

# IT SERVICES & SOLUTIONS QUARTERLY

QUARTERLY INSIGHTS ON THE IT SERVICES & SOLUTIONS MARKETS FROM THE ITSS INVESTMENT BANKING TEAM AT RAYMOND JAMES

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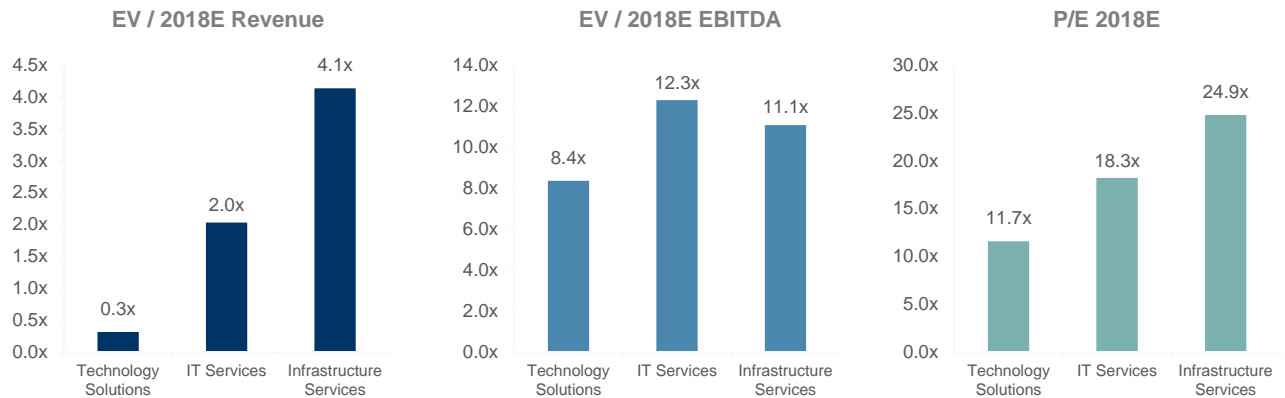
## Technology & Services Overview

- ▶ 70+ tech investment bankers located in Atlanta, Boston, San Francisco, Tampa, London and Munich
- ▶ 250+ completed Technology & Services transactions since February 2010 representing nearly \$100 billion in combined transaction value:
  - 150+ M&A advisory and private placement services transactions
  - 100+ public equity and debt offerings raising over \$9.9 billion in proceeds
- ▶ Eight focus verticals, including IT Services & Solutions
- ▶ Services: Mergers & Acquisitions (sell-side & buy-side advisory); Public Equity and Debt Offerings; Private Placements of Equity and Debt; Divestitures; Board Advisory Services; Recapitalizations and Restructurings

## Recent IT Services & Solutions Deals

 <p>Has been acquired by</p> 	 <p>Portfolio company of</p>  <p>Has been acquired by</p> 	 <p>Portfolio company of</p>  <p>Has been acquired by</p> 	 <p>A portfolio company of</p>  <p>Has been acquired by</p> 	 <p>and other existing shareholders Sold</p>  <p>keep IT running... To</p> 
 <p>Has been acquired by</p>  <p>Portfolio company of</p> 	 <p>Payments Services</p> <p>Has been acquired by</p> 	 <p>A portfolio company of</p>  <p>Has been acquired by</p> 	 <p>HealthcareAdvisors</p> <p>Has been acquired by</p> 	 <p>Has acquired</p>  <p>from</p> 
 <p>A portfolio company of</p>  <p>Has been acquired by</p> 	 <p>Has acquired</p> 	 <p>A portfolio company of</p>  <p>Has been acquired by</p> 	 <p>Has acquired</p>  <p>from</p> 	 <p>Has been acquired by</p> 
 <p>Has been acquired by</p> <p>Booz   Allen   Hamilton</p>	 <p>Has received investment from</p> 	 <p>Has received investment from</p> 	 <p>A portfolio company of</p>  <p>Has been acquired by</p> 	 <p>Has been acquired by</p> 
 <p>Announced acquisition of</p>  <p>Technology Solutions</p>	 <p>Has been recapitalized by</p> 	 <p>IT Services   Solutions</p> <p>Has acquired the SAP &amp; AMS service business of</p> 	 <p>Software Licensing Business</p> <p>Has completed a strategic business combination with</p> 	 <p>Has been acquired by</p> 

