EMEA Combined Sourcing and As-a-Service Market Insights

FOURTH QUARTER AND FULL-YEAR 2016

Hosted by:
John King, Bank of America Merrill Lynch
16 January 2017

ISG Index™

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Welcome to the 57th Quarterly ISG Index

Covering the state of the combined Sourcing and As-a-service industry for global and EMEA commercial contracts.

John Keppel
Partner and President

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Partner

Full-year Combined Market ACV up 9% driven by 38% growth in As-a-Service segment

4Q Combined Market down 5% Y/Y; Traditional Sourcing space falls short, despite gains in As-a-Service

Americas 4Q up Y/Y on strength in As-a-Service space

EMEA down Y/Y in 4Q; Traditional Sourcing slows in ITO and in the largest geographies

Asia Pacific 4Q up 15% Y/Y; both SaaS and IaaS 2016 ACV growth outpace that seen in other regions

At a Glance

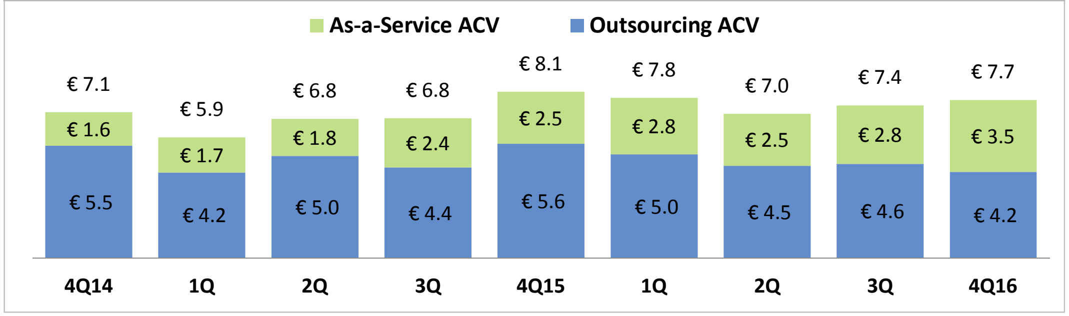
Scorecard		4Q16 ACV (€B)*	4Q Y/Y Change	4Q Q/Q Change	2016 ACV (€B)*	Y/Y Change
Global Combined Market		€ 7.7	-5%	3%	€ 29.9	9%
By Type	Outsourcing	€ 4.2	-25%	-8%	€ 18.3	-4%
	As-a-Service	€ 3.5	38%	23%	$ 11.6	38%
By Service	ITO	€ 2.6	-39%	-26%	€ 13.1	-5%
	BPO	€ 1.6	23%	53%	€ 5.2	-2%
	IaaS	€ 2.6	70%	31%	€ 8.0	54%
	SaaS	€ 0.9	-12%	3%	€ 3.6	13%
By Region	Americas	€ 3.8	5%	9%	€ 14.7	14%
	EMEA	€ 3.0	-19%	-2%	€ 11.8	2%
	Asia Pacific	€ 0.9	15%	3%	€ 3.4	16%

*Contracts with ACV ≥ €4M from the ISG Contracts Knowledgebase®

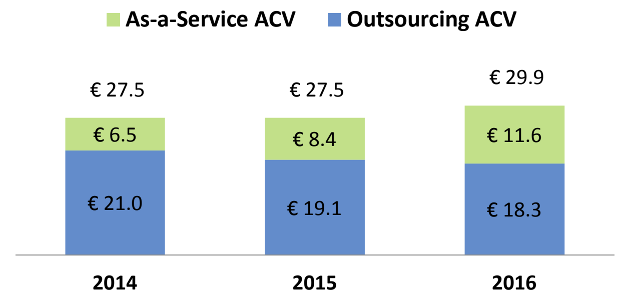
Global Combined Market Contracting Trends

2016 Combined Market up 9% over last year with as-a-service leading the way, up almost 38% over 2015.
Traditional Sourcing uneven in the midst of a structural change with increasing activity moving to the cloud.

