

ServiceNow Market Insights



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SERVICENOW PARTNERS AND THE INDUSTRY SOLUTIONS MODEL

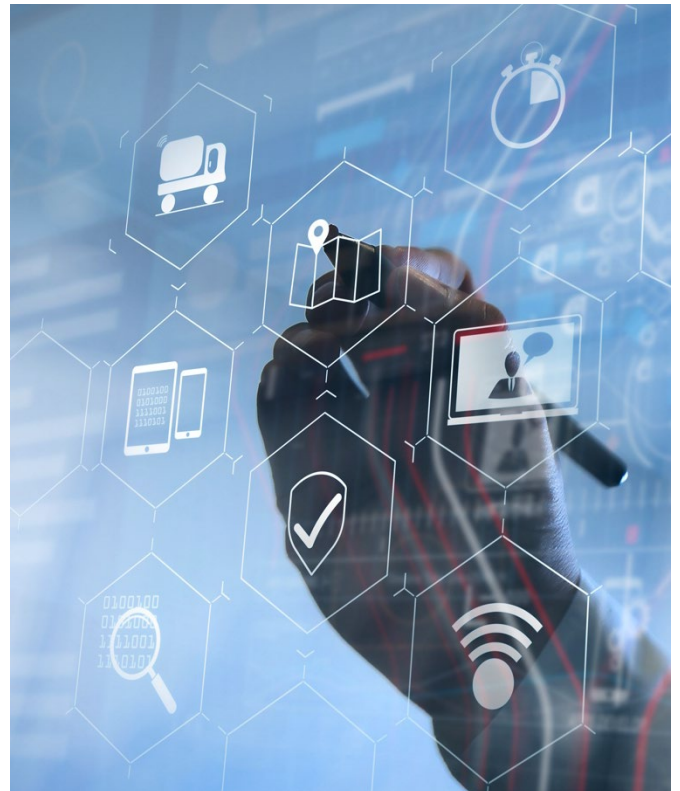
In the short 10 months since ServiceNow announced the expansion of its partner program and industry-aligned solutions in May 2020, Partners have benefited from rapid growth in the ServiceNow category. Furthermore, as most IT projects move to a virtual environment in the post-COVID-19 era, ServiceNow has emerged as the preferred IT service management (ITSM) platform for enterprise IT departments.

ServiceNow controls an estimated 40% of the \$3.5 billion ITSM market as stated in a recent research report from Morningstar. The ITSM market itself is expected to grow 20% annually and SMB ServiceNow Partners are well positioned to capitalize. As a result, this has increased M&A interest in ServiceNow Partners from a range of investors.

Both strategic and private equity investors have taken notice of the opportunity to unlock additional value of SMB ServiceNow Partners through acquisition. Buyer motivation varies, but all are after some form of new recurring revenue, capabilities, talent, or customers. For buyers or sellers, it is important to recognize valuation drivers and recent M&A activity in the market.

IMPLIED VALUE OF SERVICENOW PARTNERS

Since August 2015, CHANNELe2e has recorded 36 transaction involving ServiceNow Partners. 18 of these transactions closed after January 2020 illustrating increased demand for ServiceNow Partners. On the [last page](#) of this report, we highlighted significant transactions over the past 20



months. Valuation drivers are determined by a variety of factors with the most critical being:

- Size
- Profitability
- Customer Geography and Industry Verticals Served
- Recurring revenue
- Capabilities and Service Offerings

In three transactions involving ServiceNow Partners which disclosed deal terms, the purchase price ranged from 0.5x to 2.8x as a multiple of trailing 12 month revenue. Multiples of revenue are still the dominate valuation determinate. Meaning size carries a significant premium if supported by other aforementioned factors.

ServiceNow Partners with revenue below \$100M should expect to see rising multiples in at least the short-term based on FOCUS' own observations of strong and sustained demand in the market.

ServiceNow Partners can offer services across a broad number of categories. Each with its own implied value, nuanced business structure, and value creation opportunities from a buyer's perspective.

FORWARD LOOKING MARKET EXPECTATIONS

Consolidation in the ServiceNow industry is expected to continue through 2021 based on the strong M&A activity of 2020. Leading SMB ServiceNow Partners are following ServiceNow's continued expansion in the ITSM space and the platform's pivot to new solutions in the broader HR marketplace. No matter what category, ServiceNow views its partners as a significant source of growth in its overall strategic plan. For example, in Q3 of 2020 ServiceNow Partners realized their best quarter to date in the federal marketplace which is complimented by a robust pipeline of opportunities in 2021.

