



Atos + Syntel: Stronger and Better

An Avasant Perspective

2 August 2018

Avasant, LLC.

1960 E. Grand Avenue
El Segundo, CA, 90245
Tel +1 310 643 3030
contactus@avasant.com, www.avasant.com

Avasant, LLC has prepared this report in accordance with the instructions of the firm for their sole and specific use. Any other persons who use any information contained herein do so at their own risk.

© Avasant, LLC. 2018

Background

On July 22, 2018, Atos formally announced their intent to acquire Syntel in an all cash transaction for \$3.4 billion. The news did not come as a surprise, as Atos has been quite vocal on its M&A strategy. Syntel has also been looking to strengthen its position after a disappointing 2017 which saw a 4% reduction in revenues over 2016.

Atos has managed to check all the required boxes with this acquisition, such as access to North American client base, a well-recognized and comprehensive range of digital solutions, as well as a strong offshore base to improve utilization. All indicators on paper point that this could be a marriage made in heaven.

Atos has been growing extensively in last 10 years through both organic and inorganic growth. The revenue has grown more than 2X from € 5.6B in 2008 to € 12.7B in 2017, and the employee base also grew from 51,000 in 2008 to about 97,000 in 2017.

Over this period, Atos has seen a phenomenal 11x increase in market capitalization to € 12.8B. However, Atos' presence in North America has been limited up until now with only 16% of revenue coming from the geography. With an impressive clientele in Europe – counting Aviva, Henkel, ThyssenKrupp, and Siemens among others as their clients, Atos has been looking to grow inorganically and expand their “Business & Platform Solutions” business for cross selling in North America.

Syntel fits the criteria for Atos perfectly with 90% of their revenues (\$924 M in FY2017) from the Northern American region in 2017. It also helps that Syntel has an operating margin of 25% against Atos' 10.5% - driving the overall margin for new combined entity to nearly 11.5%. Atos will also gain over 23,000 employees of Syntel – expanding the global workforce since 80% of Syntel workforce is based in offshore locations.

What's in it for Syntel Clients?

Syntel has maintained a philosophy of “Customers for life” and has effectively balanced a strong execution and focus on building deep customer relationships across every industry segment. Overall Syntel has about 116 customers (as of Q2 2018), however the revenue profile of these customers make it an interesting play for Atos.

- Top 3 customers (Amex, StateStreet and FedEx) – contribute 43% of revenue (~\$400M) – These customers will continue to get the highest attention from Atos, as they are integral to making the acquisition successful.
- Next 47 customers (4 to 50 customers) – contribute 53% of revenue (~\$490M) – These customers are split across various industries (insurance, retail, healthcare and life sciences) and will continue to get a lot of attention.

These customers have been integral to Syntel's growth over last few years contributing double digit growth and we expect same strategy to continue. These clients will benefit from a larger pool of services that Atos brings to the table

- Remaining 66 customers – contribute 4% (~\$35M) – This is a small segment of clients for Syntel and mostly in the sub-\$1 million ACV spend bucket. We do not anticipate much impact to their operations. Atos would like to make efforts to grow these accounts, but we expect their initial focus on maintaining and nurturing the Top 50 accounts.

Syntel's existing clients will benefit from expanded technology capabilities, digital transformation expertise, and Atos' global scale. In addition, Atos boasts of an impressive intellectual property portfolio with over €300 million annual spend in research and development across fifteen R&D centers based out of nine countries. Atos has over 5000 active patents and files over 120 new patents annually.

In terms of service offerings, Atos primarily has bundled its offerings into the following categories:

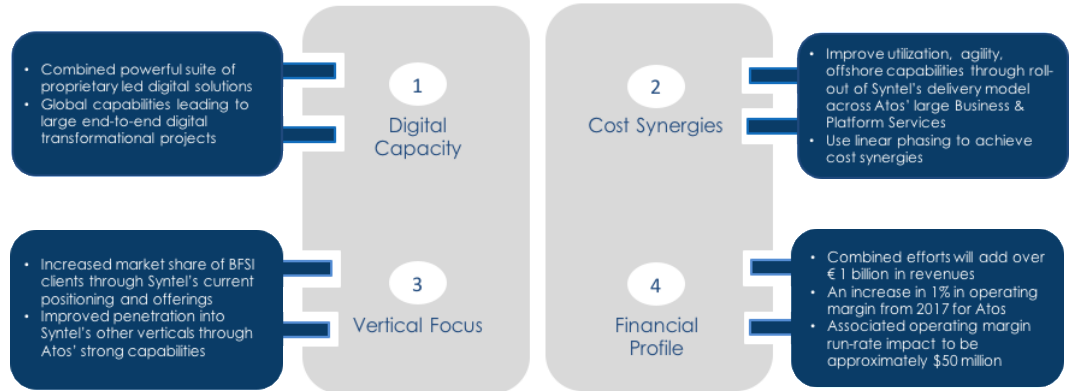
- Infrastructure & Data Management
- Business & Platform Services
- Big Data & Security

Atos has focused on growing its Digital Transformation business in recent years and it now contributes over 23% of Atos revenue. To address the digital needs of customers, Atos has created a Digital Transformational Factory which provides a broad set of digital solutions. To transform customers' applications and infrastructure the "Atos Canopy Orchestrated Hybrid Cloud" enables clients in their transformational digital journey. For improved collaboration and communications within organizations, the "Atos Digital Workplace" enhances utilization and productivity.

The digital transformation factory is supported by their recognized leadership in cybersecurity and their acquisition Worldline's expertise in Digital Payments and e-Transactions. In 2017, Atos continued to drive adoption of its digital offerings in cloud and workplace digitization with revenue contribution of €1.1B and ~€0.8B respectively. The expectation is that overall Digital Transformation revenue for Atos will grow to 40% by 2019.

With the Syntel acquisition, we expect the share of revenue contribution from digital transformation to increase. Syntel clients will also benefit from Atos' expertise in Big Data and Cybersecurity.

Atos + Syntel = Promising Partnership



What does the future hold?

The two organizations have set aggressive targets and outcomes from this acquisition:

1. Atos has outlined a revenue synergy target of \$250M with \$50M operating margin by end of 2021 based on multiple cross selling opportunities across Europe and North America. While ambitious we believe, it is possible with the right investments and focus.

2. In addition, Atos has outlined annual cost synergies of ~\$120M by end of 2021 from G&A optimization leveraging combined scale and alignment of objectives across business units. This is achievable given the higher offshore base from Syntel as well as alignment of North American teams.

As for Atos customers in Europe and elsewhere, they can benefit from Syntel's deep vertical expertise as well as digital asset footprint. Syntel has been continually enhancing its competency within automation, AI, Big Data Analytics, Cloud Computing, open source platforms, social media, and their own intelligent automation platform SyntBots® which has gained considerable appreciation with their clientele.

To summarize, the combined Atos-Syntel entity will be a stronger player in the market, with a more diversified offering and client base. Overall, we believe the acquisition is good for both parties and will deliver value to Atos as well as Syntel clients.

About the Author



Akshay Khanna

Partner
akshay.khanna@avasant.com
+91 991 099 3466

Akshay Khanna is a Partner with Avasant and Global Lead for Avasant Labs. He is responsible for leading the firm's foray into asset-based consulting through development of products and solutions enabling deeper insights for Avasant clients. He is also responsible for building the ecosystem of partners to deliver solutions in emerging areas of interest to our clients. Prior to this, he co-founded a Services Marketplace firm, Near.in which was acquired by Paytm (India's largest Digital Payments & Mobile Wallet platform with over 200M customers). Earlier, as a management consultant, he has worked with several public and private sector clients across the globe assisting in Strategy, Operational Optimization, Growth, and Global Sourcing initiatives.

About Avasant

With its headquarters in Los Angeles, California, Avasant is a leading management consulting firm providing digital transformation, sourcing advisory and governance services to Fortune 1000 clients around the globe. Our talented team of consultants, technologists and lawyers average over 20 years of industry-honed experience and have conducted 1,000+ engagements in over 40 countries worldwide. The combination of world-class resources and cross-industry experience enables Avasant to yield superior business outcomes for its global clients across five primary domains: Digital, Business & IT Transformation, Strategic Sourcing, Global Strategy, and Governance, Risk & Compliance.



AVASANT