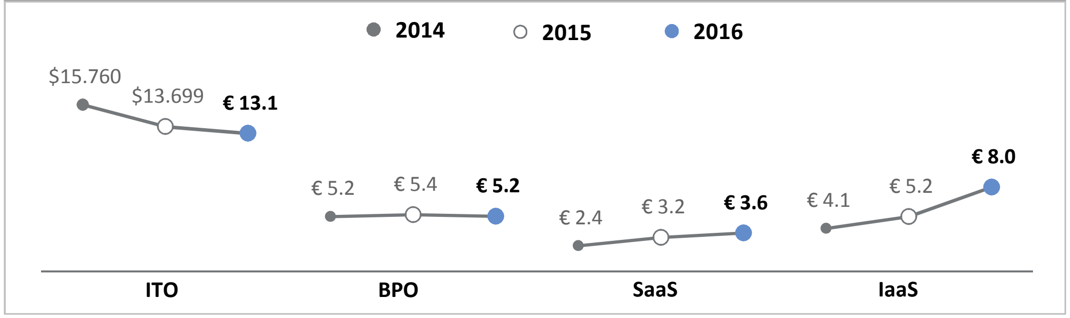
Global Combined Quarterly ACV (€B)



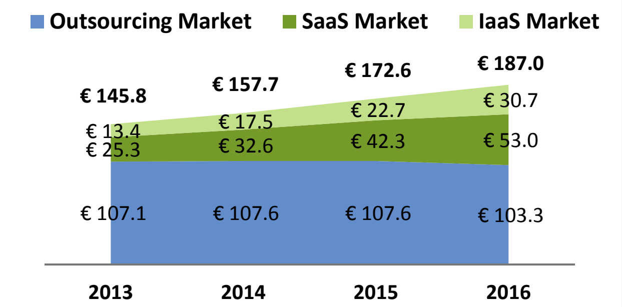
Global Combined Full-Year ACV (€B)



Global Combined Full-Year ACV by Type (€B)

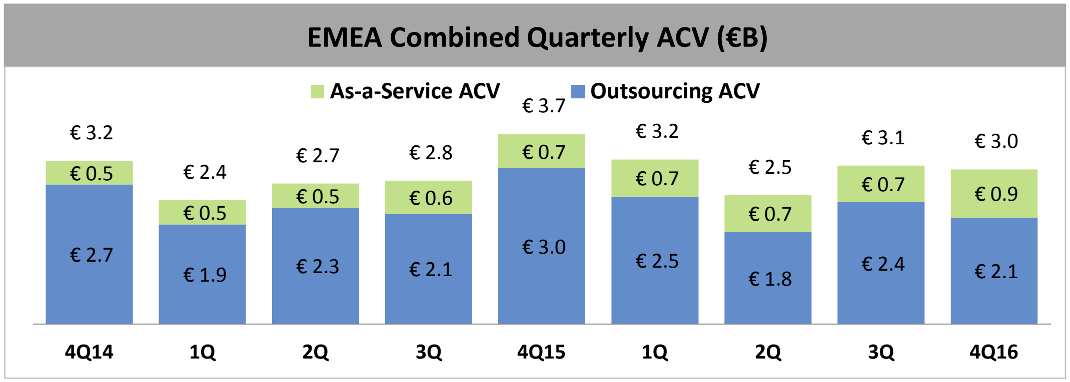


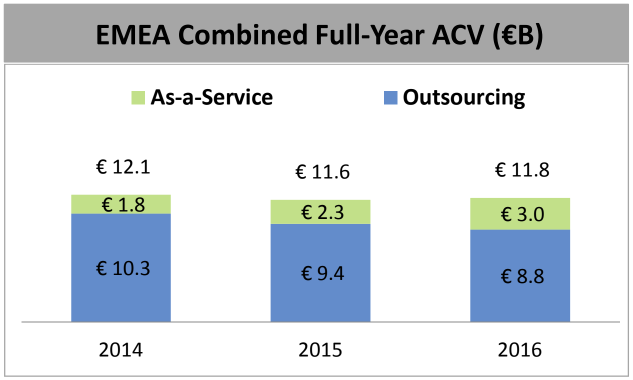
Global Market Size (€B)

