Technology Consulting & Services

The Investment Opportunity

Introduction

CIL and JEGI LEONIS have surveyed leading technology consulting and services firms across the US to gain insights into their outlook and the opportunities they see for the industry.

The survey focused on three areas:

- Market conditions: How the technology services market performed through 2024 and initial observations for 2025, focusing on the impact of macroeconomic and political uncertainty and how the firms in our sample are evolving their differentiation strategies to adapt to longer-term disruption trends.
- Value creation opportunities: The top and bottom-line strategies technology services firms are using to stay competitive, including revenue growth and margin levers, AI integration and global delivery models.
- M&A outlook: How firms are balancing organic and acquisitive growth and the outlook for M&A.

What is technology services?

Technology Implementation · Technology Consulting
Change Management · Software Development
Managed Services · Digital Excellence · Integration Services
Nearshore Delivery · Staff Augmentation · Agile Coaching
Custom Application · AI Integration · Machine Learning
DevOps Services · Digital Platforms · SaaS Ecosystem
Product Ideation · Technical Enablement · Solution Design
Strategic Roadmapping · Fractional Resourcing
Innovation Labs · Co-Creation Sessions · AI Enablement
Data Engineering · Cloud Applications · Business Intelligence
Analytics · LLM Integration · Data Strategy
Performance Optimization

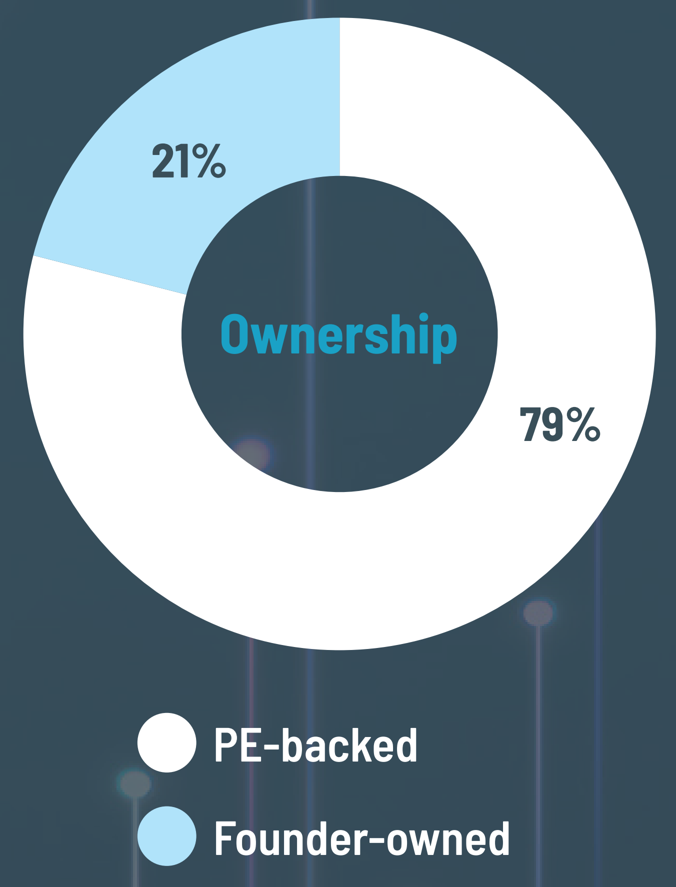
Methodology:

From January 2025 to May 2025, CIL interviewed 14 founders, CEOs and board members of US-based technology services firms. The survey took a discussion-based Q&A approach and focused on the key themes highlighted above.

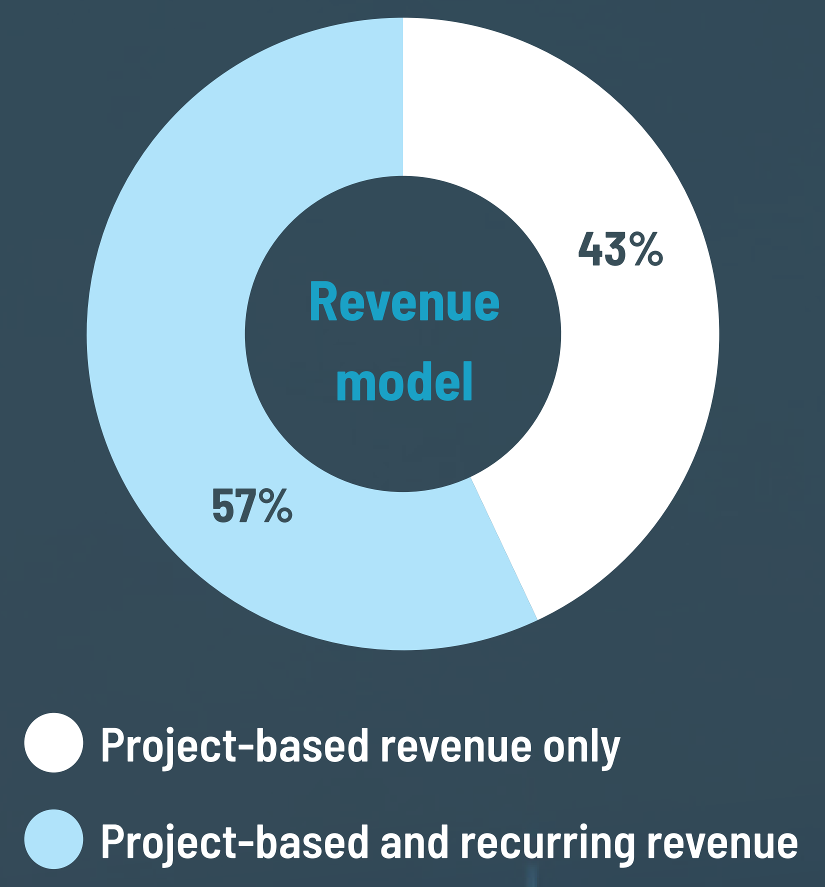
Our respondents

We spoke to 14 founders, CEOs and board members of US-based technology services firms. Our respondents are primarily...

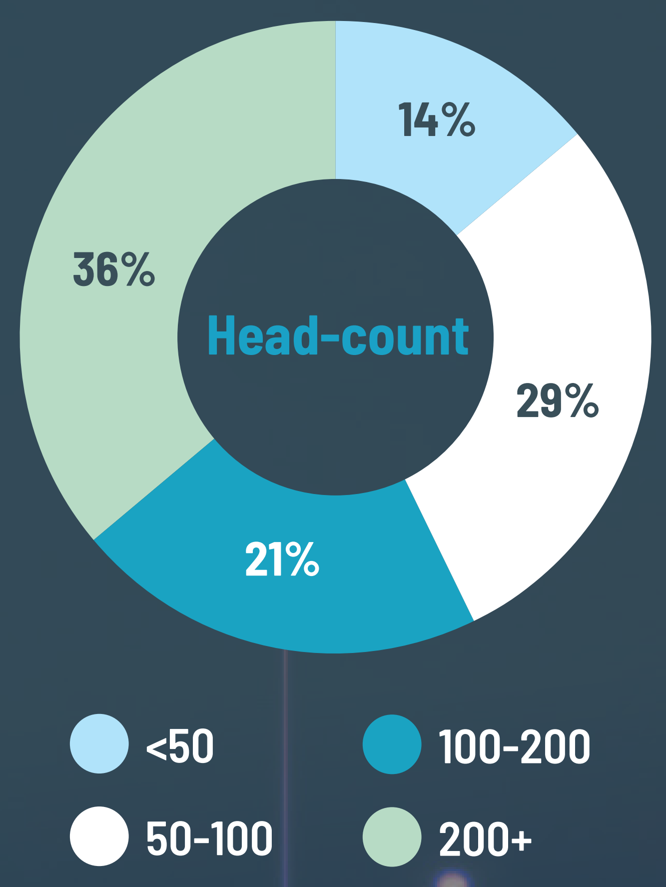
PE-backed...



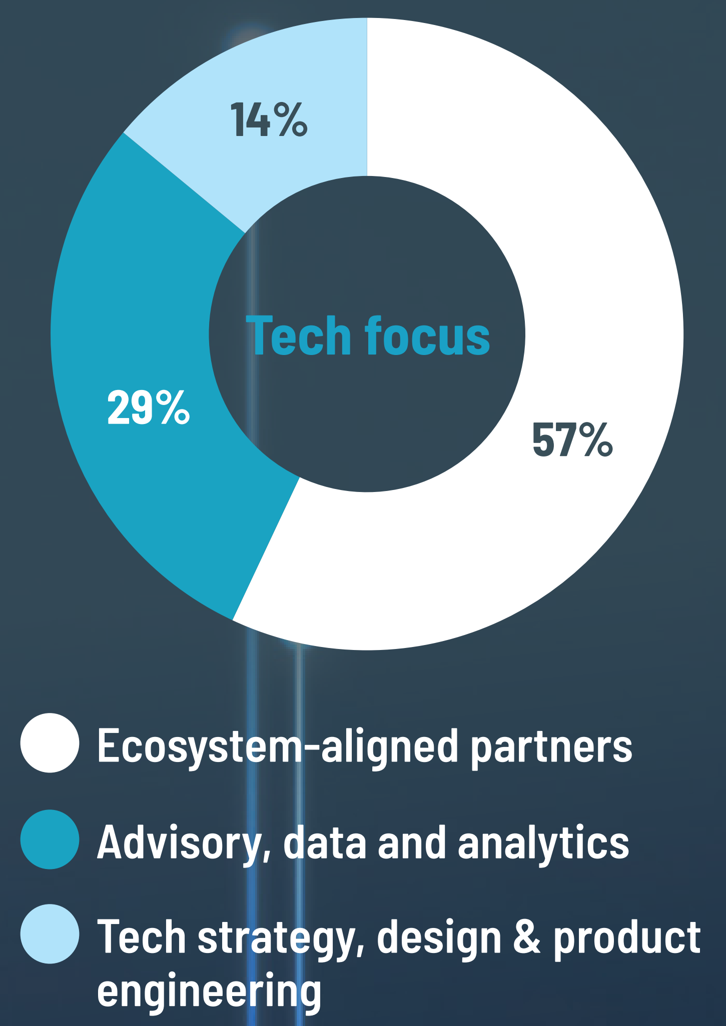
...project-led consulting firms...