## 2018E Trading Metrics by Business Model

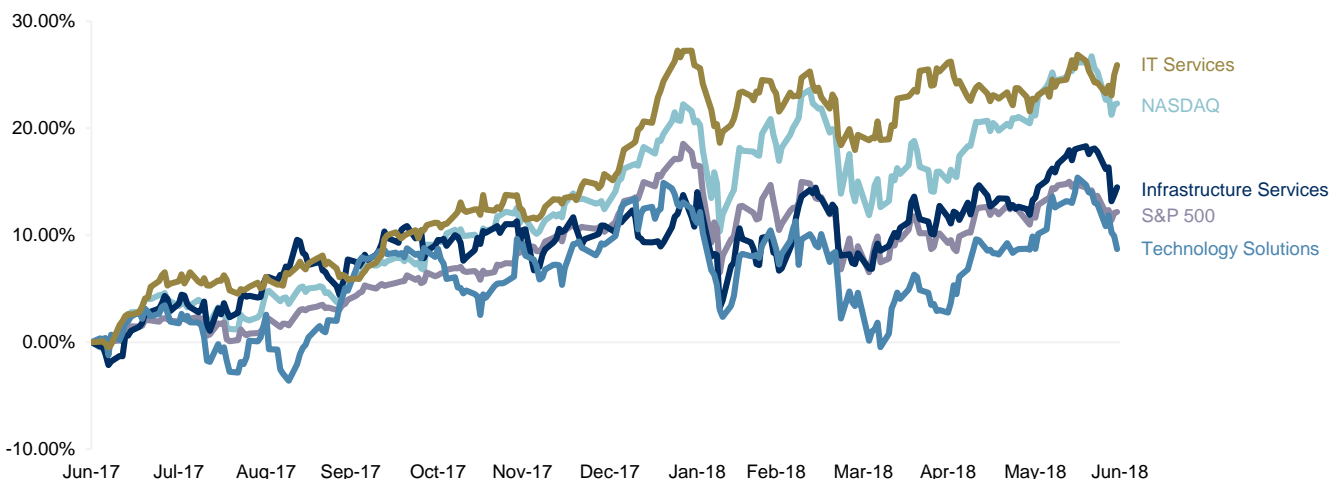


## Median Operating / Trading Statistics

	Technology Solutions	IT Services	Infrastructure Services
2018E Revenue Growth	5.5%	6.7%	15.8%
2019E Revenue Growth	3.6%	6.2%	6.6%
2018E EBITDA Margin	4.2%	17.7%	28.4%
2019E EBITDA Margin	4.2%	17.9%	27.4%
% 52 Week High	87.6%	91.3%	92.9%
Debt / 2018E EBITDA	2.0x	1.0x	3.8x

## 1-Year Historical Composite Stock Performance (%) as of 06/30/2018

IT Services	25.9%
NASDAQ	19.5%
Infrastructure Services	17.3%
S&P 500	11.8%
Technology Solutions	8.5%