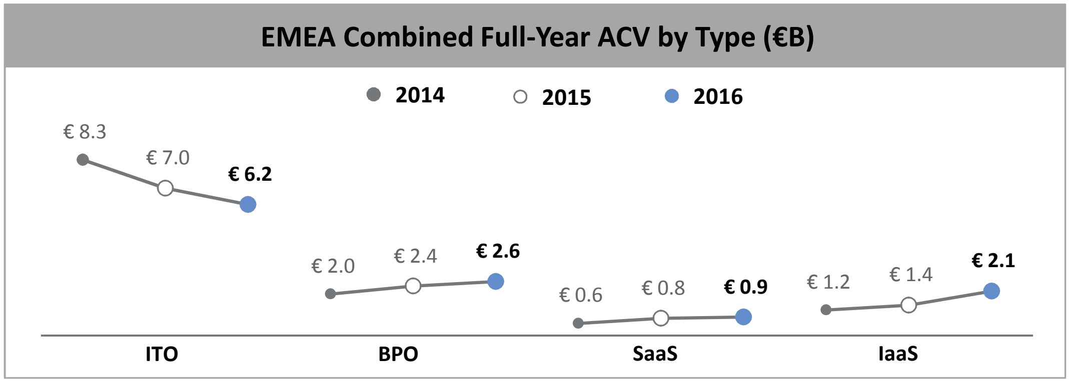


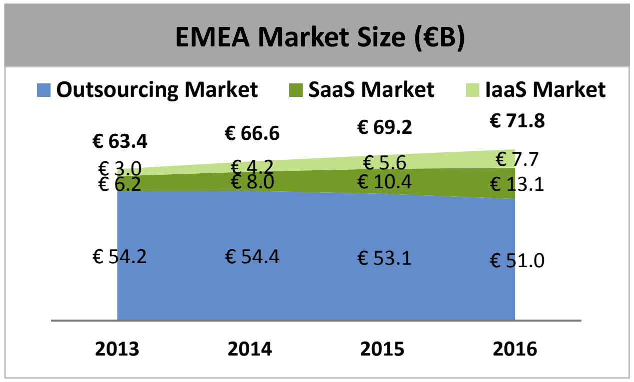
EMEA Combined Market Contracting Trends

2016 Combined Market in EMEA ticks upward, 2% versus last year;
As-a-Service gains, up 42% off a small base, will continue momentum and we expect Combined Market growth in 2017.









EMEA
Sourcing Standouts

the ISG 15

Our Contracts Knowledgebase®
is used to determine placements
based on the annual value of
commercial contracts
awarded in the past 12 months.

The Big 15
Co. Revenues > $10 B

Outsourcing Market

Accenture
Atos
Capgemini
Cognizant
CSC
HPE
IBM
NTT DATA
TCS
T-Systems

As-a-Service Market

Amazon Web Services
SAP
Google
Microsoft
Oracle

The Building 15
Co. Revenues $2 -10 B

Outsourcing Market

Amdocs
Arvato
Capita
Carillion
CGI
HCL
Infosys
Interserve
Jones Lang LaSalle
Orange Business Services
Tieto
Wipro

As-a-Service Market

Adobe Systems
Equinix
Salesforce.com

The Breakthrough 15
Co. Revenues < $2 B

Outsourcing Market

Atento
Datagroup
EVRY
Frontica Business Solutions
GFI Informatique
Luxoft
Mindtree
NGA Human Resources
NNIT A/S
SIA
VirtusaPolaris
Webhelp
WNS

As-a-Service Market

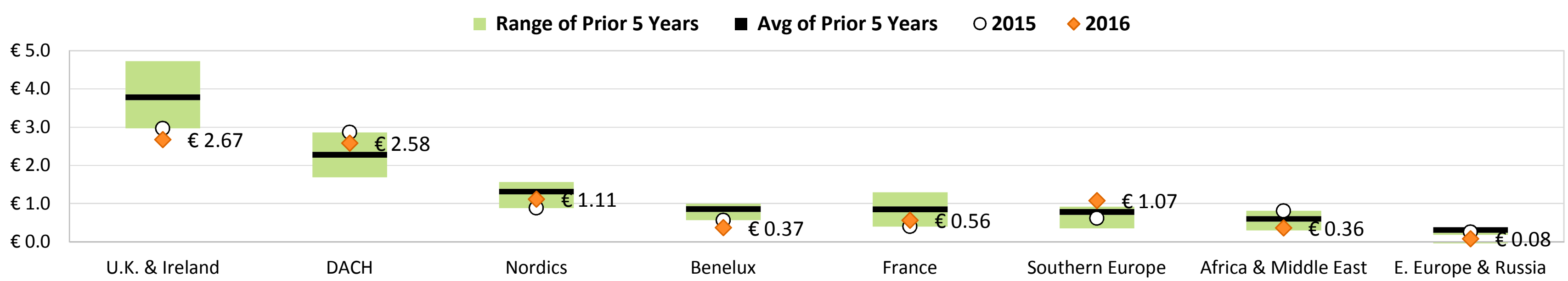
Digital Realty
Interxion

Providers in alphabetical order; no rankings implied. Revenues sourced from Hoovers and individual company financial fillings.