...at the earlier stages of their growth journey...



...across a variety of technology focus areas.



Technology ecosystems covered include:

Key findings

A 'cautiously optimistic' market, hampered by ongoing uncertainty

2024 was a challenging year, but the second half saw clear improvement as strengthening market tailwinds fueled positive momentum. While political uncertainty, especially around tariffs, has dampened some of this early progress, respondents remain 'cautiously optimistic' about the medium-term outlook.

Market disruptors driving novel approaches to differentiation

After two challenging years of budget constraints, combined with rapidly evolving AI disruption, and rising regulatory pressures, tech services firms are rethinking how they differentiate. Many are doubling down on vertical specialization, rapidly expanding their propositions in high-demand areas like data and AI and adopting more flexible operating and go-to-market models.

Ongoing margin pressure...

Margin compression continues to challenge technology consulting and services firms—especially high-growth players now competing more directly in the enterprise segment. Softening demand and excess post-Covid capacity have contributed to this pressure, compounded by the rapid expansion of nearshore and offshore delivery models across both large SIs and smaller specialists.

...driving active focus on value creation strategies

High-growth tech services firms are pulling both growth and efficiency levers. Most are pursuing a dual strategy—driving top-line gains by targeting high-growth segments, refining go-to-market approaches, and deepening client relationships, while also improving margins through AI-driven automation, productized accelerators, better utilization, and optimized delivery via nearshore/offshore models.

AI moving from 'buzz' to deployment

AI deployments are quickly evolving from early experiments to larger-scale rollouts. Still, both tech services firms and their clients are navigating a steep learning curve. A clear gap is emerging between early AI trailblazers and those still finding their footing. As a result, revenue generation remains behind the curve—but momentum is building, with broader ramp-up expected through 2025 and 2026.

M&A continues to be an active value lever for most firms in this space

Respondents expect more favorable deal conditions in 2025 as buyer-seller valuation expectations continue to align. Most are targeting additive capabilities or new verticals, prioritizing strategic expansion over core consolidation.

Market conditions

While 2024 brought lingering growth challenges, most respondents saw signs of momentum late in the year and entered 2025 with 'cautious optimism.'

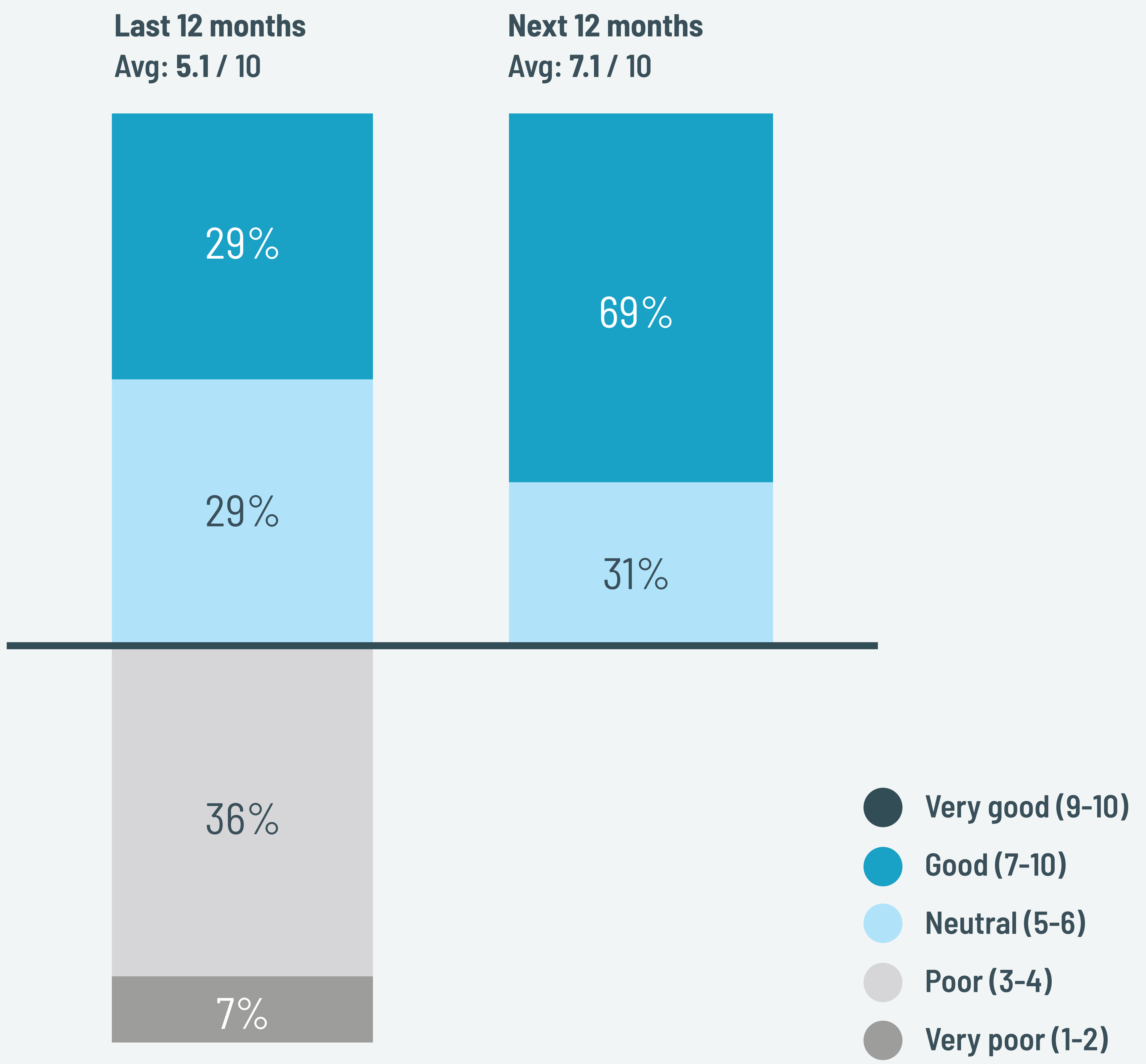
However, political uncertainty – shifting from pre-election hesitation to concern over post-election outcomes – continues to weigh on the near-term outlook.

"After a post-Covid surge in digital investment, the SVB collapse triggered spending cuts and layoffs, stalling the services sector. Things finally began to stabilize in the second half of 2024. There was an initial freeze followed by a realization that delayed work needed to get done—we're now seeing a gradual release of pent-up projects."

"While there isn't a consensus, there's general agreement that 2025 looks stronger than 2024, which was marked by uncertainty due to two wars, cybersecurity challenges, AI implementation unknowns, and elections. 2025 appears to offer more relief."

"What we're seeing is a natural balancing out - following the intense post-Covid spending period, there was a slowdown phase where investments matured. Now we're entering a period of renewed investment. After two years of reduced spending, there's accumulated work that simply needs to be addressed."

How would you rate market conditions on a scale of 1 to 10 for the last 12 months vs. the next 12 months?



Improving momentum

2024 began on a sluggish note, but momentum steadily built throughout the year and into 2025, until post-election uncertainty began to dampen initial growth expectations.

Respondent views on market conditions through the year Directional, 10 = very good, 1 = very poor

Market drivers
- Post covid tightening of technology budgets easing
- Increasing macro pressures e.g., regulation & ESG
- AI moving from buzz to execution

Market drags
- Election uncertainty
- AI planning vs. execution gap

H1 2024

- The first half of 2024 **remained sluggish after a difficult 2023** as the post-Covid tech investment pullback continued.
- Respondents continued to experience **delayed decision-making** and tighter budgets.

"The first half of 2024 showed significant market interest but very few commitments or projects moving forward. The market still felt constrained and sluggish, although less so than in 2023."

H2 2024

- Market activity began to pick up, with **greater client confidence leading to budget releases and the return of forward planning.**
- Despite an uptick, **overall growth continued to feel constrained**, given pre-election uncertainty and a continued gap between AI preparation and revenue generation.

"Client budgets were still under stress. While the need for data analytics is only growing, there was only a marginal desire to spend on that need."

H1 2025

- The year began with **positive carry through from 2024**, buoyed by more active investment in AI strategies.
- However, **initial actions by the new administration** – particularly around tariffs – introduced renewed uncertainty.

"At the start of 2025, businesses had clear priorities: growth strategies, aligning data capabilities and using AI to cut costs. Now, uncertainty around sales stability is making investment decisions more cautious."

Early uncertainty

H1 2025 saw the market enter a ‘wait-and-see’ mode as the impacts of key administrative initiatives, including tariffs, continue to unwind.

The new administration has intensified uncertainty – leaving most respondents in ‘wait-and-see’ mode.

Political leanings do shape sentiment – respondents from blue states tend to express more skepticism, while those in red states are generally more optimistic.

Timing is also important – respondents offered increasingly pragmatic perspectives as the market continued to react to changes through early 2025.

“Regardless of politics, it’s hard to argue that the US government looks anything other than chaotic at the moment, leading investors to hold back. Cost-cutting across agencies is also concerning, as many tech innovations rely on government funding.”

“The uncertainty will be challenging in the initial six months of 2025 until we work out what the administration is doing. It should shift partway through the year once we understand what the general direction is.”

Several drivers of uncertainty...

