



***martinwolf*** IT Index  
**Q2 2018**

August 2018

***martinwolf*** M&A Advisors

AZ | SF | NY

[www.martinwolf.com](http://www.martinwolf.com)

# IT INDEX

A Proprietary Analysis of Market Value for Key Segments in Information Technology

## Overview

The *martinwolf* IT Index is a proprietary analysis of selected securities of global IT companies, with separate indices for IT Services companies in India and China. The securities are weighted according to the market value of their outstanding shares.

Individual indices are composed of companies determined by the *martinwolf* staff to be representatives of their space and are evaluated on a regular basis to ensure ongoing accuracy.

The *martinwolf* IT Index is tracked on a 5-year basis and is accompanied by commentary on the latest industry news and trends.

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## ***martinwolf*** Q2 2018 Analysis

### **Economic Overview**

The US economy had new milestones to celebrate in the second quarter. Growing at its fastest pace since 2014, GDP expanded at a 4.1% annualized rate – up from 2.2% in the first quarter. As a result, the US cemented itself as the economic powerhouse in the world by becoming a \$20 trillion-plus economy, the first for any country.

At just 4%, the US unemployment rate hit an 18-year low, though wage growth remained relatively stagnant. Strong consumer spending was the biggest contributor of growth, as personal consumption increased by 4%. However, economists continued to express concern over the feasibility of maintaining such growth as the effects of a full-fledged trade war with China have been relatively premature.

Meanwhile, corporate earnings grew at an unprecedented rate. After-tax corporate profits shot up higher, with the tax cut triggering the biggest stock buyback binge in history; second-quarter buybacks were up 57% from the same period a year earlier, and Goldman Sachs reported S&P 500 companies would be on track to buying back \$1 trillion worth of shares by the end of this year. Tech sector buybacks were the most numerous, surging 130% year-over-year.

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## Stock Market and Earnings

In line with record-breaking repurchase rates in the tech sector, the most robust stock market index continued to be the Nasdaq Composite; the index recorded its longest winning streak since last October, an expansion of eight seasons in a row. For the year, the Nasdaq rose 14%, gaining more than double the 6.7% growth rate for the S&P 500 and the 3.2% growth rate for the Dow Industrials.

Solid earnings in the tech sector continued its winning streak as well, with total earnings up 34% on 12.9% higher revenues in the second quarter. Leading the high earnings group was Apple, which made global headlines by becoming the world's first trillion-dollar company after reporting strong earnings for the quarter ended June 30. Apple's earnings per share grew 40% year-over-year, while revenues increased 17%.

Amazon also posted strong revenues for the quarter ended June 2018, with net sales increasing 39% year-over-year. Revenue was \$52.9 billion, with Amazon Web Services revenues contributing \$6.11 billion to the figure, up 49% from the same period a year earlier.

Just as noticeable were Microsoft's earnings for the end of its 2018 fiscal year. The company reported \$110.4 billion in revenue over the past 12 months, marking the first time the company passed the \$100 billion mark. Even more significant was the performance of its cloud-computing division. Commercial-cloud revenue surged 53% to \$6.9 billion, giving Microsoft more market share in the global cloud market.

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## The IPO and M&A Markets

The migration to cloud added more value to SaaS and Software companies, as made evident by a resurging IPO market led by technology companies. The IPO market had its busiest period since 2015, with 66 companies going public in the US during the second quarter. Overall, IPOs raised \$16 billion last quarter, one-fourth above the value during the same period last year, and leveraged buyouts in the tech space marked the top IPOs by proceeds; cloud-software company Pivotal Software raised \$555 million and human resources software company raised \$462 million.

M&A deal volume dipped this quarter, dropping 12% compared to the first half of 2017. However, deal value increased for four straight quarters; the estimated \$1.2 trillion generated by M&A deals this quarter marked a 65% advance ahead of the same period last year. 50 megadeals with a combined value of \$732 billion dominated the deal space in the second quarter, and nearly every sector saw at least one US deal of \$1 billion or more in the first half of the year.

For this period, the *martinwolf* US SaaS Index and US Software Index reflected those shifts, as the indices continued to outperform the major-cap indices. The IT Supply Chain Index and IT Services and BPO Index posted solid gains as well, though at a slower pace than the Nasdaq. In line with these trends, *martinwolf* anticipates more IT megadeals in the future, driving up competition as the demand for innovative software accelerates.

