsourcing Award Trends

YTD, pace of contracting activity drops 21%; Telco ACV rises 13% YTD, while Manufacturing increases, albeit against a softer 2015 comparison.

Asia Pacific YTD Contract Counts - Traditional Outsourcing Only



Asia Pacific Industry YTD ACV ($B) - Traditional Outsourcing Only



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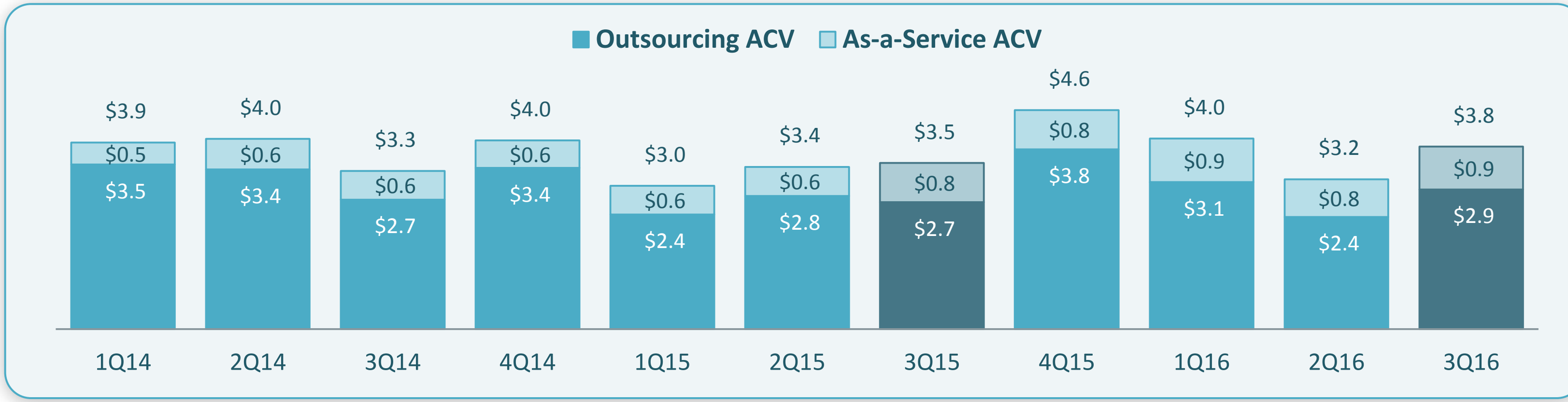
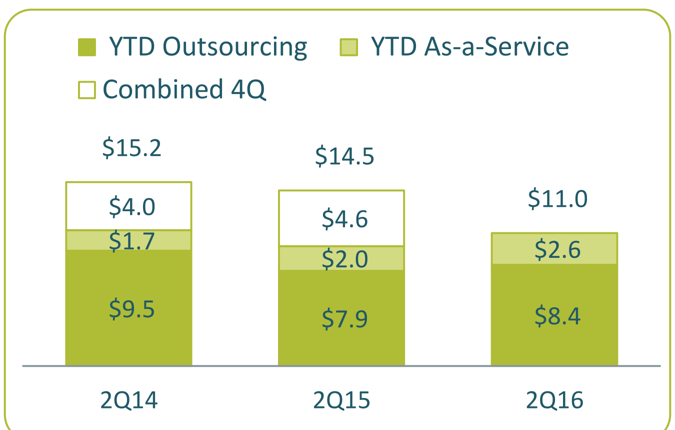
EMEA Combined Market Contracting Trends

3Q16 Combined Market up 10% Y/Y with equal gains by Outsourcing - rebounding from weak 2Q16 performance - and As-a-Service segments. YTD, EMEA Combined Market is up over 10%.