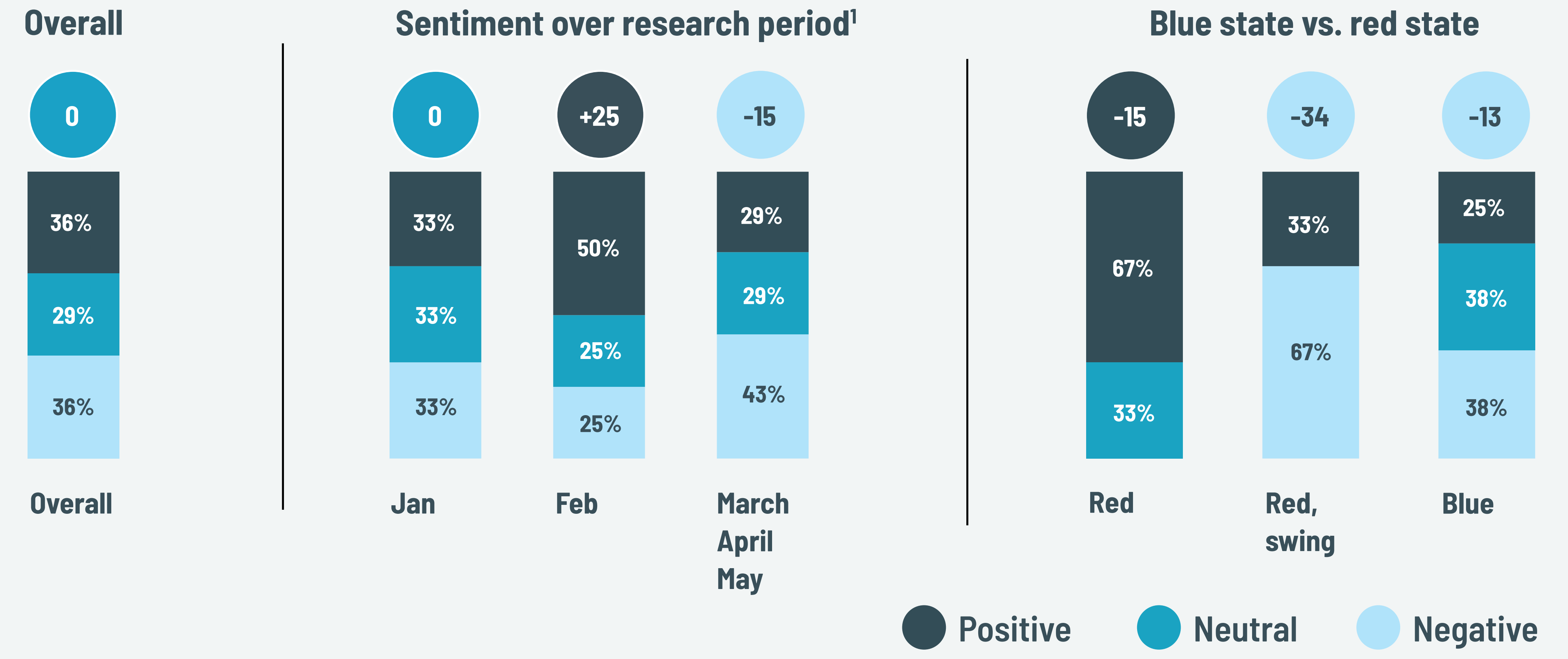
Key factors that are driving uncertainty

% mentioned

- **69%** ‘Wait-and-see’ dynamic
- **57%** Tariffs
- **15%** Federal budget cuts / layoffs

...with mixed views on the impact of the Trump administration

What impact will the new administration have on the tech services market?

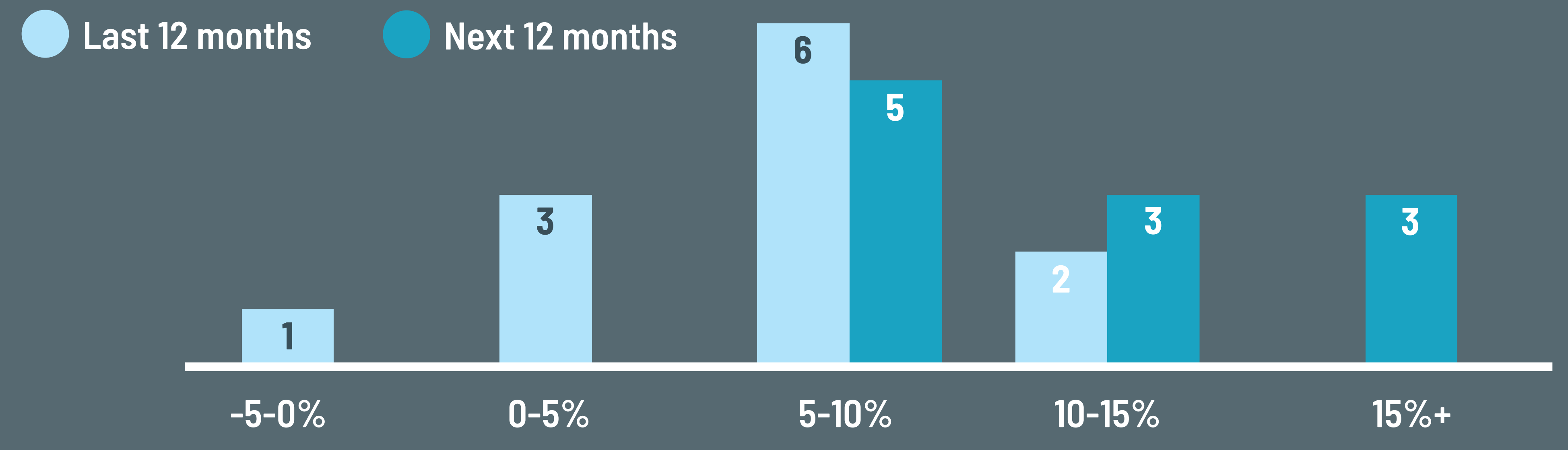


Note: 1) Trend between time & states not correlated – e.g., 3 / 7 respondents in red or red swing states

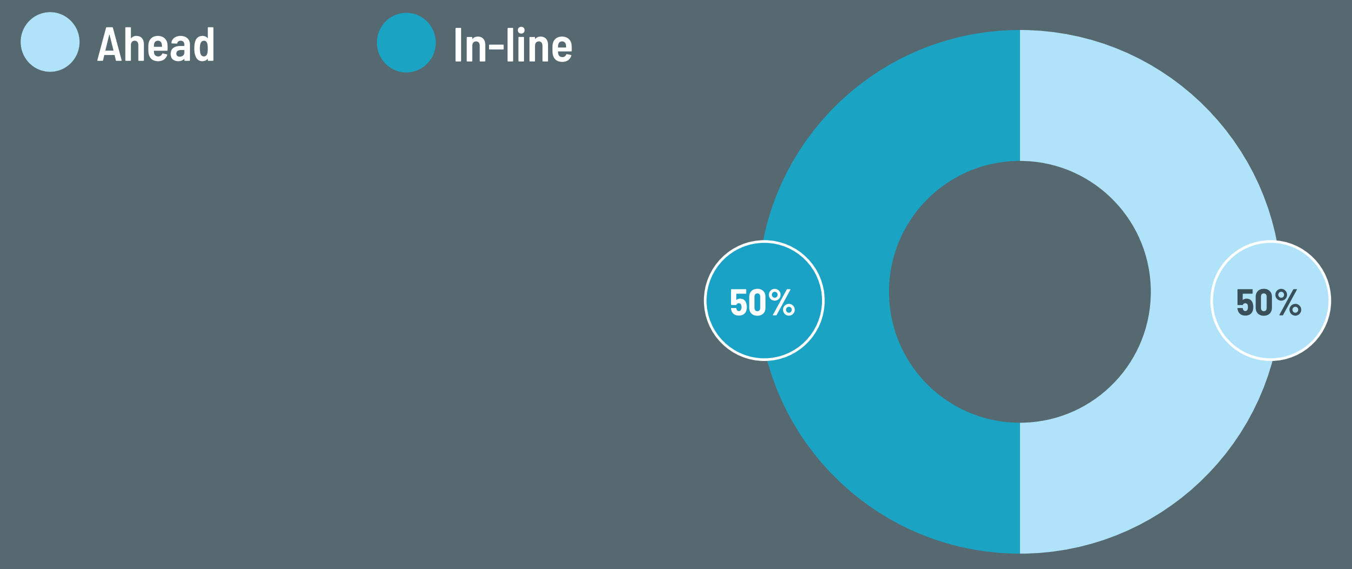
Outlook for growth remains optimistic

The market anticipates a return to high-single or double-digit growth in 2025 and our respondents broadly expect to achieve growth in-line with or ahead of this.

What are your expectations for market growth over the next 12 months vs. the last 12?



How is your firm performing relative to the broader market?



Though political and economic uncertainty remain a key consideration, there is cautious optimism for stronger growth in 2025.

Respondents cite AI and proposition investments alongside broader market tailwinds as key factors supporting this.

"I'm optimistic growth will pick up in 2025, fueled by AI and automation for cost savings and customer experience. Still, geopolitical risks and US policy shifts remain key concerns."

"The cycles we're seeing are not unusual... a slowdown in spending for a couple of years is indicative that the upcoming years are going to have stronger spend. People can only sit on the sidelines for so long before they have to make commitments."

Confidence in growth is supported by:

Growth stage / scale
Most are smaller, high growth consulting firms scaling from lower revenue bases, taking share from larger providers and SIs.

Founder ethos
Founders and PE-backers tend to be growth-minded.