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## ***martinwolf* IT Index Analysis**

### **IT Services and BPO**

The ***martinwolf*** US IT Services and BPO Index recorded a growth of 20% in the last year, a few percentage points below the Nasdaq's 24% growth.

Commercial IT professional services leader Accenture surged 32% during the last 12 months up to its third quarter 2018 earnings report at the end of June, with revenue increasing 16%. Competitor DXC Technology experienced a similar surge, with shares skyrocketing more than 25% during the last 12 months and revenue growing 0.9%.

IT services giant Synnex Corporation announced on June 28 its plans to acquire call center operator Convergys in a cash and stock transaction for a total value of \$2.8 billion, the company's biggest yet. Before the deal, Convergys experienced a drop in sales mostly due to declines in the telecom sector. Synnex differentiated itself from other mainline distributors through its M&A strategy; the company saw a 30% increase in revenue from its fiscal year second quarter last year to \$4.5 billion as it continued to boost its margin profile.

In addition, IT solution provider Pomeroy was acquired by European VAR Getronics in July, creating a \$1.3 billion company with more cross-border product and service support.

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## IT Supply Chain

The *martinwolf* US Supply Chain Index recorded a steady growth rate of 13% in the last year.

IT direct marketer CDW surpassed consensus EPS estimates for the last four quarters in a row, and shares rose 34% year-to-date. Meanwhile, competitor Insight saw its shares rise 25% year-to-date, as it announced in its second quarter 2018 earnings report plans to acquire Microsoft partner Cardinal Solutions Group for \$79 million.

ePlus shares rose more than 38% year-to-date and 29% in the last 12 months. PC Connection reflected similar numbers, growing more than 31% year-to-date and 35% in the last 12 months.

Conversely, IT distributors continued on a downward trend. Arrow Electronics experienced a 5.5% drop year-to-date, with the stock falling more than 7% in the last 12 months. Smaller player Wayside Technology saw a steeper drop, declining more than 18% year-to-date and 20% in the last twelve months.

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## Software and SaaS

The *martinwolf* US SaaS Index recorded the strongest growth out of the indices, with a rise of 53% in the last year. The *martinwolf* US Software Index also experienced robust growth at a 35% rate during the same period.

SaaS market leader Salesforce expanded its portfolio with investments in the AI space. The company announced its plans to acquire AI-powered marketing intelligence company Datorama for reportedly more than \$800 million.

Meanwhile, semiconductor giant Broadcom's acquisition of software vendor CA Technologies for nearly \$19 billion was the biggest deal in the software space during the period, with Microsoft's acquisition of GitHub for \$7.5 billion was the next biggest acquisition.

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## China and India

The *martinwolf* China IT Services Index was the most volatile of the indices, dropping from its April highs. The index grew only 13% in the last year, compared to the India and US indices at 36% and 21%, respectively.

Unstable US-China relations from the tariff war exposed some vulnerabilities in China's slowing economy in addition to the weakening of the yuan.

More apparent, however, was the steep decline of Chinese tech giants presumed to be invincible. Tencent erased \$143 billion, or a quarter, of its entire market value. The company declined 25% from its peak on January 23, marking the biggest wipeout of shareholder wealth in the world.

Conversely, investor confidence surged in the Indian IT market. In April, software exporter Tata Consultancy Services became the first Indian IT company to pass \$100 billion in market value – a benchmark that had not been passed in the country since 2008.

As a result, the Indian market has been receiving interest from across the globe. Xiaomi Corporation announced its parts supplier Holitech Technology will be investing \$200 million in India, which is the world's second-biggest smartphone market. A rise in venture capital investments in the country attests to its strong startup culture as well, with more than half a dozen first time venture capital investors debuting since the beginning of the year.