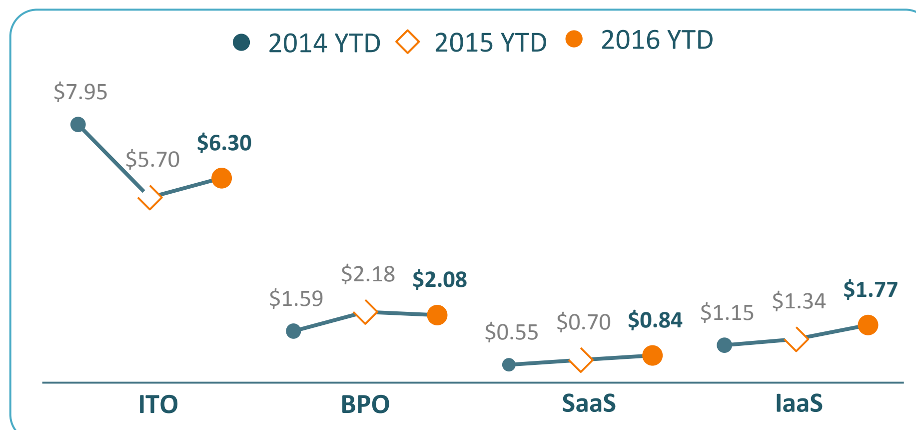
EMEA Combined Quarterly ACV ($B)



EMEA Combined YTD ACV ($B)



EMEA Combined YTD ACV by Type ($B)



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ISG Combined Market Standouts in EMEA

Public cloud infrastructure firms factor heavily in the Big 15; European-based firms appear throughout the largest two lists; Service Providers overshadow Technology Providers in the small, high-growth category.

EMEA Top 15 Sourcing Standouts grouped by company size

The Big 15 Sourcing Standouts

Outsourcing Market

Accenture
Atos
BT
Capgemini
Cognizant
CSC
HPE
IBM
TCS
T-Systems

As-a-Service Market

Amazon Web Services
Google
Microsoft
Oracle
SAP

Co. Revenues > $10 B

The Building 15 Sourcing Standouts

Outsourcing Market

Capita
Carillion
Ceva
CGI
HCL
Infosys
Interserve
Jones Lang LaSalle
Orange Business Services
Serco
Tieto
Wipro

As-a-Service Market

Adobe Systems
Equinix
Salesforce.com

Co. Revenues $2 -10 B

The Breakthrough 15 Sourcing Standouts

Outsourcing Market

Datagroup
EVRY
Firstsource Solutions
FleetCor
Frontica Business Solutions
GFI Informatique
Luxoft
Mindtree
NNIT
SIA
Transcom
VirtusaPolaris
Webhelp
WNS