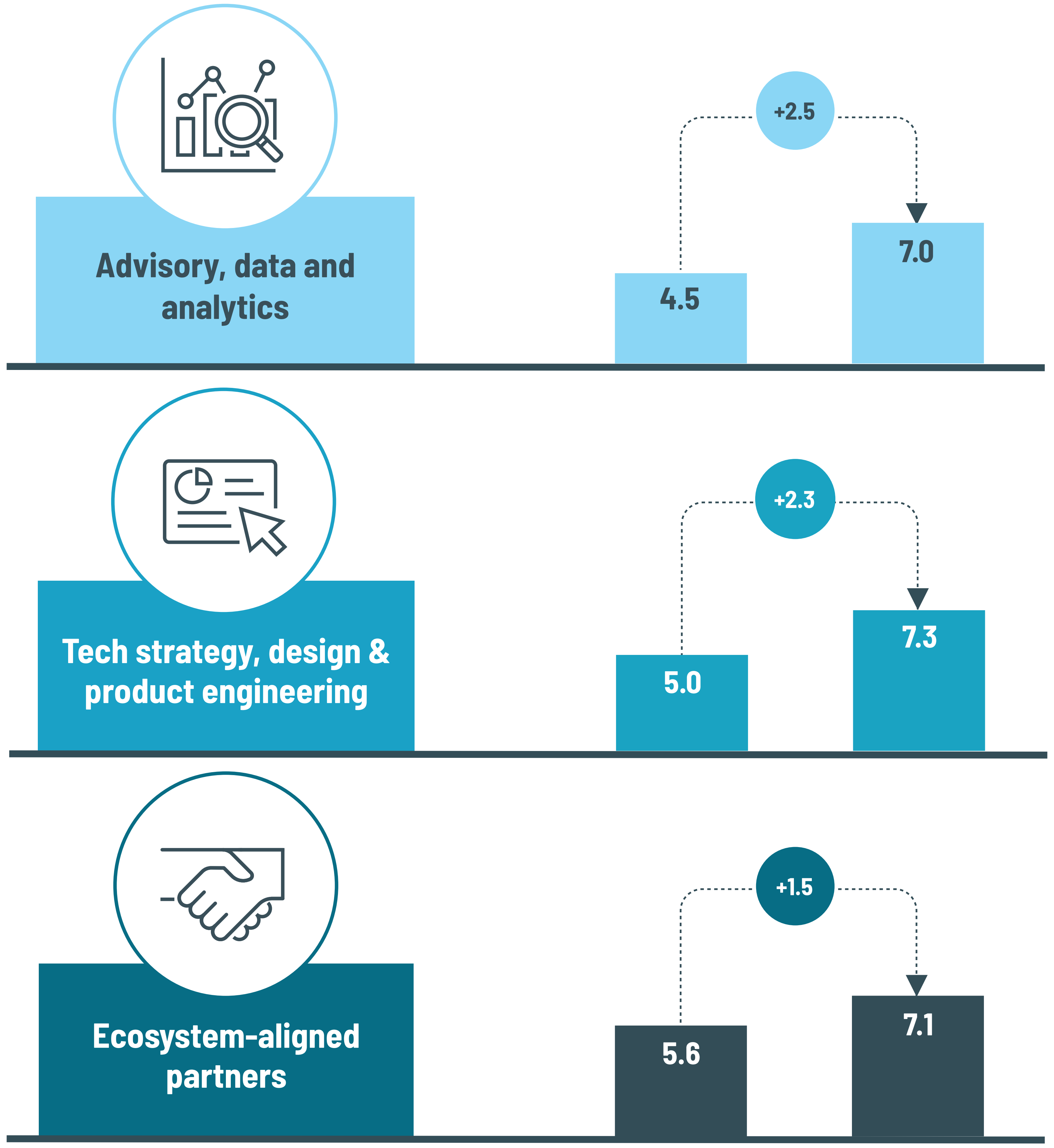
Growth focus
Most are aligned with growth segments and willing to pivot.

"Growth is easier for smaller mid-sized players who can move faster than larger players."

Disproportionate impact across technology areas

Recovery is expected to be stronger across advisory and product-engineering exposed firms, who have heavily invested in new capabilities following a more impactful post Covid period.

Market conditions scores 1-10
Average score



Respondents with exposure to product engineering / development capabilities generally felt a stronger market impact, and have invested to realign propositions. This includes:

- Focusing on more complex, value-added development work over commoditized services
- Expanding strategic advisory offerings
- Investing in high-growth AI and data capabilities

"There was an extended post-Covid hangover that affected our industry. Layoffs at large tech firms flooded the market with freelancers picking up business at the expense of traditional outsourced service providers. This distorted the entire market."

For firms that partner closely with major technology vendors, market impact was generally felt to a lesser extent given:

- Softer post-Covid impact and benefit of existing platform optimization projects
- Ecosystem positioning of firms in our sample – most are top-tier partners with clear USPs

"Salesforce is mission critical to our clients – there's been less recent spend in this space, which we now expect to rebound."

Market disruptors

Market disruptors – including a narrowing AI execution gap and regulatory pressures – are buoying the market, while driving need to innovate propositions and delivery models.

	Market growth dynamics / disruptors	Mention frequency	Market sentiment			Feedback
			H2 24	H1 25	Outlook	
Technology	**AI / data** closing execution gap, driving strong demand for adjacent solutions (e.g., data).	93%	↗	↗	↗	"AI is going to be the major disruptive trend for 2025, and I expect it to impact market spend significantly." "In the last year, CIOs received mandates from their boards and CEOs to implement AI initiatives, and this directive remains active."
Technology	**Ecosystem performance** For ecosystem-aligned partners, performance is closely tied to software partner positioning.	57%	Varies across ecosystems, but the general outlook for 2025 is more positive compared to 2024			"The number one factor determining how we are performing in the market is Salesforce – how it's perceived and what products it releases."
Regulatory / compliance	**General regulatory tightening** across areas e.g., data privacy and cybersecurity particularly in sectors (e.g., healthcare and life sciences, financial services).	23%	↗	↗	→	"Increased regulation has led to more work opportunities. We're seeing security concerns from clients wanting to ensure their systems are properly implemented." "As regulations increase in Europe and other markets, that drives business for us."
Regulatory / compliance	**ESG initiatives** Stricter EU regulations influencing US firms / policy, driving a growing focus on ESG initiatives.	23%	↗	↗	→	"We expect to see increased business driven by ESG requirements in the US. This trend has already gained traction in Europe, and we anticipate California, Illinois and Massachusetts will be the next adopters."
Macro-economic	**Post-election uncertainty** Tariffs and budget shifts under the new administration.	64%	→	↘	↘	"From an objective standpoint, the impact of the Trump administration is net negative. This is because uncertainty makes clients hesitant to invest, leading to overly cautious behavior in the market."

Verticalization

Against this backdrop of disruption, verticalization is becoming ever more important as a differentiation angle, driven by customer expectations.

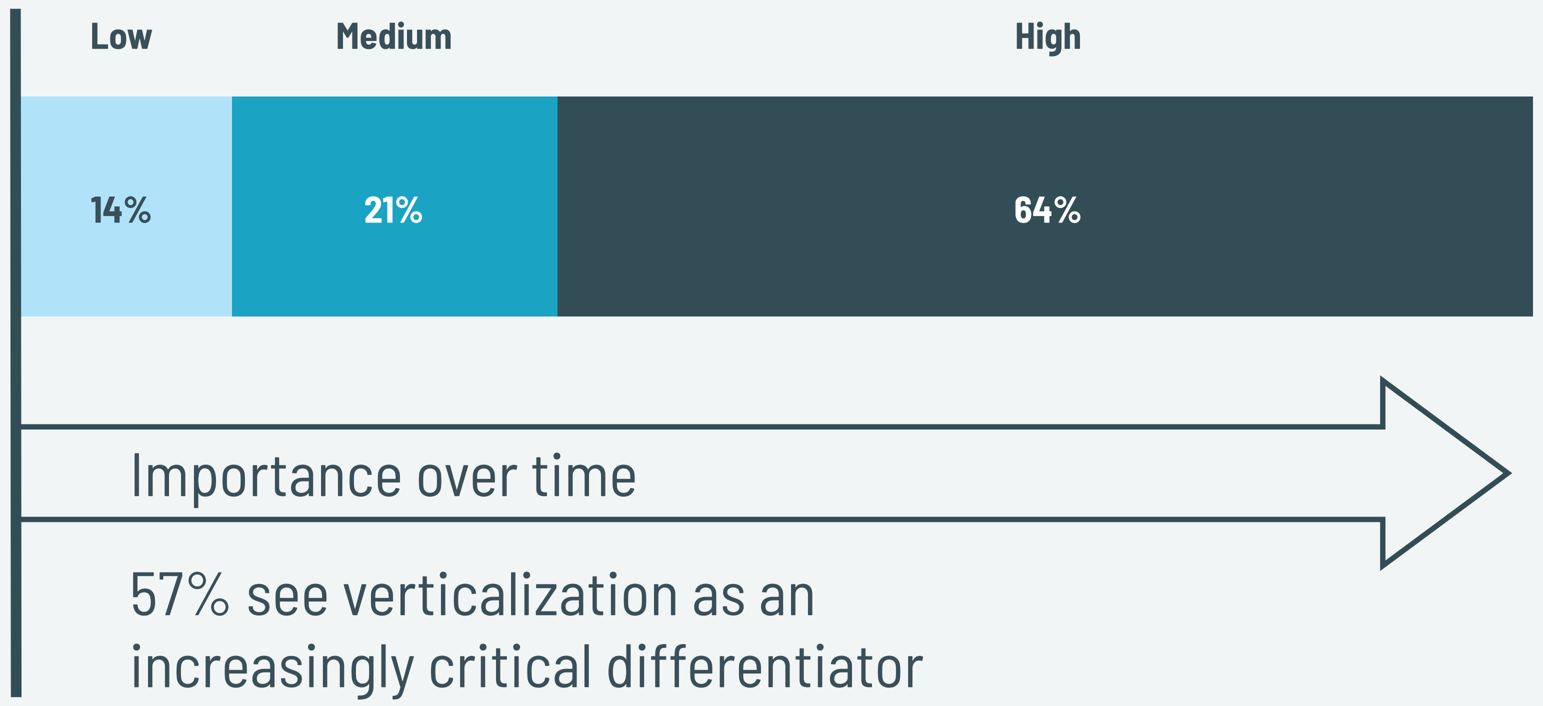
64% of respondents view verticalization as highly important and 57% believe its significance is growing.

This shift is driven by several key factors:

- **Client demand for deep industry expertise,** including a track record of execution and clear understanding of industry-specific challenges
- **Technology partner influence,** such as Salesforce incentivizing verticalized models
- **The opportunity for sales and delivery efficiencies,** although aligning with client expectations ranks as the primary driver
- **Increasing competitive pressure** within the tech services space

"Verticalization is very important – customers need to hear about it. However, when it comes to accomplishing the customer's goals, verticalization is of medium importance."

How important is verticalization for differentiation?



Do you currently leverage a verticalization strategy?