# ***martinwolf IT Index***

## **LTM**

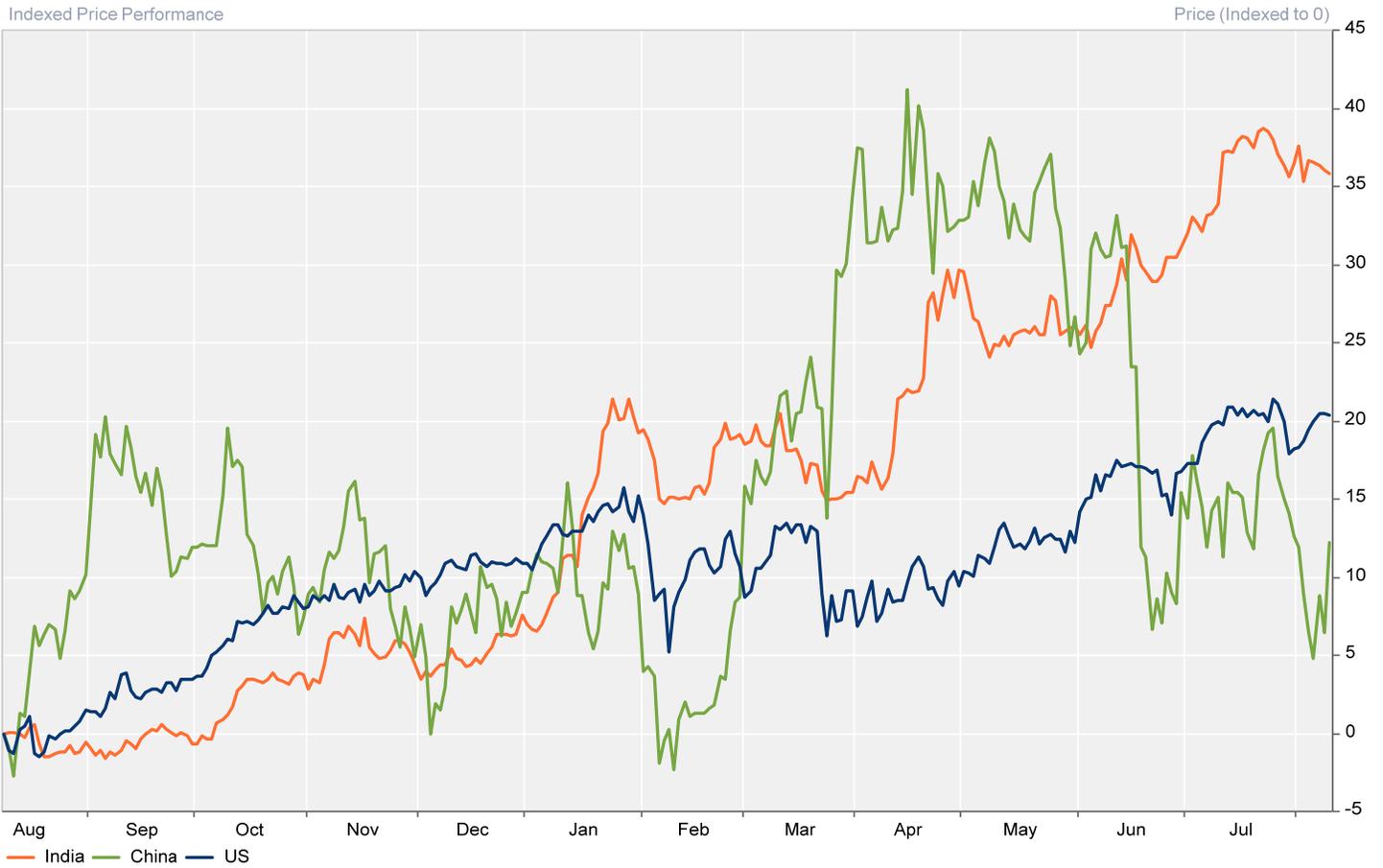
Indexed Price Performance

Price (Indexed to 0)