As-a-Service Market

Digital Realty

Co. Revenues < $2 B

Placements based on the annual value of commercial contract awards in the past 12 months sourced from ISG Contracts Knowledgebase®.
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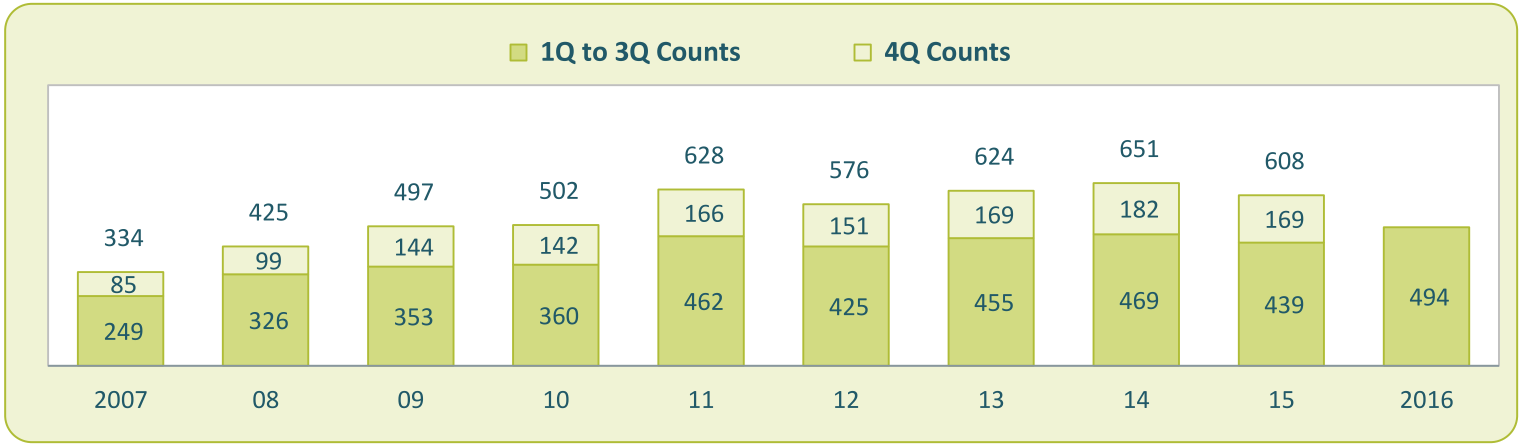
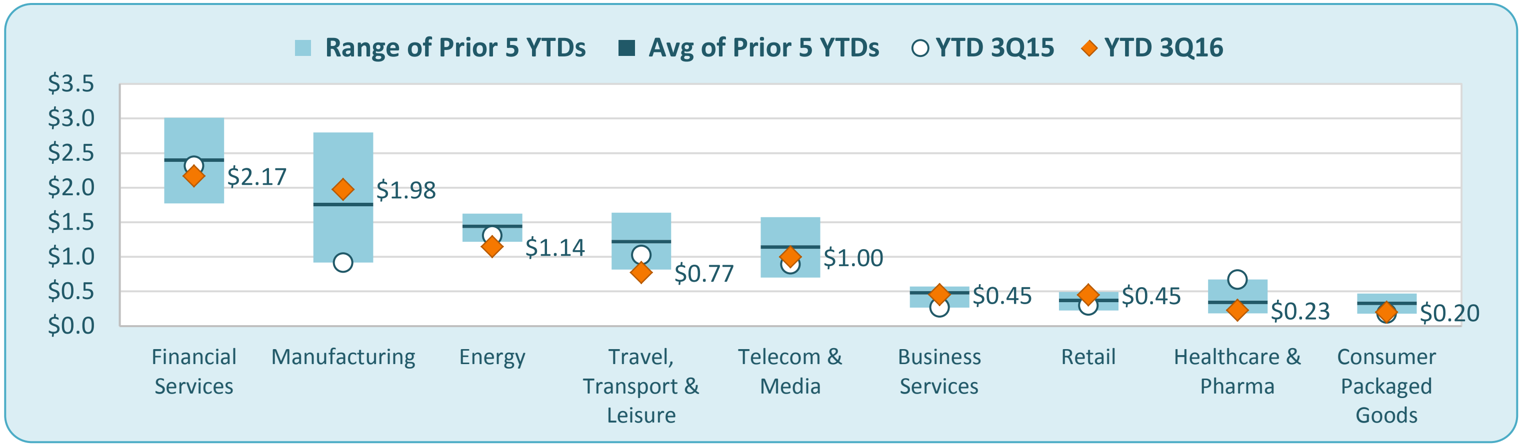
EMEA Traditional Outsourcing Award Trends

YTD, number of contracts up 13%; Manufacturing rises on strength in Continental Europe; Financial Services ACV drops 6% YTD as discretionary spending in banking sector remains soft.

EMEA YTD Contract Counts - Traditional Outsourcing Only



EMEA Industry YTD ACV ($B) - Traditional Outsourcing Only



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Index Inside Track for 3Q16

Unpacking M&A Activity in the SaaS Market

Stanton Jones
Research Director and Principal Analyst

Who's buying up SaaS firms?