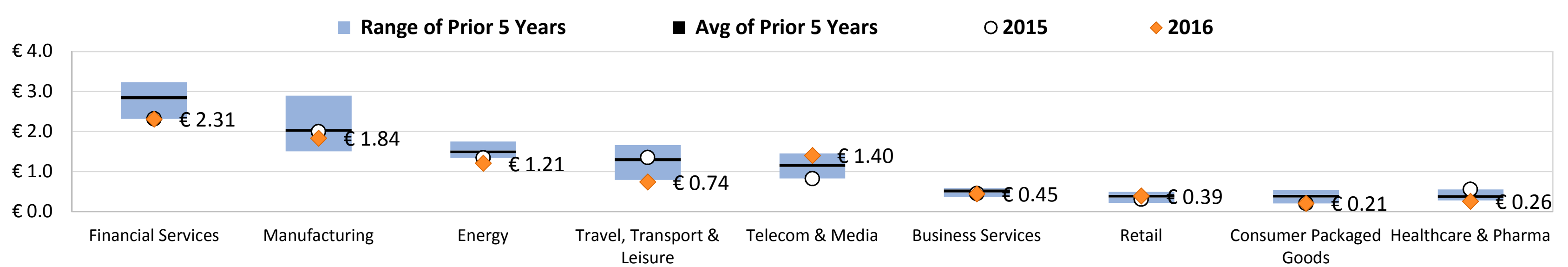
EMEA Traditional Outsourcing Award Trends

Traditional Sourcing Activity is uneven due to sluggish results in the UK and DACH.
Continuing softness across most major industries contributes to the annual shortfall.

EMEA Sub-Region Full-Year ACV (€B) - Traditional Outsourcing Only



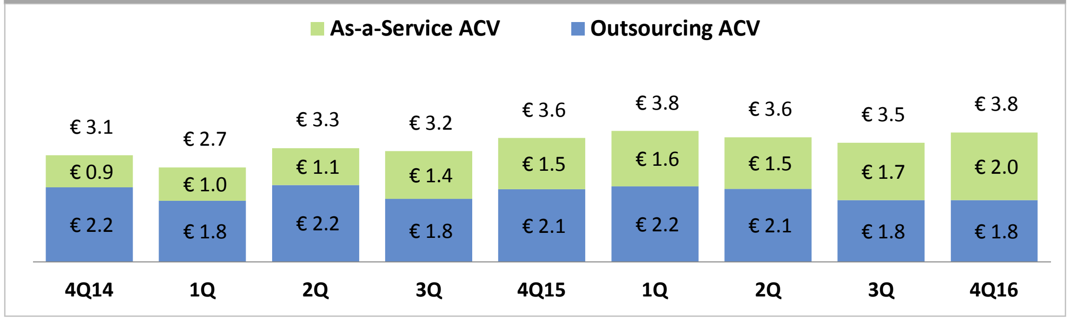
EMEA Industry Full-Year ACV (€B) - Traditional Outsourcing Only



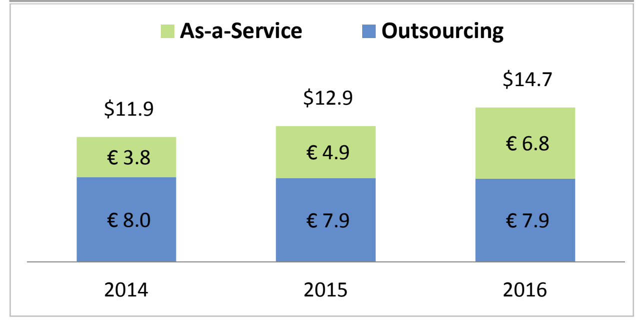
Americas Combined Market Contracting Trends

2016 Combined Market up 14% versus 2015; Both ITO and IaaS post solid ACV increases.
As-a-service ACV continues to close the gap with Traditional Sourcing'.