21% **are fully vertically aligned.**

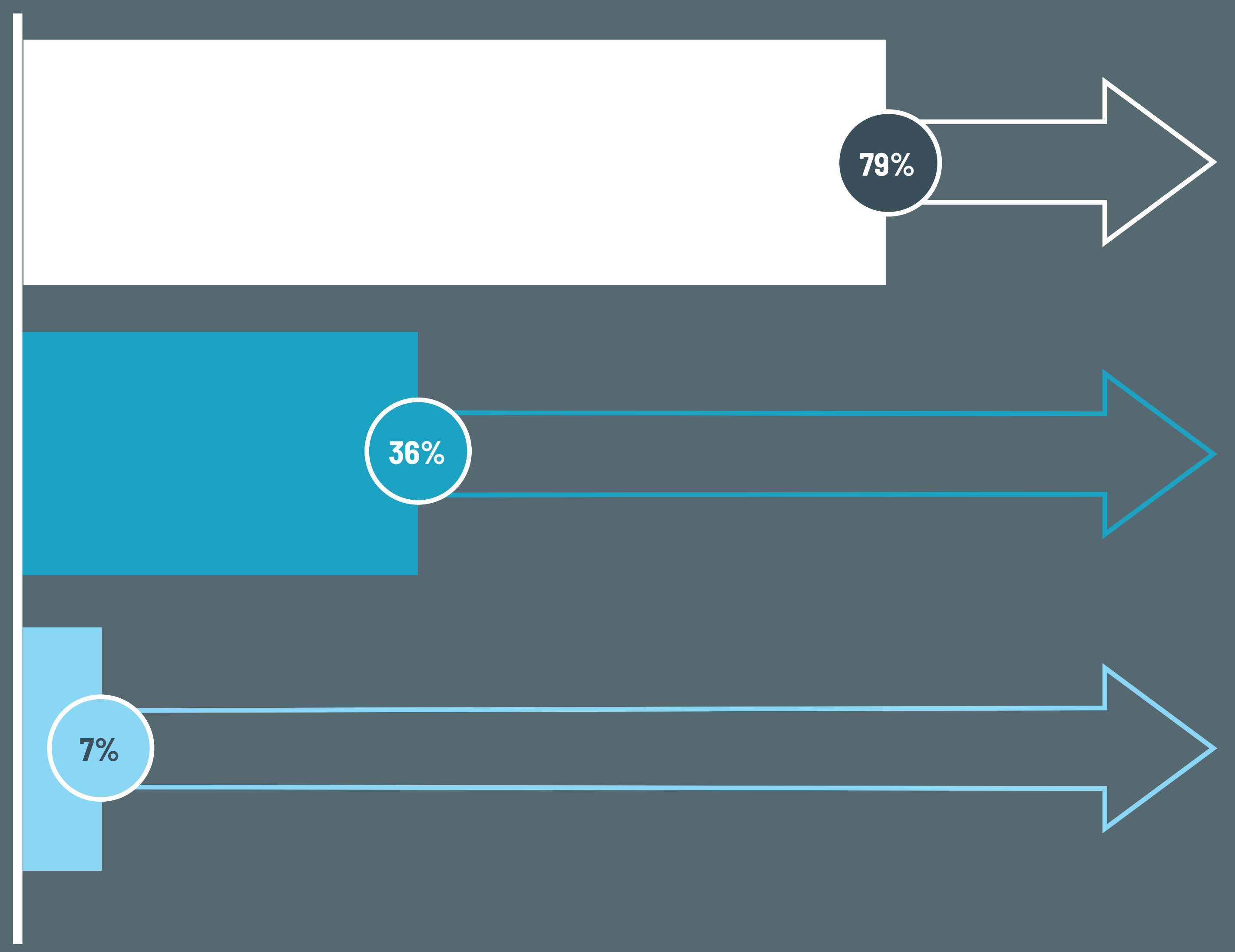
50% **have a least some level of verticalization** in their approach.

29% are **vertical agnostic.**

Broader differentiation strategies

Respondents are further differentiating by creating unique value propositions across service offerings, operating models and sales strategies.

What other differentiation levers are you pulling to remain competitive in the market?
% mentioned



93% of firms in our sample use one or more of these approaches to differentiate

Examples include: Adding new capabilities to support broader, end-to-end offering, pivoting to in-demand areas (e.g., AI, advisory and data) or unique services (e.g., staffing)

"In our space, it's rare to find a firm that consistently delivers across strategy, design, and implementation – most excel at just one."

"We have an apprenticeship program that provides talent to customers and partners to support ecosystem talent growth."

Examples include: Leveraging off/nearshore models or fully onshore teams, tenured / experienced consultants, outcome-driven flexible staffing.

"Our differentiator is having experienced staff and being fully onshore. While most firms in our space are chasing that levered model, we're bringing the value-add services to the space."

Examples include: Billing flexibility, founder-led sales approach, fewer FTE touchpoints across the sales process to increase agility

"Unlike other SIs with rigid upfront terms, we offer flexible month-to-month billing, easing cash flow constraints for clients."

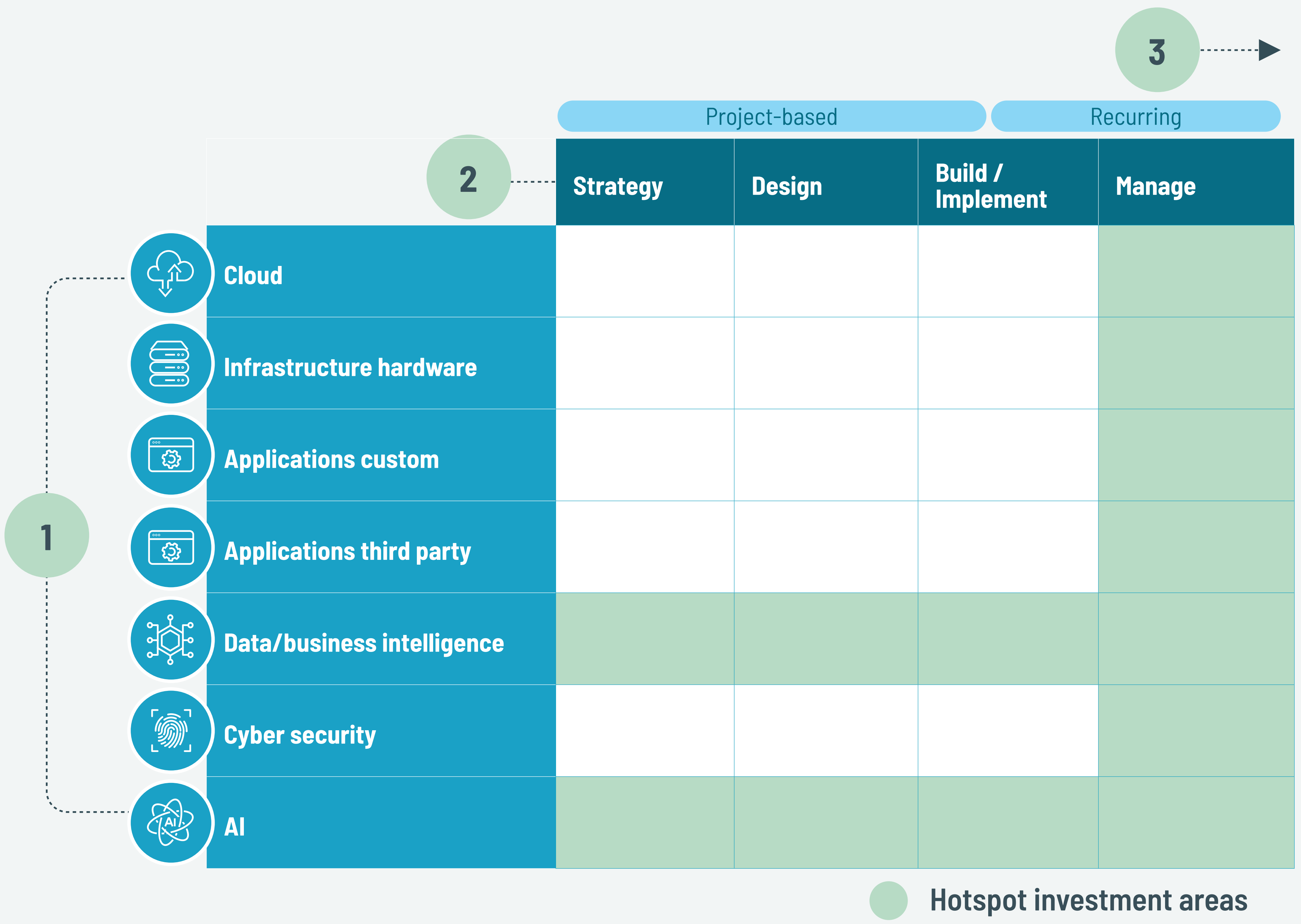
"Most firms in our space are not outcome-driven. Companies log hours, report timesheets and get paid. In contrast, we get paid once we actually deliver a solution."

Proposition evolution

CIL and JEGI LEONIS mapped the market to pinpoint areas of strongest proposition innovation with AI, data and recurring revenue emerging as key investment priorities.

Where would you place yourself on our market matrix? Which areas are more established vs. areas of higher growth for you?

% of respondents leveraging expansion into these areas



Most respondents placed themselves across multiple boxes on our matrix highlighting several key proposition trends:

1. **Blurring boundaries across the tech stack:** as services e.g., data and AI are embedded into core offerings.

   "As the market evolves, tech categories are blurring, with increasingly overlapping features."

2. **Deeper specialization within specific technologies:** as tech environments increase in complexity.

   "Between 2010 and 2025, the MarTech stack grew from 4,000 to 20,000 tools – each with unique connections, deployments and features requiring specialized expertise."

3. **Increased emphasis on recurring revenue:** to improve resilience and scalability. While some respondents have modest goals, others report >20% recurring revenue already, with targets to reach 30-40% across managed support services, advisory retainers and strategic optimization solutions.

   "Recurring revenue represents a significant EBITDA driver because it creates foundational revenue for us versus the project-based revenue."

   "Every single project we now sell includes a 12-month managed services package."

Margin trends

Disruptive forces and rising competition continue to squeeze margins for tech services firms – though many are actively taking steps to defend against downward pressure.