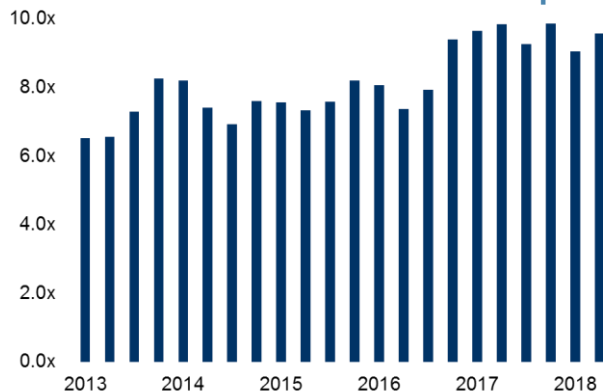
Source: S&P CapitalIQ

## Technology Solutions Overview

### Detailed Valuation Multiples and Metrics

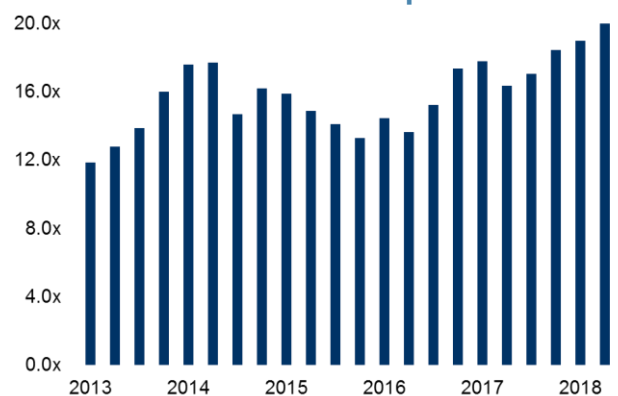
Company	Price 6/30/2018	% of 52 Week High	Market Cap (\$MM)	Total Enterprise Value (\$MM)	TEV		TEV	
					2018E Revenue	2019E Revenue	2018E EBITDA	2019E EBITDA
CDW Corporation	\$ 80.79	94.1 %	\$ 12,619.4	\$ 16,157.6	1.01 x	0.96 x	12.9 x	12.1 x
Arrow Electronics, Inc.	75.28	86.3	6,729.2	9,801.7	0.33	0.33	7.3	7.1
Avnet, Inc.	42.89	95.6	5,220.7	6,306.3	0.33	0.32	7.4	7.2
SYNNEX Corporation	96.51	68.0	3,844.3	5,297.3	0.27	0.26	7.2	6.8
Tech Data Corporation	82.12	73.9	3,160.7	4,434.8	0.12	0.12	5.6	5.4
Bechtle AG	77.12	84.5	3,239.1	3,199.9	0.68	0.62	12.3	11.1
Presidio, Inc.	13.10	66.4	1,303.3	2,163.6	0.74	0.71	9.8	8.9
Insight Enterprises, Inc.	48.93	95.4	1,772.6	2,162.4	0.30	0.29	7.8	7.4
Computacenter plc	19.08	89.4	2,332.3	2,073.9	0.39	0.38	11.4	10.9
Cancom SE	102.09	83.2	1,787.4	1,678.4	1.10	1.02	13.9	12.2
ConvergeOne Holdings, Inc.	9.39	94.4	870.6	1,499.8	1.01	0.96	9.9	8.7
ScanSource, Inc.	40.30	88.9	1,032.8	1,279.6	0.33	0.32	8.9	8.6
ePlus inc.	94.10	94.3	1,314.3	1,360.5	0.95	0.86	12.7	11.5
Datec Limited	1.55	33.0	334.7	410.3	0.10	0.10	7.2	4.0
PC Connection, Inc.	33.20	98.1	893.2	823.1	0.30	0.29	7.9	7.4
PCM, Inc.	15.15	73.9	193.5	401.4	0.18	0.17	7.7	7.0
<b>Mean</b>					<b>0.51 x</b>	<b>0.48 x</b>	<b>9.4 x</b>	<b>8.5 x</b>
<b>Median</b>					<b>0.33</b>	<b>0.32</b>	<b>8.4</b>	<b>8.0</b>

### Historical TEV / LTM EBITDA Multiples



Source: S&amp;P CapitalIQ

### Historical LTM P/E Multiples



### Recent Transaction Announcements<sup>(1)</sup>

Announced Date	Buyer	Target	Description of Target
June-18	DWS	PROJECTS ASSURED	• Systems Integration
June-18	Convergent TECHNOLOGIES	INTEGRATORS AUSTRALIA	• Systems Integration
May-18	BECHTLE	EVOLUSYS	• Microsoft Systems Integration
May-18	PARSONS	POLARIS	• Defense Sector Systems Integration
May-18	SWK	ISM	• Systems Integration
May-18	LOGICALIS	COASIN Group	• Systems Integration
May-18	PRESIDIO	REDSKY	• Security Integration & Support

(1) Please contact the Raymond James team directly for any detail regarding valuation and transaction size of private company deals.

## IT Services Overview

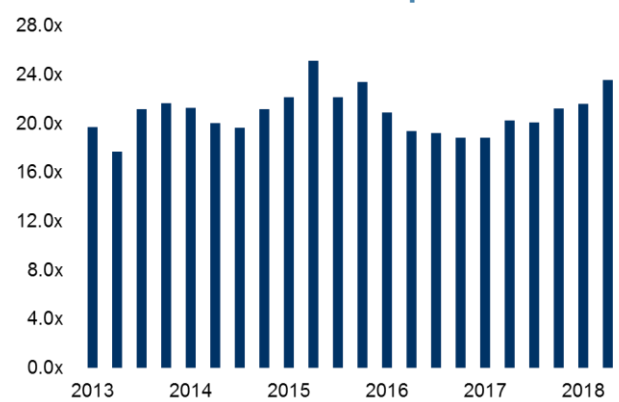
### Detailed Valuation Multiples and Metrics