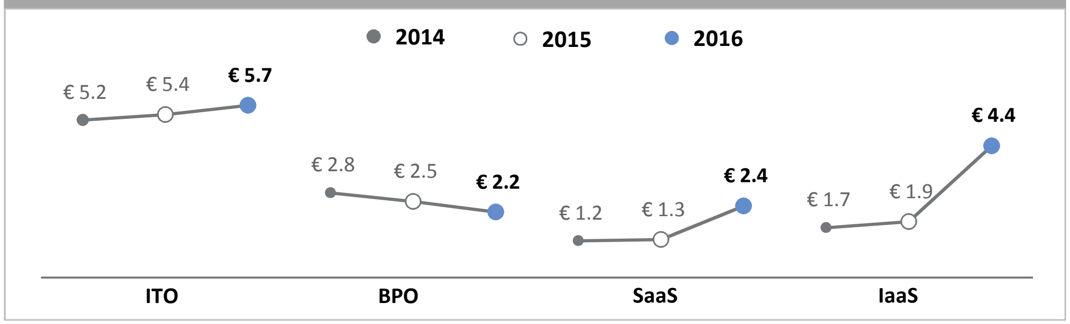
Americas Combined Quarterly ACV (€B)



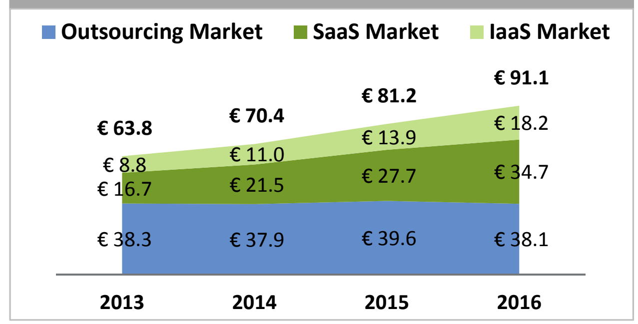
Americas Combined Full-Year ACV (€B)



Americas Combined Full-Year ACV by Type (€B)



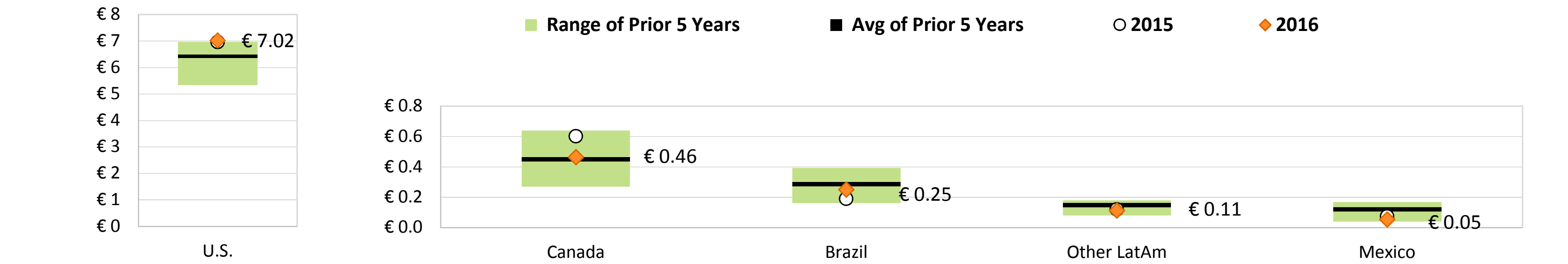
Americas Market Size (€B)



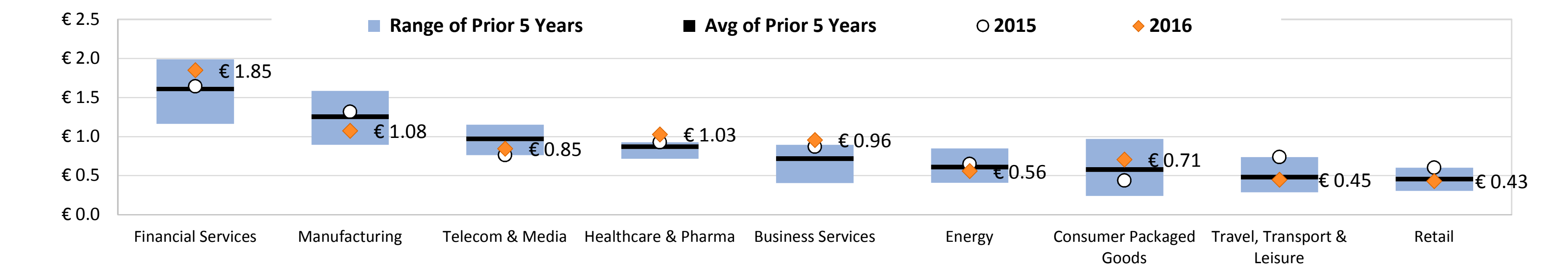
Americas Traditional Outsourcing Award Trends

Financial Services and Healthcare markets post moderate gains in the Traditional Sourcing space, while Energy companies still face the headwinds of low commodity prices.