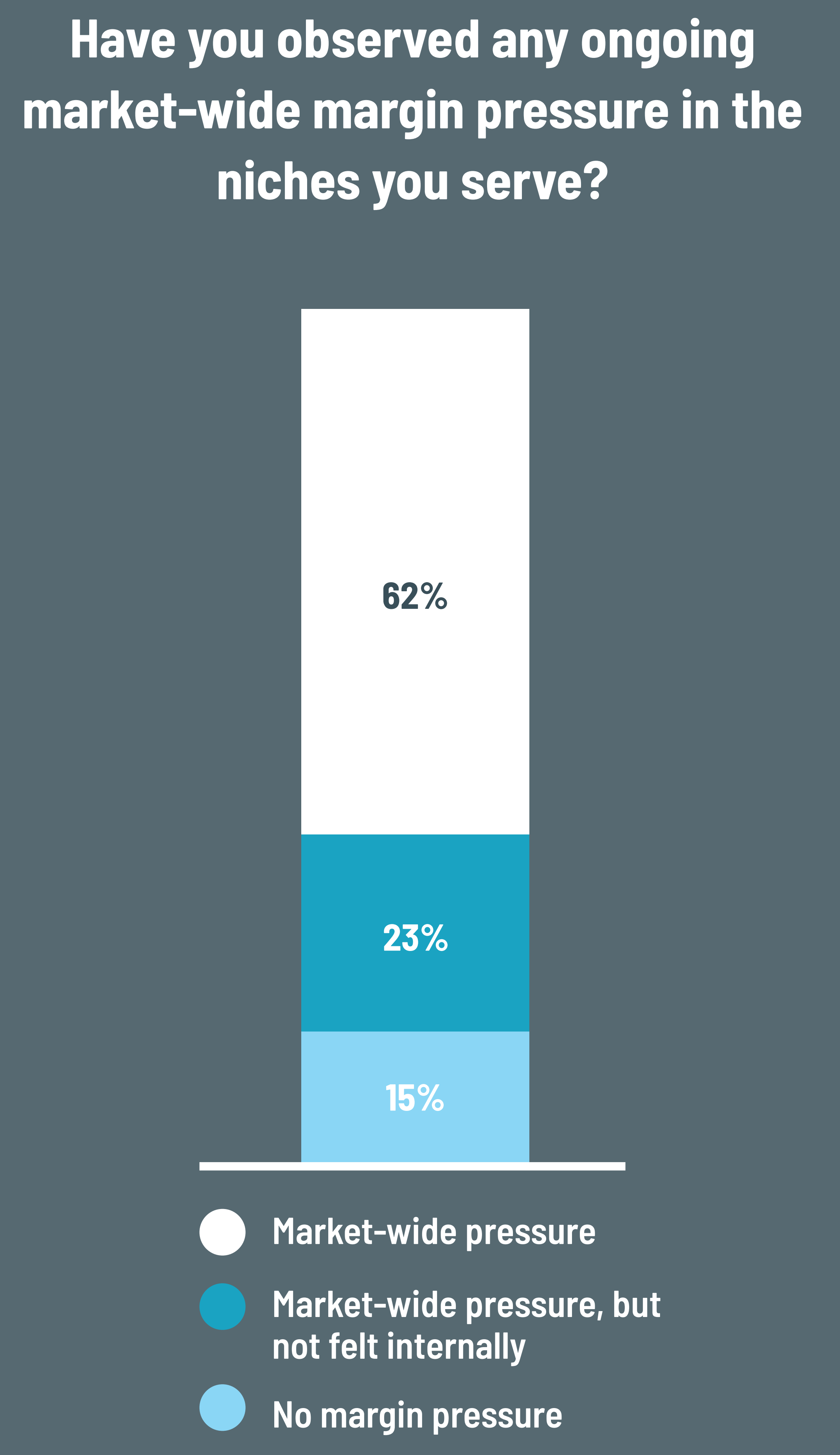
Respondents **highlight client-side dynamics** (e.g., smaller project scopes and cautious spending) alongside **market oversupply and growing use of off/nearshore delivery** as key factors driving margin pressure.

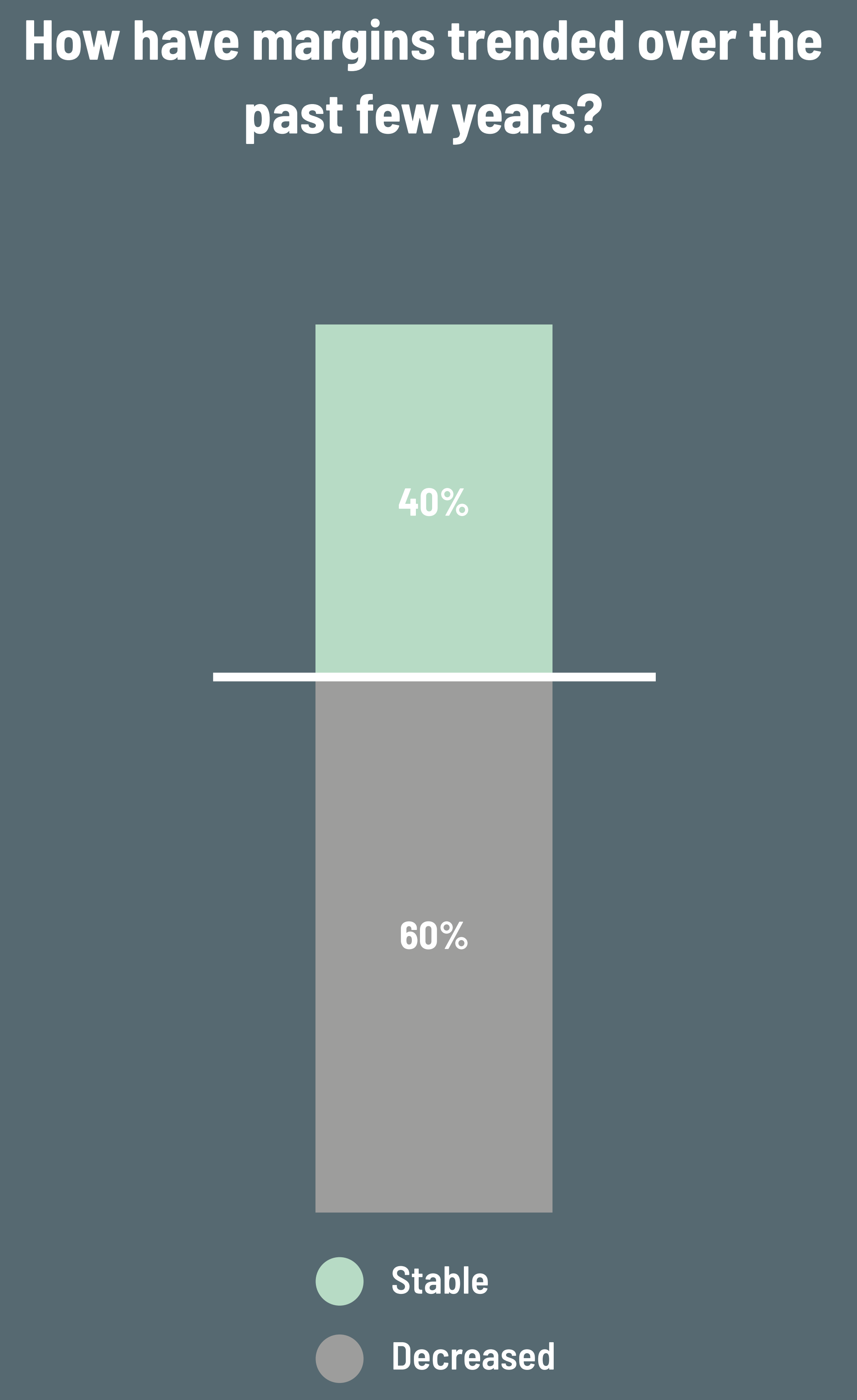
"We have felt definite billing rate pressure. Our ideal individual project gross margin is 55-60%. However, in projects we were selling last year during a tougher market environment, we were settling for 40-50%."

Despite these pressures, several respondents have maintained margins by:

1. Targeting segments less reliant on off/nearshore resource
2. Focusing on high-value services that require specialized talent and are less susceptible to AI or off/nearshoring
3. Differentiating through consistent execution and delivery excellence

"One of the holy grails in our industry is shifting from time-and-materials billing to value-based pricing. If we can clearly define ROI and help de-risk investments, we can command a larger share of spend – potentially achieving consulting-level margins or better."





Key value levers

Margin pressure is driving strong focus on value creation. Key top line initiatives include proposition expansion and GTM optimization, while AI and off/nearshore are top priorities to protect margin.

What are the key growth levers that you are investing in across the top and bottom-line?

% mentioned

100% of respondents are using combined top and bottom-line initiatives to drive value.

#	Revenue (top-line) growth levers	%
1	Land and expand within existing accounts	57%
2	New customer logos in existing segments	36%
3	Targeted sales and marketing investment	29%
4	Increase billing rates	29%
5	New tech capabilities / expertise	21%
6	Tech vendor partnerships (e.g., Salesforce)	21%

#	Margin (bottom-line) growth levers	%
1	AI for internal tasks, reducing manual effort	71%
2	Off/nearshoring initiatives	50%
3	Accelerators to improve efficiency / productivity	50%
4	Expansion into higher margin services	50%
5	Optimizing team structure to increase utilization	21%
6	Recruiting and upskilling lower-cost junior talent	14%

Spotlights on AI and off/nearshoring across following pages.

