

# IT Services

As digitalisation continues to transform the way we work, the IT Services industry is becoming an increasingly important sector.

This has been amplified by the COVID-19 pandemic, where businesses able to digitalise their services and adapt to/enable remote working were best placed to succeed in spite of the disruption.





## Overview

**IT Services is a broad industry covering an array of subsectors, but this report will focus on business process outsourcing (BPO), data processing and hosting services. The report will cover M&A activity, industry outlook and the positive and negative effects of the pandemic.**

Whilst the pandemic has stunted recent growth in the industry, the increasing drive towards cloud computing and digitalisation is opening up many new market opportunities for operators, with the market size for 2021 rising to £129.5 billion from £114.2 billion the previous year.

Many companies' pre-existing IT infrastructure was not designed to handle the shift to remote working, resulting in increased demand for new IT infrastructure and digital development services. Conventional approaches to IT services have been disrupted by the shift towards digitalisation and this will be further enhanced as efficiency and productivity are increasingly prioritised during the post-pandemic recovery period.

## BPO

BPO is a form of subcontracting that involves the delegation of specific back and front office functions to third-party providers. The primary objectives of BPO are to reduce costs and enhance customer service. Industry demand is expected to stall in the current year as many firms freeze hiring initiatives and furlough workers, with a forecasted dip in revenue to £15 billion. Prior to the pandemic, revenue grew substantially over the three years through to 2019 and is forecast to pick up again at

a compound annual growth rate of 2.9% over the next five years to reach £17.3 billion by 2026.

As the number of businesses operating in the UK is expected to grow, demand for industry services and BPO operators is expected to be high, as companies look for ways to expand on a budget. Technological advances are also expected to increase demand as BPO firms are able to offer services that provide greater value to their clients.

## Competition

The BPO industry exhibits a low level of market share concentration. In 2020, the top four players in the industry accounted for less than 20% of industry revenue. Capita PLC is the largest player operating in the industry, with a market share of 13.7%. It provides various different types of BPO services to multiple industries, including customer management and human resource services. However, many of the other large industry players specialise in a certain sector and do not offer services outside of that sector, resulting in their market shares being depressed. In addition, the industry also consists of many small operators. This is highlighted by the fact that in 2020, an average UK BPO firm employed fewer than eight people.

Company	Revenue £(m)	Market Share
Capita PLC	2,061	13.7%
Accenture UK Ltd	2,500	4.4%
Hays PLC	5,900	1.2%
Teleperformance Ltd	169	0.9%

## M&A Activity

M&A activity across the UK and worldwide has been muted in the past 18 months due to the effects of the COVID-19 pandemic. However, 2021 has seen an uplift in activity, with the BPO industry seeing a 60% increase in Q1 & Q2 2021 compared to the previous year.

Our research has shown 50+ deals completed in the UK BPO industry in the past 18 months, and over 25 of these were in 2021. Notable deals are listed below and include the second public offering of food-service giant Compass Group and digital transformation specialist EDM Group. Deal data highlights that many of the deals involved industry specific firms and large players acquiring smaller BPO firms to bring specialist knowledge in-house.

Deal Date	Company	Buyer(s)	Deal Size (£m)	Deal Type
30 Nov 2020	Equiniti HR Solutions	Civica-UK, Partners Group	13.2	Public Offering
30 Apr 2021	EDM Group	Restore (UK)	61.0	M&A
07 Apr 2021	Sanne Group (LON: SNN)		80.0	PIPE
04 Jan 2021	Kuehne + Nagel (UK Contract Logistics Portfolio)	XPO Logistics	500.0	M&A
21 May 2020	Compass Group	Civics-UK, Partners Group	2,005.6	LBO

## Data Processing & Hosting Services

Companies in the Data Processing and Hosting Services industry offer business process management, data processing, application services, data storage, IT support, network management and website hosting, as well as a wide variety of other services. The industry has transformed over the past decade as the growth of cloud computing has created new markets and significant opportunities for operators.

The industry has benefited from increased demand from banks and financial institutions, as they require an increasing number of services to improve efficiency, process transactions and store sensitive data. The rising number of mobile connections and the increased popularity of cloud computing has also driven demand.

However, cloud technology has a lower revenue associated with it, which has contributed to the reduced revenue growth in the industry in recent years. Growth within Data Processing & Hosting Services is expected to be 0.4% in the current year, with demand muted due to the effects of the pandemic on the wider economy. The outlook for the next five years is positive, and thanks to the continued innovation in the industry and the uptake of cloud computing, revenue is forecast to increase at a compound annual rate of 2.2% through to 2026 to reach £8.5 billion.

## Competition

The Data Processing and Hosting Services industry is fragmented, with many small firms and a few large players, with the four largest operators accounting for 24.4% of industry revenue. 2019 ONS data indicates that 2.8% of industry operators employ over 50 staff members, whereas 77.6% have fewer than five employees, indicating that the majority of the industry's operators are SMEs. The smaller firms in the industry



mainly focus on niche markets with relatively low competition, which is a result of the range of services available to be supplied in the market.

Company	Revenue £(m)	Market Share
Salesforce UK Ltd	2,443	8.9%
IBM UK Ltd	3,895	8.0%
Entserv UK Ltd	1,300	4.4%
Microsoft UK Ltd	2,800	3.1%

## M&A Activity

Top players in the industry are actively seeking acquisition targets to help accelerate growth and consolidate their market share, with a particular interest in specialist smaller firms so to expand their services. This, coupled with an influx of private equity investment has increased M&A activity in the last 18 months, with 50+ deals found to be completed in the UK Data Processing & Hosting Services industry. Of these deals, many were completed in the last three months as overall M&A activity and consumer confidence have rebounded in line with the gradual lifting of lockdown restrictions.

Notable deals are listed below and include the IPO of multi-cloud technology services company Rackspace Technology and the sale of cloud software solutions portal Giacom. This highlights the growth of large cloud-centric businesses and is in line with the market trend.

Deal Date	Company	Buyer(s)	Deal Size (£m)	Deal Type
01 Mar 2021	Amito	Harwood Private Equity	38.7	PE Investment
19 Nov 2020	Giacom World Networks	Digital Wholesale Solutions	75.0	M&A
25 Aug 2020	Redis Labs	Bain Capital Ventures	76.5	VC Investment
05 Aug 2020	Rackspace Technology		551.7	IPO
10 Mar 2020	iBlocks	Tracsis	14.0	M&A





## Outlook

Whilst the COVID-19 pandemic has had a detrimental effect to the UK economy and many industries, the IT services industry has managed to sustain growth and some areas have even thrived. With continued investment into transformational digital technologies and cloud computing, this growth is expected to surge over the next five years, with many new opportunities becoming available for IT services operators.

Whilst most of the IT services sectors are fragmented, firms offering specialist services are particularly attractive acquisition targets, as the large players look to expand. Likewise, those businesses in the industry who have demonstrated their resilience over the past 18 months are also primary targets for investment or acquisition from private equity firms. 57% of UK executives stated that their companies actively intended to pursue M&A in the next 12 months, highlighting the increased appetite for M&A, and we expect to see strong M&A activity continue in the IT services sector.



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