



Engineering Service Providers & ISVs

Q2 2020 Analysis

Pareekh Jain
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Agenda



Q2 2020 Analysis

- Indian Engineering Service Providers
- European Engineering Service Providers
- Global Engineering ISVs

Revenue and growth of Indian Engineering Service Providers in Q2 2020



Q2 2020		
Service Provider	Engineering Services Revenue Million	QoQ Growth
Persistent	USD 131	3.1%
HCL ERS	USD 378	-9.0%
LTTS	USD 171	-12.5%
Cyient	USD 131	-12.5%
Tata Elxsi	USD 53	-13.0%
KPIT	USD 65	-13.8%

Note: TCS, Wipro, Infosys, Tech Mahindra, QuEST Global, Tata Technologies, Cognizant, and Global Logic will also make in the list of India-centric ESP with quarterly revenue > USD 50 Million. Their financial details of engineering business are not available.

Summary of engineering services landscape for Indian providers



Summary of engineering service providers' industry wise growth trends based on Q2 2020 (FY Q1, 2020) results and discussion with stakeholders.

- **Growth:** Software/ ISV, Medical device/ healthcare
- **Flat:** Telecom/ media
- **Decline:** Automotive, Aerospace, Industrial/ Oil & Gas

News of large deals/ carve outs in ISV, Automotive and Telecom from Persistent, KPIT, LTTS and HCL.

Bottom Line:

Hope Q1 has bottomed out and service providers start showing some QoQ growth in Q2.
The deal signing and pipeline is encouraging.

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Revenue and growth of European Engineering Service Providers in Q2 2020



Q2 2020			
Service Provider	Engineering Services Revenue	QoQ Growth	YoY Growth
EPAM	USD 632.4	-3%	15%
AFRY (ÅF Pöyry)	SEK 2138	-10%	-11%
TietoEVRY	EUR 34	-11%	-3%
Etteplan	EUR 62.9	-12%	-2%
Bertrandt	EUR 205.5	-16%	-21%
SII Group	EUR 147.4	-17%	-9%
AKKA	EUR 352	-17%	-21%
Semcon	SEK 400	-19%	-16%
Alten	EUR 550.3	-20%	-15%
EDAG	EUR 139.3	-28%	-28%
Sogclair	EUR 25.6	-41%	-44%

Revenue calculation: Alten, AKKA, Bertrandt, EDAG, EPAM, Etteplan, Semcon, and Sogclair - Entire enterprise revenue; TietoEvry - Product Development Services; AFRY - Industrial & Digital solution and Digital Process Industries

Summary of engineering services landscape for European providers



▪ Industry view:

- **Growth:** Software/ ISV, Medical device/ healthcare, Pharmaceuticals
- **Flat:** Telecom/ media, Food and beverage
- **Decline:** Automotive, Aerospace, Industrial, Oil & Gas, Chemicals, Semiconductor, Consumer electronics & hi-tech

▪ Geographic view:

- Scandinavian service providers have done better than German and French service providers.

▪ Horizontal view:

- **Traction:** Software product engineering, Industry 4.0
- **Low growth:** Embedded engineering, PLM
- **Decline/Flat:** Mechanical engineering

- **Local geography market is saturated and becoming more competitive:** The French, German, and Nordic-based engineering firms are very closely associated with the local OEMs for years. With the advent of industry disruption (for example, ACES trends in automotive) and digital engineering, OEMs are facing tough competitions, so they are scouting of partners beyond the domestics engineering players. For example, Alten's international revenue increased (YoY basis) 3.9% whereas France revenue decreased 14.0% in H1 2020 over H1 2019

- **Auto and Aero sector heavy providers are at high risk:** Service providers that are heavy on automotive and aerospace sectors (for example, Bertrandt, EDAG, Sogclair) faced critical challenges in Q2. Also, we believe that the challenge will remain in near-term.