# ***martinwolf IT Index China and India Editions***

## ***LTM***



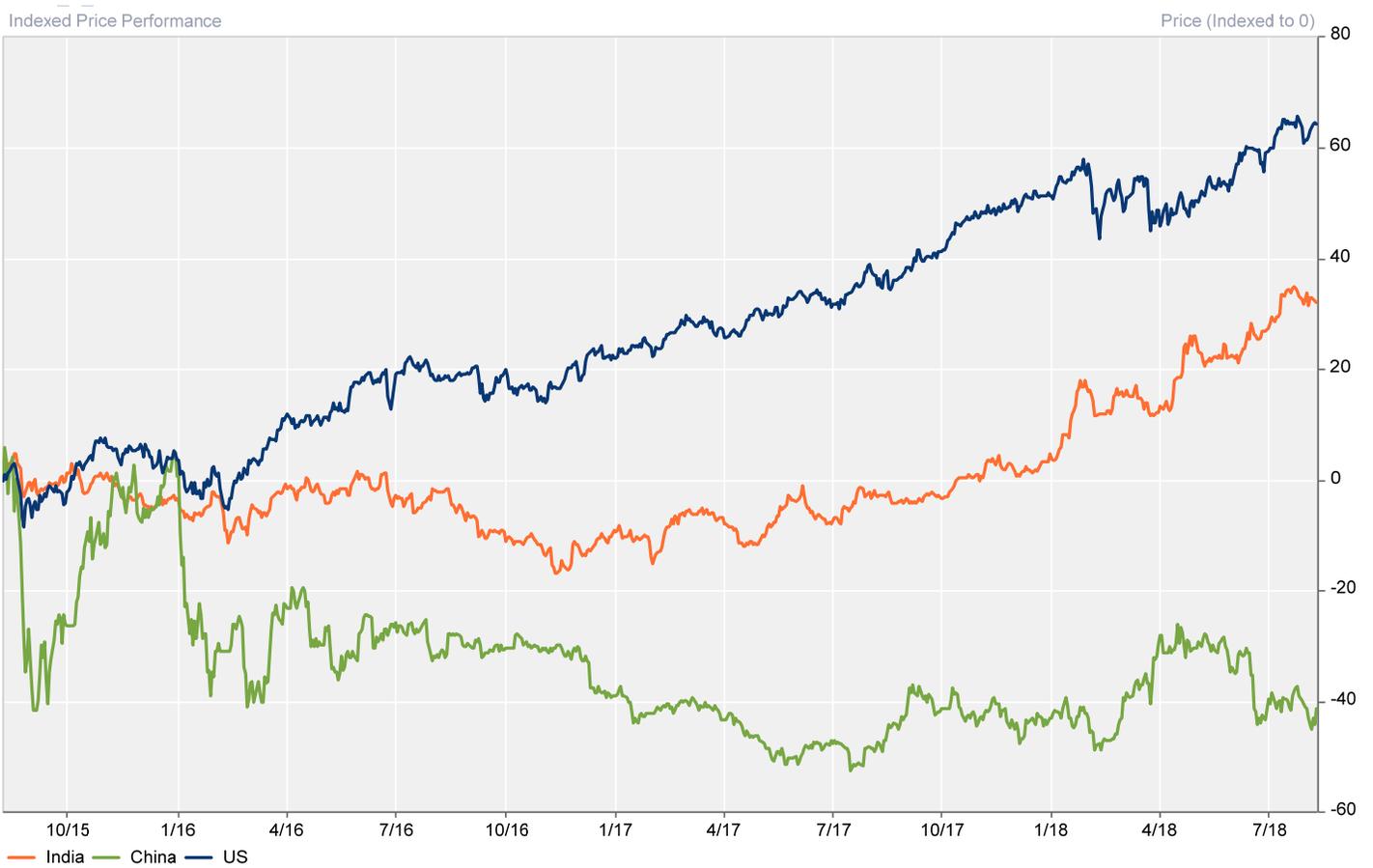
# ***martinwolf IT Index*** **3 Years**

Indexed Price Performance

Price (Indexed to 0)



## ***martinwolf IT Index China and India Editions*** **3 Years**



### About the *martinwolf* IT Index

The *martinwolf* IT Index includes approximately 100 companies that are a composite representative sampling of enterprise values in the following categories:

1. **IT Services & Business Process Outsourcing (BPO)**
  - 38 companies, including 16 in BPO
2. **IT Supply Chain Services**
  - 14 companies
3. **Software**
  - 11 companies
4. **SaaS**
  - 32 companies

In the following pages are category descriptions and representative companies.