From a strategic or financial buyers' perspective, both will continue to look at acquisition strategies offering a quick opportunity to scale and acquire needed talent. Large strategics have continued to identify the risk and struggle to fill funded ServiceNow projects and ultimately deliver successful customer engagements.

No matter the category a ServiceNow Partner aligns with, demand for SMB ServiceNow partners is high. The market is fragmented, and continued industry consolidation is highly likely. Whether looking to buy and sell, the ServiceNow Partner landscape is at an inflection point and firms on either side of the negotiating table should consider several evolving factors to maximize their time in the market.

SERVICENOW PARTNERS FALL INTO FIVE BROAD CATEGORIES:

Implementation Services

Partners gain access to resources to help implement ServiceNow solutions. Partners are broken into multiple segments including overall level of status, technical certification of employees and customer satisfaction (CSAT) ratings.

Products and Solutions Resales

Partners introduce the ServiceNow platform to existing customers and handoff service delivery to a separate ServiceNow partner. Partners are typically IT services firms with no ServiceNow integration capabilities.

Outsourced or Managed Services

Members manage and/or operate the ServiceNow platform for and on behalf of third parties who are their clients. Partners generally create and operate their own distinct service(s) in tandem with ServiceNow.

App Development and Integration

ServiceNow Technology Partners enable companies to build, test, certify, and distribute apps and integrations for the Now Platform. Partners are traditionally independent software vendors, systems integrators, and other app developers.

Public Sector

Designed to meet the unique needs and nature of business within the public sector. Partners usually work with ServiceNow to deliver on active contracts, complete Requests-For-Proposals (RFPs), and develop coordinated strategies for growth in the market.

ServiceNow Partner Transactions

Date	Target(s)	Buyer	Target Category	Rationale
26-Jan-21	  		Outsourced or Managed Services / Public Sector	The combination of the three companies, coupled with the investment from Sunstone Partners, will accelerate growth, expand expertise and capabilities, support additional customer success initiatives, and improve customers' return-on-investment on the ServiceNow platform.
11-Jan-21			App Development and Integration	Linium further accelerates Cognizant's cloud strategy, marking the company's seventh cloud-related acquisition since January 2020, and continued investment in expanding ServiceNow capabilities.
7-Jan-21			Implementation Services	The acquisition expands Milestone's current capabilities by adding Covestic's fifteen years of experience in IT Service Management and a track record of successful ServiceNow implementations.
1-Dec-20	 INTEGRATED SOLUTIONS MANAGEMENT		Public Sector	ISM, an established SMB in the public sector with strong past performance of successful ServiceNow implementation will be integrated into ECS, a subsidiary of ASGN serving the public sector.
22-Sep-20			Implementation Services	With the acquisition of P5, CDI, also a ServiceNow Elite partner, grows its ServiceNow service delivery team. The acquisition also gives both organizations greater scale, bandwidth and geographical presence.
27-Aug-20	 POWER UP YOUR BUSINESS		Implementation Services	NTT DATA, also a ServiceNow Elite Partner, adds unparalleled breadth and expands NTT Data's talent and recruiting pipeline to help it grow and upskill its employees.
29-Jul-20			Public Sector	The merger adds Business Advantage's 45 local employees to Speridian's workforce or more than 1,000, and it gives Speridian a presence in the Sacramento market.
16-Jul-20	 THE CLEAR WAY TO END-CUSTOMER	 A COLUMBIA GROUP COMPANY	Products and Solutions Resales	Highmetric, an Elite ServiceNow partner with 500 employees before the acquisition, expands its offering across technology strategy, design, and operations-focused services.
25-Feb-20			Implementation Services	The addition of Wirefire Creative's ServiceNow team adds to KPMG's significant ServiceNow capabilities and brings additional knowledge and strength to the firm's rapidly growing technology consulting practice.
4-Feb-20			Outsourced or Managed Services	EdgeRock brings a high-quality, diversified client base and adds its unique outsourced solution center (delivering management consulting services, strategic roadmap development, assessments, planning and support work).
13-Jan-20			Public Sector	ITG was ServiceNow's 2019 U.S. Federal Partner of the Year and has the largest Appian federal practice in North America. ITG's clients include the Department of Health and Human Services, Department of State, the Department of Homeland Security and General Services Administration.
1-Oct-19			Implementation Services	CDW and Aptris have been partnering since 2017 and the acquisition brings 100 new employees and additional strategic capabilities to CDW.
11-Jun-19		 POWER UP YOUR BUSINESS	Implementation Services	Acori's transformation advisory practice is further bolstered by adding BusinessForwards Enterprise Service Management (ESM) and Human Capital Management (HCM) practice.