Americas Sub-Region Full-Year ACV (€B) - Traditional Outsourcing Only

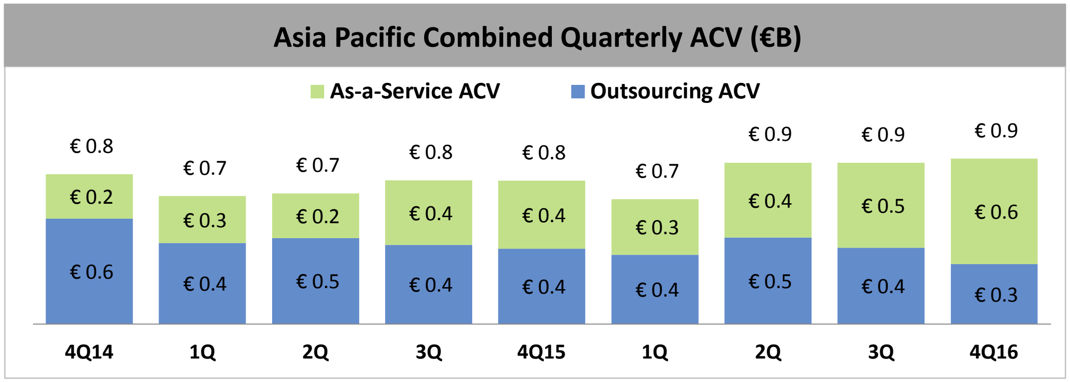


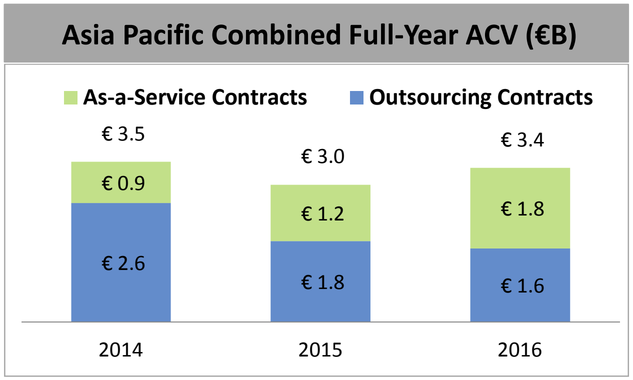
Americas Industry Full-Year ACV (€B) - Traditional Outsourcing Only