## 1. IT SERVICES & BPO

The IT Services category includes companies that provide a range of IT services such as application development, application management, data center operations, testing or quality assurance to organizations on an outsourced basis. Some IT Services companies provide horizontal services to organizations in any industries, while others deliver services by specialized by function or industry. The Business Process Outsourcing (BPO) subcategory includes companies providing both voice (call center) and non-voice based services that are considered "non-core" to an organization's primary business strategy.

IT Services subcategories and representative companies are:

- **Managed Infrastructure Services:** Digital Realty Trust Inc.
- **Commercial IT Professional Services:** Accenture, Unisys
- **IT Staff Augmentation:** Computer Task Group Inc., ManpowerGroup Inc.
- **Governmental IT Professional Services:** MAXIMUS, Inc., ManTech International corporation 
- **Business Process Outsourcing – Inc.**  **Voice:** Convergys Corp., Harte-Hanks,
- **Business Process Outsourcing – Non-** **Voice:** Automatic Data Processing, Inc.

## 2. IT SUPPLY CHAIN SERVICES

The IT Supply Chain Services category includes companies providing one or more services that are directly linked to the flow of products, services, finances and information from a source to a customer.

IT Supply Chain Services subcategories and representative companies are:

- **IT Solution Providers:** Connection, Systemax Inc., Presidio 
- **IT Product Distributors:** Arrow Electronics

### 3. SOFTWARE

The Software category includes companies involved in the development, marketing, sale and maintenance of computer software using various distribution models.

Software subcategories and representative companies are:

- **Enterprise Applications:** Microsoft,
- **IT Management Software:** Check Point
- **Business Software:** Adobe



SAP  
Software Technologies, Symantec

### 4. SAAS

The Software as a Service (SaaS) category is broken out for further analysis. Software as a Service includes companies delivering software of all types only through an on-demand distribution model in which software and its associated data are hosted centrally by a third party, typically in the cloud and accessed by customers using a web browser over the Internet.

Representative SaaS companies are:

- Salesforce.com
- Workday



### ***martinwolf IT Index (India Edition)***

The ***martinwolf IT Index (India Edition)*** includes 38 IT Services and Business Processing Outsourcing (BPO) companies traded in the U.S. (NYSE and NASDAQ) and Indian (BSE) stock markets that are a composite representative sampling of enterprise values.

Representative companies are:

- Cognizant
- HCL Technologies
- Infosys
- Tata Consultancy Services
- Wipro



Cognizant



### ***martinwolf IT Index (China Edition)***

The ***martinwolf IT Index (China Edition)*** includes 23 IT Services and Business Processing Outsourcing (BPO) companies traded in the U.S. (NYSE, NASDAQ, and OTC), London (LSE AIM), Chinese (SZSE, SHSE, SEHK) or Taiwanese (TSEC) stock markets that are a composite representative sampling of enterprise values.

Representative companies are:

- Chinasoft International
- Beyondsoft Corporation
- Hundsun Technologies, Inc.



## DESCRIPTION AND FORMULA

The *martinwolf* IT Index is a market-value-weighted index. The representation of each security in the index is proportional to its last sales price times the total number of shares outstanding, relative to the total market value of the respective index.

The formula used to determine the index value is as follows:

### Current Market Value

$$\text{Index Level} = \frac{\text{Adjusted Base Period Market Value}}{\text{Current Market Value}} \times \text{Base Value}$$

### Current Market Value

$$\text{Current Market Value} = \frac{\text{After Adjustments Market Value}}{\text{Previous Base Period Market Value}}$$

$$\text{Adjusted Period Market Value} = \text{Current Market Value} \times \text{Market Value Before Adjustments}$$

Adjustments for securities being added to or deleted from the index, or capitalization changes, are made periodically. Stock splits and stock dividends are likewise adjusted for during the process. In the case of cash dividends, no adjustment is made.

***martinwolf*** is a leading middle market IT M&A Advisory. Headquartered in Scottsdale, Arizona with offices in the San Francisco Bay Area and New York, ***martinwolf*** is focused on companies in the IT Services, IT Supply Chain, IT-Enabled Business Process Outsourcing and Software as a Service (SaaS) space. Since 1997, our team has completed more than 155 transactions in over 20 countries and has sold eight divisions of Fortune 500 companies.

Member FINRA, SIPC  
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