Company	Price 6/30/2018	% of 52 Week High	Market Cap (\$MM)	Total Enterprise Value (\$MM)	TEV		TEV	
					2018E Revenue	2019E Revenue	2018E EBITDA	2019E EBITDA
Accenture plc	\$ 163.59	98.8 %	\$ 107,383.8	\$ 103,835.9	2.59 x	2.43 x	15.1 x	14.1 x
Tata Consultancy Services Limited	26.98	98.0	103,860.0	97,482.9	4.94	4.42	18.6	16.9
Cognizant Technology Solutions Corporation	78.99	92.8	46,643.6	42,586.6	2.62	2.41	12.3	10.8
Infosys Limited	19.09	99.4	43,094.4	39,071.4	3.52	3.24	13.3	12.3
Capgemini SE	134.41	96.9	23,129.0	24,804.1	1.64	1.55	11.6	11.0
DXC Technology Company	80.61	74.7	23,358.4	29,439.4	1.31	1.34	6.7	5.8
HCL Technologies Limited	13.53	83.6	18,966.1	17,533.2	2.16	1.96	9.2	8.6
Wipro Limited	3.82	78.1	18,163.5	15,813.9	1.93	1.83	10.0	9.4
CGI Group Inc.	63.34	98.7	18,722.2	19,936.5	2.25	2.19	12.3	11.8
Atos SE	136.45	86.4	14,389.6	14,698.3	1.02	0.98	7.9	6.6
Genpact Limited	28.93	83.2	5,654.6	6,538.2	2.20	2.04	13.2	12.1
Virtusa Corporation	48.68	89.8	1,431.1	1,614.4	1.34	1.18	15.6	12.1
Perficient, Inc.	26.37	95.9	895.0	945.5	1.89	1.79	13.7	12.2
DATAGROUP SE	43.58	80.0	362.5	385.0	1.21	1.15	10.2	9.5
<b>Mean</b>					<b>2.19 x</b>	<b>2.04 x</b>	<b>12.1 x</b>	<b>10.9 x</b>
<b>Median</b>					<b>2.05</b>	<b>1.89</b>	<b>12.3</b>	<b>11.4</b>

### Historical TEV / LTM EBITDA Multiples



### Historical LTM P/E Multiples



### Recent Transaction Announcements<sup>(1)</sup>

Announced Date	Buyer	Target	Description of Target
June-18	sopra  steria	it-economics	• IT Consulting
June-18	Getronics	POMEROY	• Data Processing and Outsourcing
June-18	SYNNEX	CONVERGY'S	• IT Managed Services
June-18	DXC technology	MOLINA HEALTHCARE	• Outsourced Services
June-18	F-Secure	MWR	• Cybersecurity Consulting Services
May-18	Partners Group	GlobalLogic	• Application Development
May-18	rackspace	RelationEdge	• Salesforce Systems Integration
April-18	DXC technology	eBECS	• Microsoft Systems Integrator

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## Infrastructure Services Overview

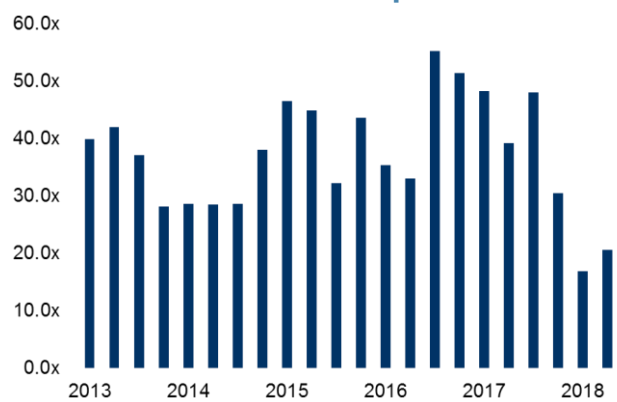
### Detailed Valuation Multiples and Metrics