Contd.. Summary of engineering services landscape for European providers



- **Liquidity is a big challenge:** As engineering clients have delayed/halted projects, providers faced revenue risks. Also, weak emerging country currencies had a negative effect on the income from international business. Remote working environment also posed delivery challenges. As the revenue and net incomes have dropped, providers had to ensure cash flow by managing financing, account receivable, long-term debt etc.
- **Digital has a mixed storytelling:** The demand for traditional engineering has decreased during the pandemic whereas the digital engineering revenue growth has varied across companies. For example, while the revenue of Aerospace and Vehicle division of Sogclair have decreased by 54% and 65.7% during the second quarter, the revenue of Simulation division has increased. But the QoQ growth of Semcon's Engineering & Digital Services business is negative.
- **Low valuation can be an easy target for acquisition:** European engineering services are less valued (given the strong earnings) compared to its digital peers, making them acquisition targets for other large technology services firms.
- **Tackling the remote work environment:** Many of the engineering projects are R&D oriented and demands a lot of collaboration. Also, engineering design and testing projects need a lot of processing power, internet bandwidth, and physical presence, so engineering service providers need cover a lot of ground to enable the same the level of productivity and continuity through remote environment.
- **Inorganic growth is the new way out:** As the organic growth projection looks very bleak in near future, service providers are considering inorganic way to scale the business. We believe, given the financial situation of the service providers, there will be small acquisitions (in the tune of \$50-100M) in the market. These acquisitions are not always for the scale purpose but to acquire/bolster capabilities and explore new geographies. For example, Alten acquired 2 companies in Asia in H1 2020: One Chinese/Japanese company specialized in IT (annual revenue: €18 M, 400 consultants) and another company in South Korea specialized in Software Development / CAE / PLM (annual revenue: €21 M, 300 consultants)

Contd.. Summary of engineering services landscape for European providers



- Providers need to focus on the strategic accounts (top 10/50/100/300 customers) more for future growth. Though these highest paying customers reduced spending, the business will come back once the economy revives. Meeting the client expectation regarding data privacy, cybersecurity, business continuity etc. are the critical factors for the providers
- Providers may face challenges to reach the pre-pandemic level of activities in traditional engineering areas but the emerging areas like battery management, 5G-related capabilities, and simulation & software-related activities among others will rise.
- We have observed several pricing negotiations (payments terms, staffing etc.) during pandemic. We believe some of the projects (both core and non-core) may continue with the negotiated pricing in the next few quarters
- Some of the providers reported increased/no-drop in income from geographies like LATAM and North America. As OEMs start focusing on resilience, providers need to support its client base in new geographies too.
- We observed several talent management adjustments (layoff, salary cut, hiring freeze etc.) due to the pandemic. As the project pipelines become healthy, providers need to manage both the talent demand and supply along with the remote working environment

Bottom Line: Q3 performance can be a little better compared to Q2 but there will no significant recovery

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Revenue and growth of Engineering ISVs in Q2 2020



Service Provider	Q2 2020	
	Revenue Million	YoY Growth
Dassault Systèmes	EUR 1070	11%
Siemens Digital Software	EUR 1060	11%
Autodesk	USD 913	15%
Hexagon AB	EUR 897	-8%
Ansys	USD 386	5%
PTC	USD 352	19%

Note: Engineering ISVs (CAD, CAE, PLM, MES) which have annual revenue > USD 1 Billion.

AVEVA after OSISoft acquisition will also cross \$1 Billion in revenue.

Summary of engineering ISV landscape



- **Growth:** Five of six billion dollar plus engineering ISVs have shown good growth.
- **Key Geographies :** So far growth observed in US, Germany, Latin America, China, and Japan.
- **Key Acquisitions** in Q2
 - Altair: WRAP Software
 - Autodesk: Aurigo Software
 - Bentley Systems: Notevault
- **Key Deals/ Contracts** in Q2
 - Dassault : Vertical Corporation
 - Aras: EIZO

Bottom Line:

The growth of engineering ISVs in this business environment is a good sign and it follows similar trend of growth in other enterprise ISVs. Though some of this growth is inorganic too but still a good sign. Engineering service demand follow engineering software growth. So good news for engineering services providers too!

Thank you



Pareekh Jain

Founder Pareekh Consulting &
EIIRTrend.com, Bangalore

13th floor, M2 Block,
Manyata Embassy Business Park, Bengaluru

E: pareekh@pareekh.com

Follow: Twitter & LinkedIn