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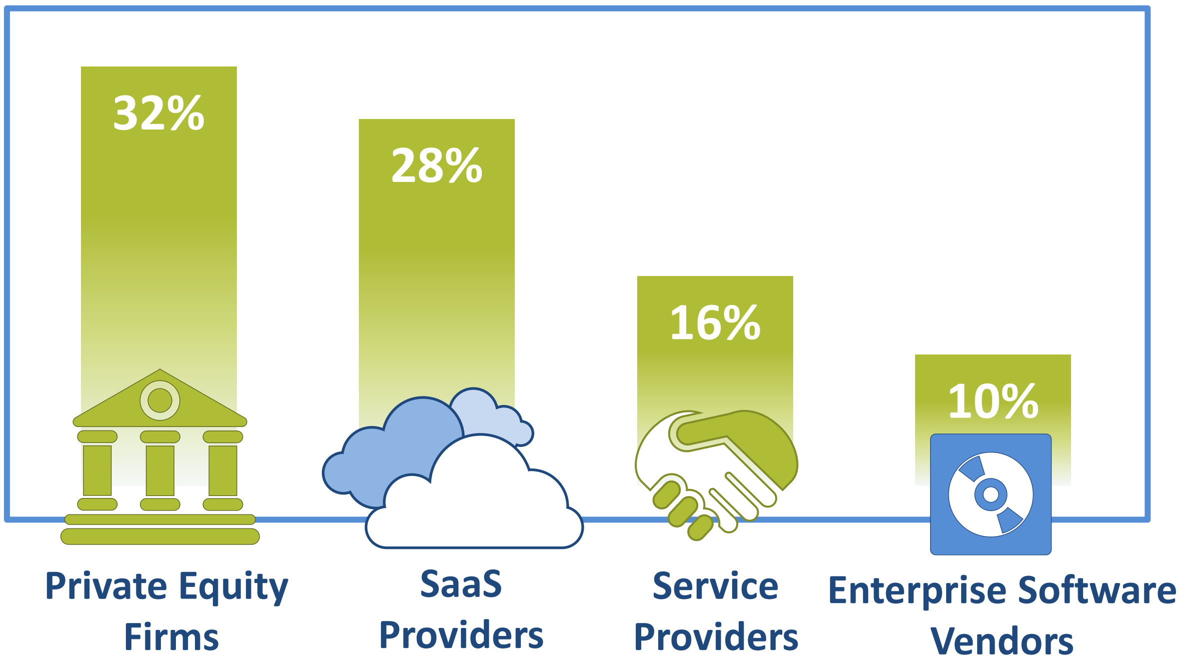
In just the **last 2 years**…

15% of Providers in the SaaS Market have been acquired.

That's more than **$120 billion** in value.

104 SaaS Companies acquired by…



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Distinct Motivations Characterize Acquisitions

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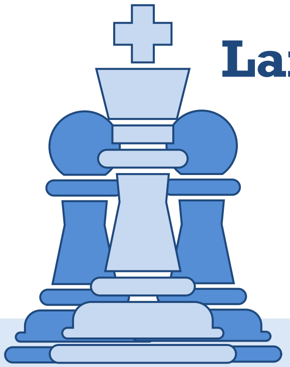
Type of Buyer	Private Equity Firms	SaaS Providers	Service Providers	Enterprise Software Vendors
Motivation	Cut Cost and Grow Faster	Growth and Market Expansion	Stickiness and Margin Expansion	Transform to Cloud Solutions
	Low share prices create buying opportunities	Round out service offerings	Focus on specific industry verticals	Fill gaps between on-premise and cloud solutions
	"Take-private" transactions	Pursue market opportunities	Gain access to a new customer base	Compensate for late-to-market start
		Growth and market expansion objectives over profit	Augment services with sticker SaaS offerings at higher profit margins	Accelerate movement to subscription model

The Future Market Landscape

Expect the pace of acquisitions to pick up



Large Technology and Services Providers

- Focused on large-scale market consolidation
- Looking for economies of scale

Midsize Service Providers

- Make smaller, tuck-in acquisitions
- Add vertical depth
- Increase productivity
- Make SaaS acquisitions
- Beef up margins and get stickier with clients

Digital Enterprises

- Becoming platform companies
- Innovators in the services market building new platform-based businesses

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Takeaways

1 Not a zero sum game – **This is net new growth**

- **Built for the business of the business**
  not internal transactional systems
- **New enterprise entrants** will grow the available market

2 Winning Providers **use software to differentiate**

- **Strong software development competency**
- **Rapid integration culture**
- **Robust partner ecosystem**

3 **Accelerated disruption** over previous five years

- **Driven by digital assets,** NOT human-capital assets.

3Q 2016 ISG Index - Global Summary and Outlook

market summary

- Combined Market up double digits Y/Y in 3Q16; traditional sourcing market in positive territory; as-a-service space continues to achieve record highs
- YTD, Combined Market up, driven by sizable gains in the IaaS market and moderate gains in the SaaS market
- Americas fastest-growing region as sourcing remains consistent combined with increasing public cloud infrastructure
- EMEA rebounds YTD with uptick in large-contract activity and in Manufacturing and smaller verticals such as Retail
- Asia Pacific is up 15% YTD with as-a-service market gains offsetting weakness in traditional sourcing

market outlook

- Although in early adoption stage, most client conversations are cloud-led
- High pace of digital transformation is creating a customer-first environment that is intelligent and mobile
- Monitoring Brexit closely, along with a lower interest rate environment, as both may affect health of financial services, especially in Europe
- Revising full-year forecast upwards: anticipate gains in mid-single digits for traditional sourcing, with as-a-service well above 30%+