Company	Price 6/30/2018	% of 52 Week High	Market Cap (\$MM)	Total Enterprise Value (\$MM)	TEV		TEV	
					2018E Revenue	2019E Revenue	2018E EBITDA	2019E EBITDA
Digital Realty Trust, Inc.	\$ 111.58	87.7	\$ 20,800.4	\$ 31,881.2	NM x	9.56 x	17.5 x	16.2 x
United Internet AG	56.92	81.6	11,399.7	13,881.0	2.32	2.18	9.9	9.0
Zayo Group Holdings, Inc.	36.48	96.1	9,112.7	14,612.3	5.54	5.30	11.1	10.4
GoDaddy Inc.	70.60	93.9	13,886.3	15,873.4	6.03	5.39	21.2	19.8
InterXion Holding N.V.	62.42	92.9	4,457.9	5,512.9	8.39	7.31	18.4	15.9
Endurance International Group Holdings, Inc.	9.95	99.5	1,379.9	3,174.8	2.75	2.72	10.1	9.9
Wix.com Ltd.	100.30	91.8	4,622.3	4,358.3	7.30	5.78	40.2	25.4
Web.com Group, Inc.	25.85	98.9	1,298.2	1,938.9	2.59	2.53	10.4	10.0
Internap Corporation	10.42	46.6	208.2	862.4	2.67	2.54	7.8	7.2
<b>Mean</b>					<b>4.70 x</b>	<b>4.81 x</b>	<b>16.3 x</b>	<b>13.7 x</b>
<b>Median</b>					<b>4.15</b>	<b>5.30</b>	<b>11.1</b>	<b>10.4</b>

### Historical TEV / LTM EBITDA Multiples



### Historical LTM P/E Multiples



### Recent Transaction Announcements<sup>(1)</sup>

Announced Date	Buyer	Target	Description of Target
June-18	cspire	TEKLINKS	• Managed Services
June-18	SoftBank	COHESITY	• Hyper-converged Storage Solutions
May-18	fusion	MegaPath	• Cloud Services
April-18	MDP	RDX	• Remote Database Administration
April-18	HCL  Sumeru EQUITY PARTNERS	Qaction	• Cloud Integration and Analysis
April-18	Apax digital	SOLITA	• Managed Cloud Services

(1) Please contact the Raymond James team directly for any detail regarding valuation and transaction size of private company deals.

## Research Coverage

### IT Supply Chain

#### ADAM TINDLE | EQUITY RESEARCH ASSOCIATE ANALYST

- ▶ Covered IT hardware & distribution and electronic manufacturing services sector at RJ since 2014
- ▶ Director of Technology Research
- ▶ Previously managed portfolios investment consultant responsible for \$200M in client assets
- ▶ B.A. in Finance, Stetson University
- ▶ CFA charterholder



### IT Services

#### BRIAN GESUALE | Managing Director

- ▶ 12 years of government-focused equity research experience
- ▶ Covered government sector at RJ since 2004
- ▶ Previously covered government sector at Piper Jaffray
- ▶ Former U.S. Air Force Captain
- ▶ M.S. in Finance, Bentley Graduate School of Business
- ▶ B.S. in Economics, U.S. Air Force Academy



### Telecommunications & Infrastructure Services

#### FRANK LOUTHAN | Managing Director

- ▶ Joined the RJ telecom team in 2001
- ▶ Covered the telecommunications services sector for over 16 years
- ▶ Recognized by the *Wall Street Journal*, *Forbes* and *Bloomberg* for stock picking
- ▶ B.A. in Economics and Business from the Virginia Military Institute
- ▶ M.B.A. from Vanderbilt University's Owen School



### Infrastructure and Security Software

#### MICHAEL TURITS | Managing Director

- ▶ Joined the RJ technology team in 2007
- ▶ Covered the software sector for over 20 years
- ▶ Previously covered infrastructure software at Prudential
- ▶ B.A. from Georgetown University
- ▶ Ph.D. from the University of Massachusetts
- ▶ Masters from SDA Bocconi University (Milan)