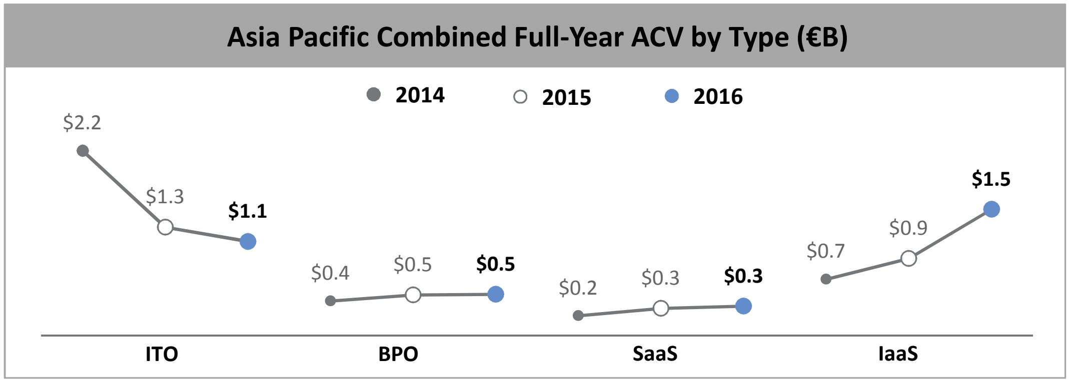


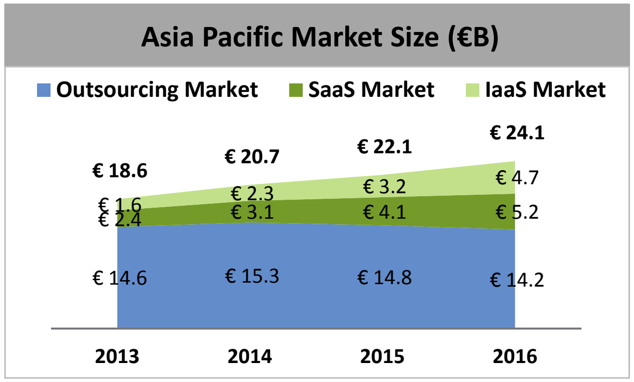
Asia Pacific Combined Market Contracting Trends

2016 Combined Market up 15% over 2015; As-a-Service growth in both SaaS and IaaS segments is highest of the three major regions; As-a-Service ACV for the year overtakes Traditional Sourcing.





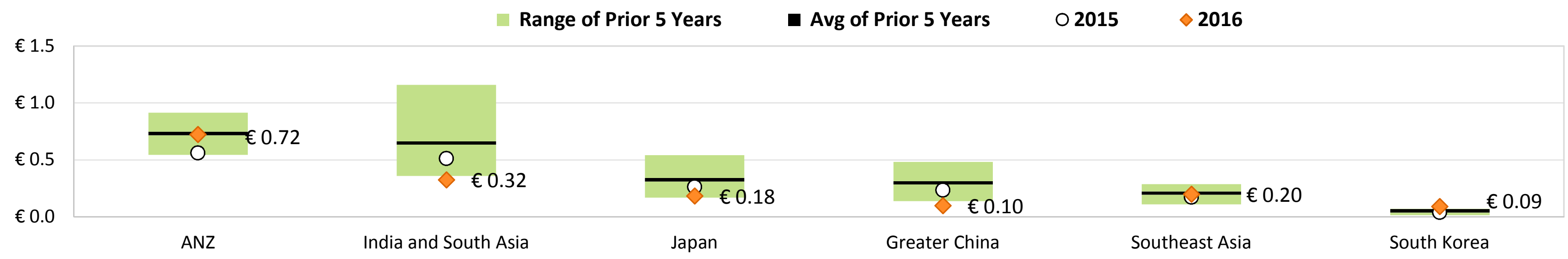




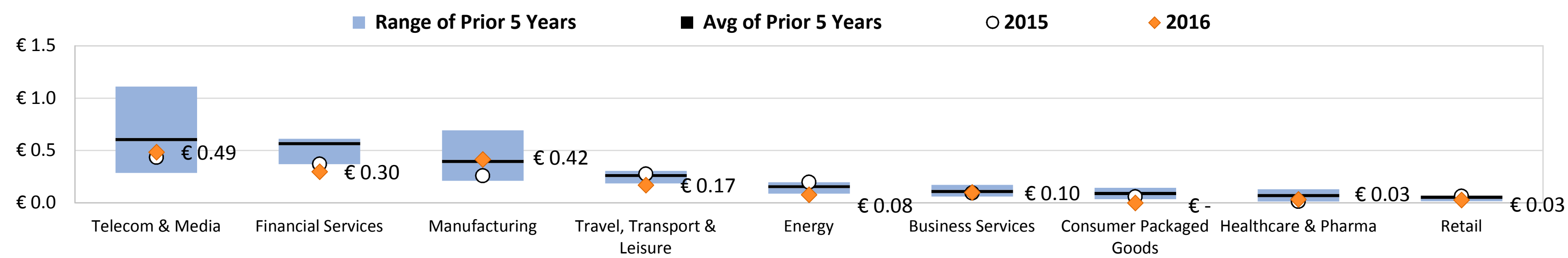
Asia Pacific Traditional Outsourcing Award Trends

ANZ rebounds in 2016, up almost 30%, while India ACV continues to pull back;
Telco rises 12% in 2016, but most major industry verticals fall below their prior-five-year averages.

Asia Pacific Sub-Region Full-Year ACV (€B) - Traditional Outsourcing Only



Asia Pacific Industry Full-Year ACV (€B) - Traditional Outsourcing Only



4Q16 Index Inside Track from

ISG Insights™

The Digital Labor Imperative

John Keppel
Partner and President

ISG Index™ EMEA 4Q16

What is Digital Labor?