Ask a Question

Q&A

I want to **ask a question**

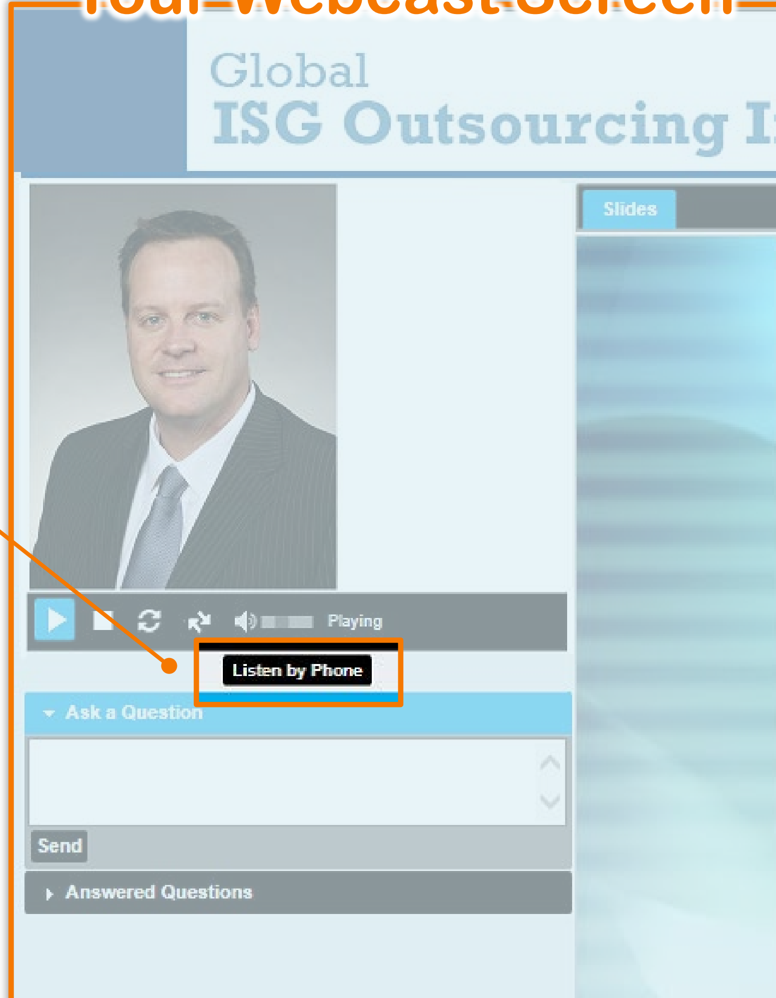
1 Click the "Listen by phone“ button.

The phone number and passcode will appear, and the web streaming to your computer will be automatically muted.

2 After you dial in, the operator will ask your name and company.

3 Now press * 1 to be added to the queue.

Your Webcast Screen



Learn More

Please contact us with your questions and comments.

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Appendix: Score Card for TCV

Third Quarter 2016

3Q16 TCV Scorecard – Traditional Outsourcing Market Only

The ISG Outsourcing Index has moved to ACV as the primary measure of the Broader Market. We will continue to provide a high-level TCV view of the market via a Scorecard analysis.

Scorecard	3Q16 TCV ($B)*	3Q Y/Y Change	3Q Q/Q Change	YTD TCV ($B)*	Y/Y Change
Global Outsourcing	$ 20.8	1%	-2%	$ 61.4	-3%
New Scope	$ 13.8	-10%	11%	$ 39.8	-13%
Restructurings	$ 7.0	32%	-19%	$ 21.6	24%
Mega-deals	$ 2.0	0%	0%	$ 5.6	16%
ITO	$ 14.8	17%	-9%	$ 43.0	-2%
BPO	$ 6.0	-25%	22%	$ 18.4	-5%
Americas	$ 9.1	19%	-2%	$ 25.3	11%
EMEA	$ 9.5	-11%	-3%	$ 29.0	-12%
Asia Pacific	$ 2.2	-3%	5%	$ 7.1	-3%

*Contracts with TCV ≥ $25M from the ISG Contracts Knowledgebase®

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