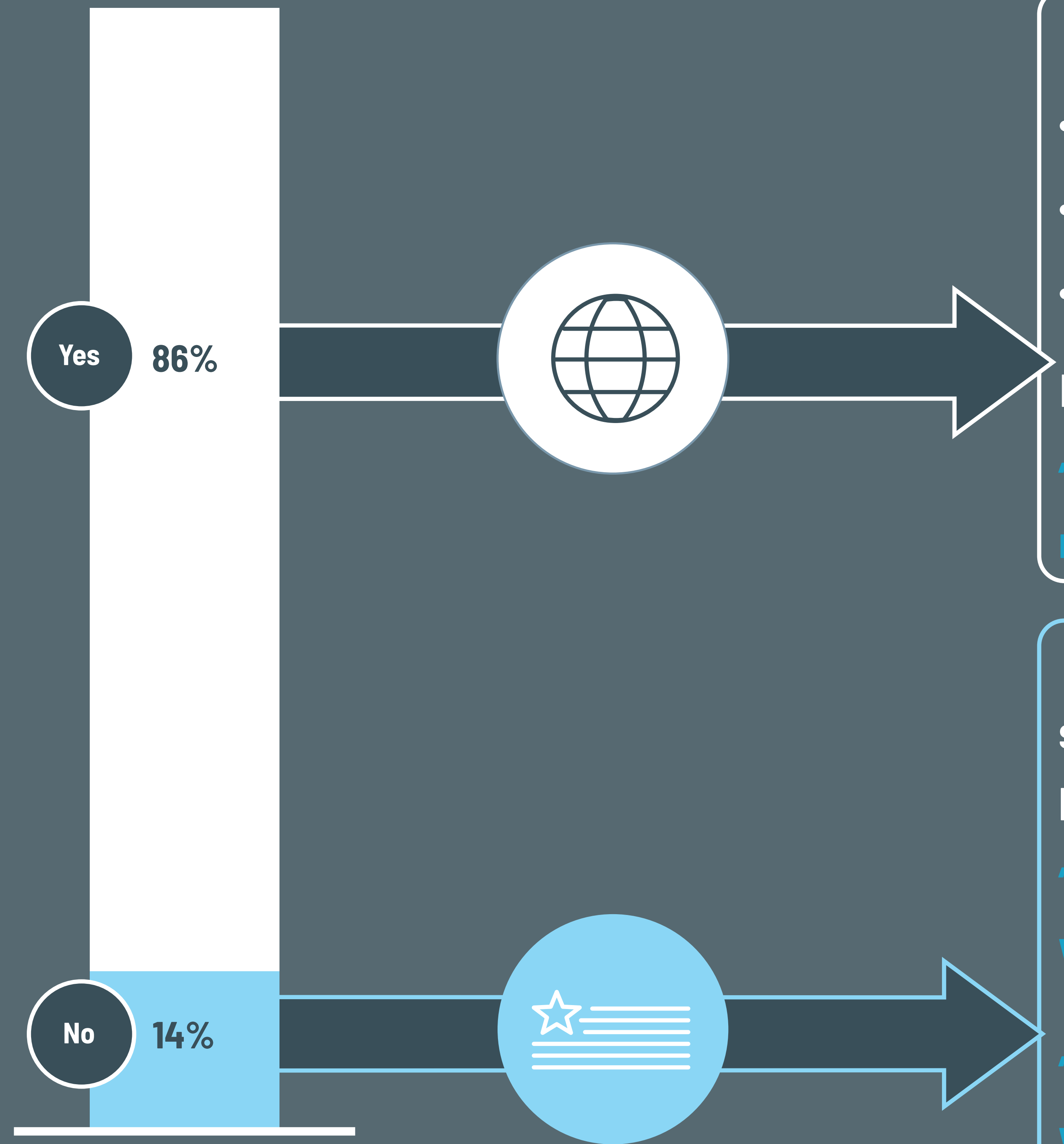
"We are implementing several strategies to increase our EBITDA – raising ticket prices, improving client engagement and focusing on productivity."

"Investment in junior staff, nearshore capabilities, and AI technologies will help drive margin in 2025. AI, in particular, will enable faster delivery with less manpower."

Off/nearshore: Strategic approaches

~86% of respondents are actively leveraging off/nearshore capabilities in some capacity – with most engaging in hybrid operating models. For those not using offshore, this is typically a strategic choice.

Does your firm actively use off/nearshore resources?



Respondents investing in off/nearshore models report overall strong performance, driven by:

- Staying competitive with larger consulting firms / SIs by offering blended rates for enterprise clients
- Enhancing margins through cost-efficient delivery
- Strengthening access to skilled talent pools

Most deploy talent in hybrid teams (mix of onshore and offshore) to balance service quality with rate optimization.

"Customers focus heavily on driving down these rates, which is why service providers developed offshore capabilities – to provide more resources at lower rates."

15% of respondents (2 firms) continue to pursue an onshore-only model, citing operational complexity, capital constraints, or a deliberate strategy to differentiate through US-based talent. This can be particularly valuable in regulated sectors, where compliance restrictions prevent the use of off/nearshore resource.

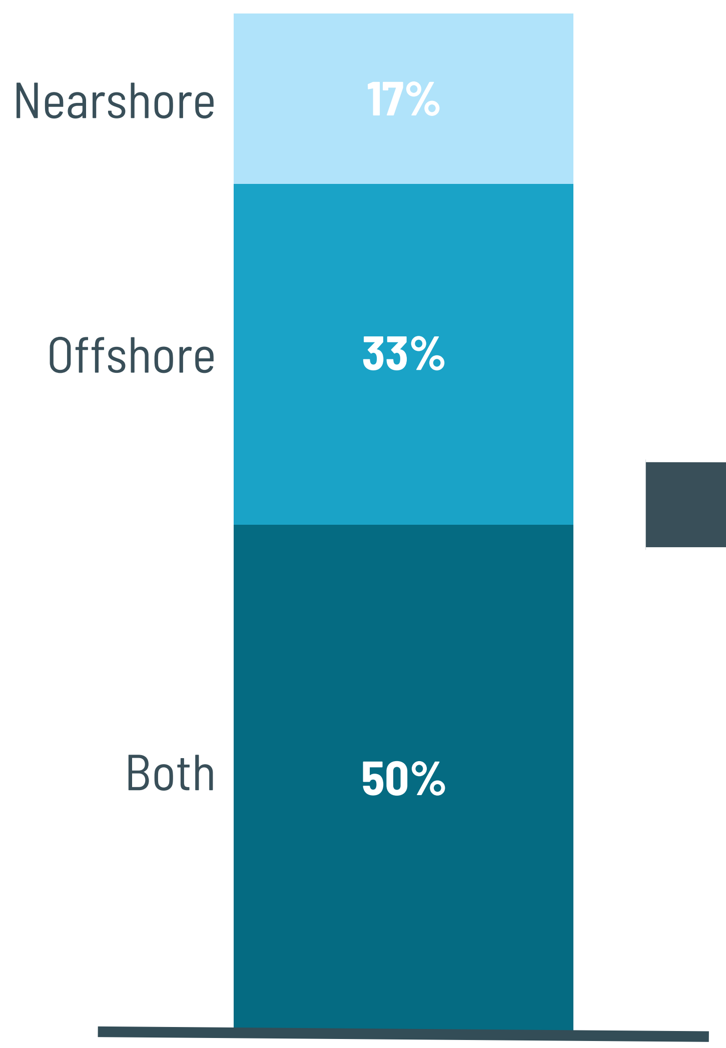
"We have chosen to differentiate by having an experienced team onshore. While most people in our space are chasing that levered model, we win a number of deals because our clients can't go offshore due to their industry restrictions."

"Our value comes from having a fully onshore team. Offshoring offers less value, and the upfront investment to build a team abroad, along with retention risks, has kept us from pursuing it."

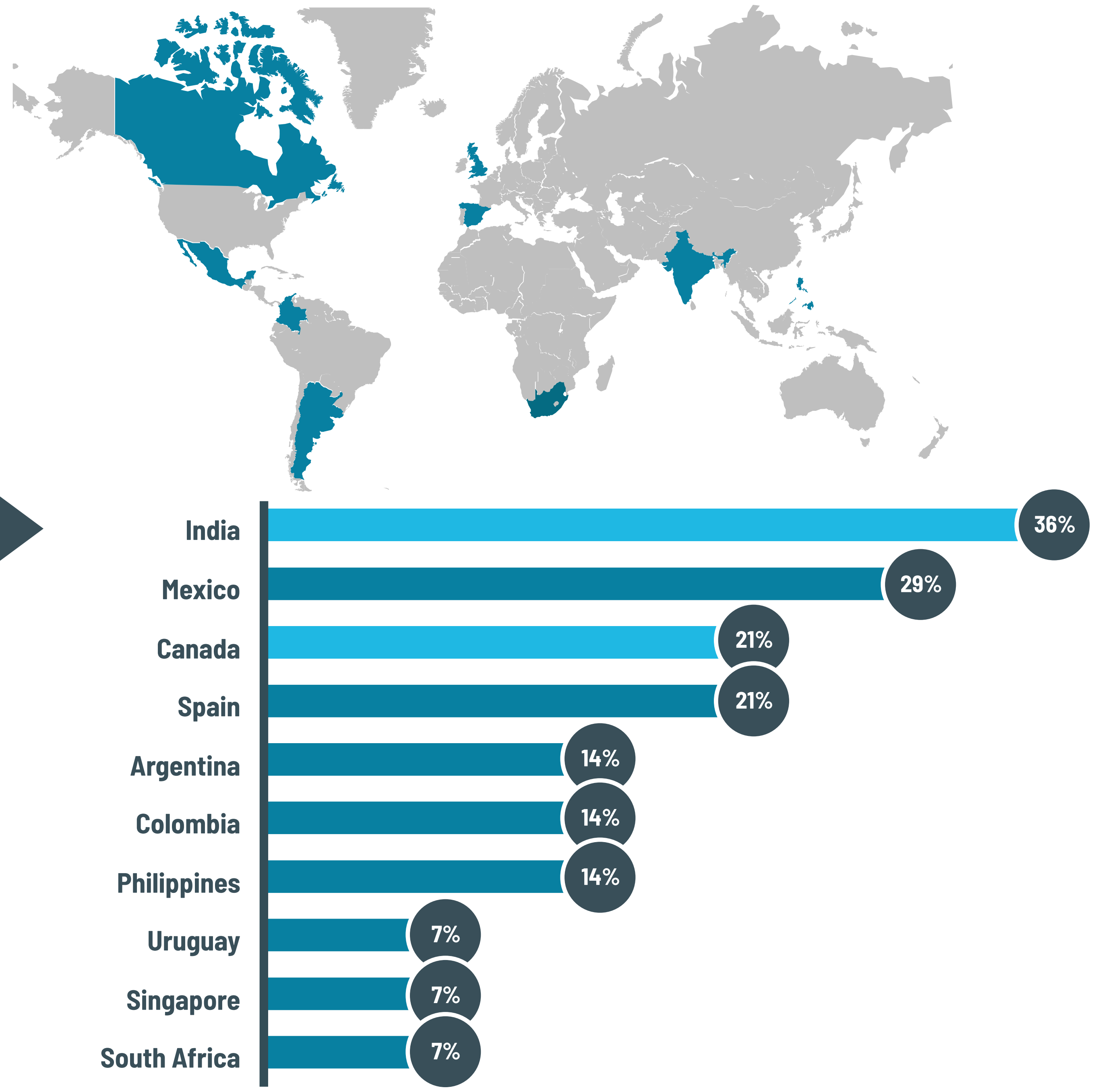
Off/nearshore: Key locations

Most using an off/nearshore model favor a hybrid approach. India and LATAM are the top off/nearshore markets, with emerging opportunities in select markets (e.g., Canada).