A virtualized human workforce — working faster, with better quality, for less cost

Level 1 Digital Workforce

Automates standard, repeatable processes

- Structured data – think spreadsheets
- Key Technology: RPA
- Rule-based process – like HR and F&A

Level 2 Digital Workforce

Designed for variations

- Semi-structured data – invoices, help-desk tickets
- Key Technology: Expert System
- Data that changes quickly, and requires a decision such as in IT operations or in fraud detection

Level 3 Digital Workforce

Machine learning for faster, better problem solving

- Unstructured data – e-mail and chat
- Key technology: Machine learning
- Starting to see many proof-of-concept projects emerge

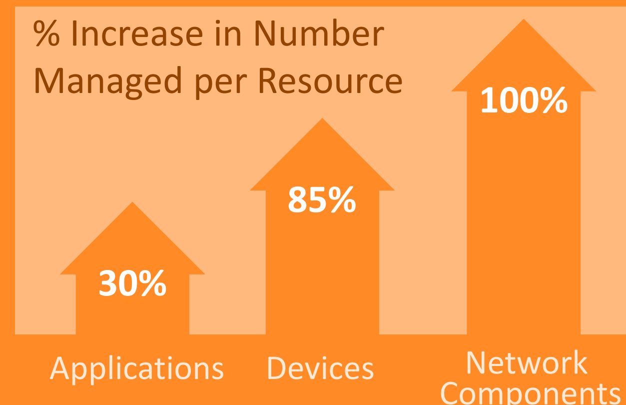
Digital Labor Benefits Enterprises and Providers

Large Enterprises
are building out their digital workforces via internal initiatives with purchased software

Global Telecom Company	L1 automates procure to pay	FTEs ↓ 50%
Large Financial Services Firm	L2 builds a digital IT organization	Incident Resolution from 4 hours ↓ to 10 minutes
Leading Beverage Manufacturer	L3 predicts which drinks sell by market	Revenues ↑ 30%

Service Providers
are increasingly doing a lot more, with a lot less by building out their digital workforces

ISG Automation Index™
Studies Provider ITO Productivity



Market Rewards Providers Who Grow in Two Ways

Pricing pressure on big providers due to growth in Digital Workforce

- Digital Labor impacts the bottom line.
- Need to grow digital labor faster than downward pressure on rates.
- Digital labor scales up quickly enabling smaller providers to compete for big business.

But digital workforce productivity improvements are not enough!

$ **Capture Your Client's Discretionary Spend**

for bottom line growth **Develop a credible digital workforce** to help your clients reduce current costs and avoid future ones

for top line growth **Develop Digital transformation solutions** and **Platform Services** that will help your client grow their revenues in the future

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4Q/FY 2016 ISG Index - Global Summary and Outlook

Summary

- 2016 Y/Y ACV increases 9%. As-a-Service solutions are the buyers' choice.
- Americas growth came from both traditional ITO and Infrastructure-as-a-Service; As-a-Service spending doesn't have to come at the expense of Traditional Sourcing.
- EMEA As-a-Service is in the early stages. Traditional Sourcing ACV has been uneven.
- Asia Pacific As-a-Service accounts for more than half of the ACV this year.

Outlook

- We forecast double-digit Combined Market growth in 2017.
- Expect As-a-Service growth in all three regions, with momentum building in EMEA due to public cloud expansion.
- Traditional Sourcing will have to find it's footing as spending moves to business-led digital initiatives.

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Appendix: Score Card for TCV

FOURTH QUARTER AND FULL-YEAR 2016

ISG Index™ EMEA 4Q16

4Q/FY 2016 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	4Q16 TCV ($B)*	4Q Y/Y Change	4Q Q/Q Change	2016 TCV ($B)*	Y/Y Change
Global Outsourcing	€ 12.8	-37%	-22%	€ 61.5	-13%
New Scope	€ 7.4	-35%	-31%	€ 38.8	-19%
Restructurings	€ 5.4	-40%	-4%	€ 22.7	-1%
Mega-deals	€ 0.8	-82%	-64%	€ 5.9	-30%
ITO	€ 8.0	-48%	-32%	€ 42.3	-16%
BPO	€ 4.8	-4%	5%	€ 19.2	-6%
Americas	€ 4.4	-40%	-36%	€ 24.3	-5%
EMEA	€ 7.4	-37%	-3%	€ 30.6	-20%
Asia Pacific	€ 1.0	-17%	-44%	€ 6.6	-6%

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

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