## Recent Equity Research Reports

Company (Ticker)	Report	Date
SYNNEX (SNX)	<i>SNX: Trusting the Chessmasters With \$2.4B as Benefit of the Doubt Has Been Earned; Strong Buy</i>	6/29/18
Avnet (AVT)	<i>AVT: Analyst Day - Multiple EPS Drivers, Valuation Assumes a Strikeout; SB-1</i>	6/15/18
Jabil (JBL)	<i>JBL: F3Q: Strong Growth Continues, Await DMS Catalyst; Maintain Market Perform</i>	6/15/18
Misc.	<i>ARW, AVT: What Can History Tell Us About Cycles and Component Distributors? Reiterate Strong Buy</i>	5/17/18
Interxion (INXN)	<i>INXN: Raising Estimates as European Demand Grows</i>	5/4/18
Zayo (ZAYO)	<i>ZAYO: Reviewing Estimates Into The Conversion Discussion</i>	5/4/18
Connection (CNXN)	<i>CNXN: Solid Profitability and Encouraging Buybacks; Market Perform</i>	5/4/18
Internap (INAP)	<i>INAP: Top Line Trajectory Remains Visible; Improved Network Revenue Outlook</i>	5/3/18
Insight (NSIT)	<i>NSIT: Strong Growth Consistent With Our Checks; Cost Controls Pour Lighter Fluid on the Fire</i>	5/3/18
CDW (CDW)	<i>CDW: Working the Variable Cost Model; Await Channel Margin Improvement; Underperform</i>	5/2/18
Akamai (AKAM)	<i>AKAM: 1Q Beats on Media; Margins Up on Faster Opex Cuts; Market Perform</i>	5/1/18
Digital Realty Trust (DLR)	<i>DLR: Strong Bookings &amp; Sales Transition Drive 1Q Results</i>	4/27/18
Avnet (AVT)	<i>AVT: F3Q Quick Take: Capital Return Continues While Forward-Looking Metrics Are Improving</i>	4/26/18
Misc.	<i>1Q IT Survey: Solid Start to the Year, Particularly in the Enterprise Segment</i>	4/23/18
Tech Data (TECD)	<i>TECD: CEO Transition Thoughtful, Well-Telegraphed; Distribution Industry Loses Another Key Figure</i>	4/19/18
Zayo (ZAYO)	<i>ZAYO: Upgrading to Outperform on Positive Sales Momentum</i>	4/13/18
SYNNEX (SNX)	<i>SNX: Lays an Egg Ahead of Easter; Arguably Now the Cheapest Distributor; SB1</i>	4/2/18



## Economic Commentary

As Fed Chair Powell noted in his June 13 press conference, “the U.S. economy is doing very well.” Job growth has remained strong (although beyond a long-term sustainable pace given the demographics). The June ISM surveys noted faster growth in new orders and production, but supply managers expressed greater concerns about the impact of tariffs, rising input costs, and difficulties in shipping goods by truck. Despite a tighter job market, wage growth has remained moderate (2.7% y/y in June) – not enough to keep pace with inflation (+2.8% y/y in May). Consumer spending growth picked up in the second quarter, but the improvement was a bit disappointing following the subpar pace of 1Q18. Business fixed investment appears mixed. Despite corporate tax cuts, shipments of nondefense capital goods have risen at a more moderate pace in the first half of 2018. However, that follows exceptional strength in the second half of 2017 (and new orders for capital equipment picked up somewhat in 2Q18). Residential homebuilding has been uneven in recent months, but building permits and new home sales continue to exhibit strength on a year-over-year basis. However, rising home prices have reduced affordability and builders continue to note supply constraints.

Federal Reserve officials see a number of factors supporting above-trend economic growth, and expect that conditions will warrant further gradual increases in short-term interest rates in the quarters ahead, eventually requiring the federal funds target rate to be raised above a neutral level in 2019 or 2020 (this was apparent in the revised dot plot and in the minutes of the June 12-13 policy meeting). The Fed recognizes that there are downside risks from trade policy, but have not signaled a willingness to alter policy expectations just yet.

Increased tariffs on lumber, steel, and aluminum have had a negative impact on the industries that use those inputs. The White House imposed tariffs on Chinese goods (mostly industrial inputs) on July 6. China has indicated it will respond with comparable tariffs

increases on U.S. exports, and the White House has said that it will retaliate against the Chinese retaliation, with further tariff increases on a broader range of Chinese goods (mostly consumer goods). The administration is waging a trade war on three fronts: China, Canada and Mexico, and the European Union. Foreign trade negotiators have complained that the White House’s goals are undefined. Financial market participants have been generally complacent, believing that everything will work out (with minor tweaks to existing trade agreements). However, the end result is far from clear. Increased tariffs are a tax on U.S. consumers and businesses. They raise costs, invite retaliatory tariffs on U.S. exports (which have been an increasing source of strength for the U.S. economy), disrupt supply chains, and create greater uncertainty for fixed investment at home and abroad.

While the Fed is raising short-term interest rates, long-term interest rates have remained moderate. That partly reflects a global flight to safety into the dollar and U.S. Treasuries. Concerns about the political situation in Germany and Italy, along with continued uncertainty about Brexit, have weighed against sentiment in Europe. Trade tensions have begun to disrupt global supply chains, which, along with rising short-term interest rates in the U.S., ought to have a negative impact on a number of emerging market economies.

### **Scott Brown**

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