If you use off/nearshore resource, which type?



Off/nearshore locations utilized by respondents



India is the number one market for offshore resource and is increasingly used in combination with nearshore markets (e.g., Mexico, Argentina).

"We just established our first India office in late 2024. While other companies are more established in India and other locations, this is a new initiative for us."

Canada was identified as an untapped nearshore opportunity offering benefits including:

- 30-40% wage differential vs. the US
- Opportunity to drive improved retention metrics vs. domestic employers serving Canada market
- Strong cultural, language and working hour alignment with the US – effectively being viewed as 'onshore' resource by clients

"Any role we hire, we prioritize candidates in Canada and start our sourcing efforts there."

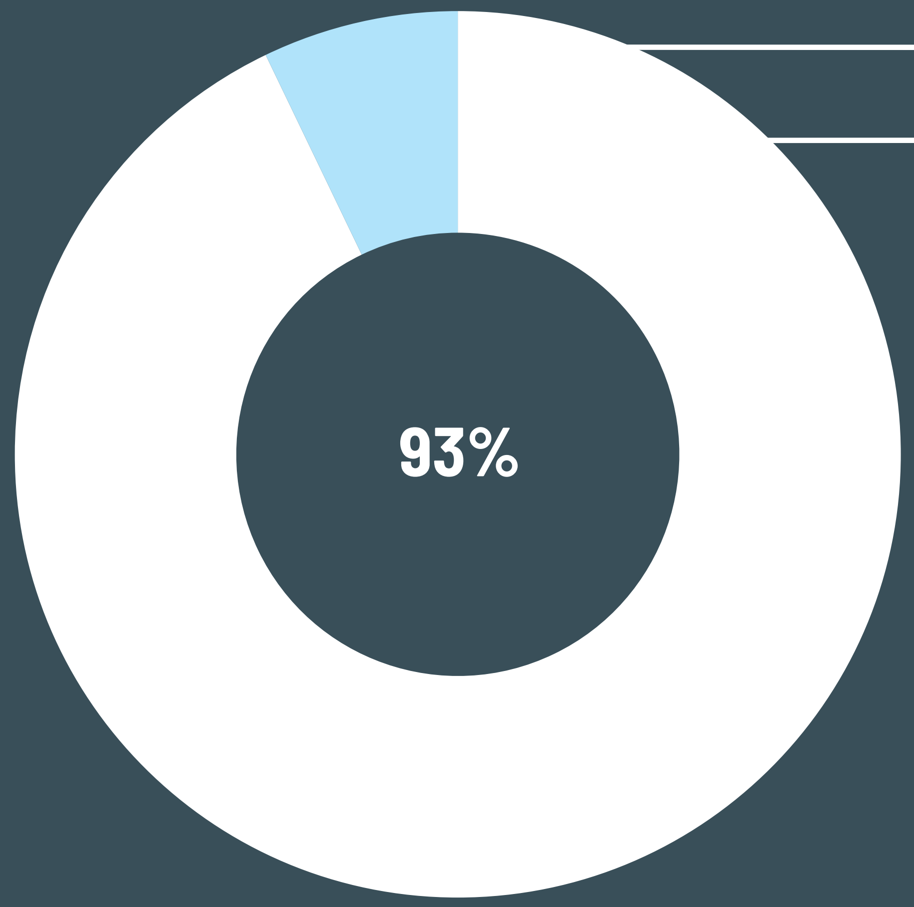
"Our office is in Mexico, but I also have resources in Canada, Spain and Singapore that support our managed services to move with the sun."

None of the respondents in our study leverage **Eastern Europe** resource – given time zones and recent geopolitical disruption.

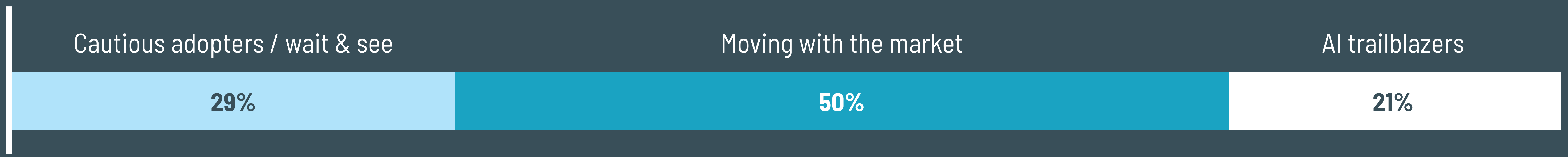
AI: Buzz to deployment

Proactive AI investment is now largely seen as a competitive necessity albeit we see a clear gap divergence in approaches across 'trailblazers' and 'cautious adopters'.

Respondents mentioning AI as front of mind for operational / client services investment



Approaches to AI adoption in our sample



Respondents fall into three distinct groups based on their AI strategies, with progress most often reflecting deliberate strategic choices:

Cautious adopters / Wait & See – intentionally delay AI investment, preferring to wait for clearer market signals before committing.

"While we want to be an early adopter, we don't want to be first to market until we see enough evidence. It's all going to be dependent on what we see in the market."

Moving with the market – Keep pace with market innovations. Many are ecosystem-aligned partners whose AI strategies align with the capabilities and incentives offered by core platform vendors.

"While we don't have any of our own internal AI solutions, we are very effective at selling Salesforce's AI products."

AI Trailblazers – Invest ahead of the curve, looking for novel ways to package AI technology into unique IP.

"AI is rapidly becoming commoditized. The key differentiation lies in understanding how to implement these tools, particularly in relation to workflows and business logic - determining which tools to use where, and how they can automate specific tasks or roles."

"AI is going to be the biggest thing to change challenging times."

"AI is fundamentally changing workflows and role definitions within organizations."

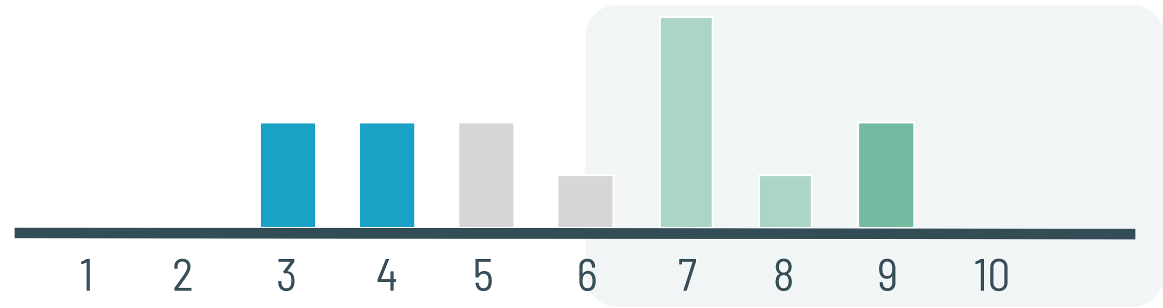
AI: Internal adoption outpacing productization

Most respondents have initially focused on scaling internal AI capabilities but still lag in externalizing these innovations, presenting clear opportunity over the rest of 2025 and into 2026.

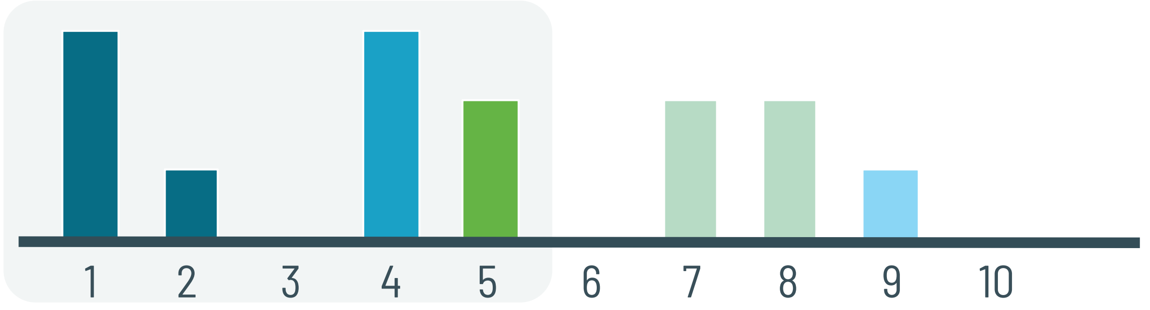
How would you rate yourself out of 10 across the following AI success areas?

Average score / distribution 1 = very poor, 10 = very good

Use of AI internally 5.9



Use / productization of AI into client services 4.7

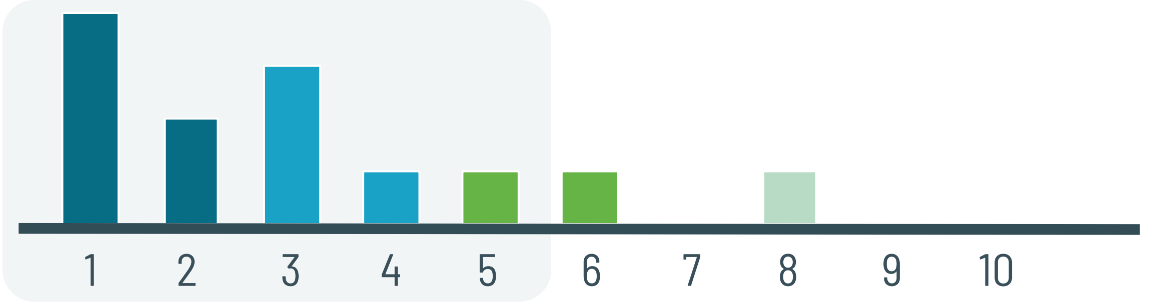


Internal AI adoption is outpacing client-facing productization, exposing a widening execution gap. Those ahead on internal deployment are beginning to translate learnings into monetizable client offerings, highlighting untapped potential for revenue growth.

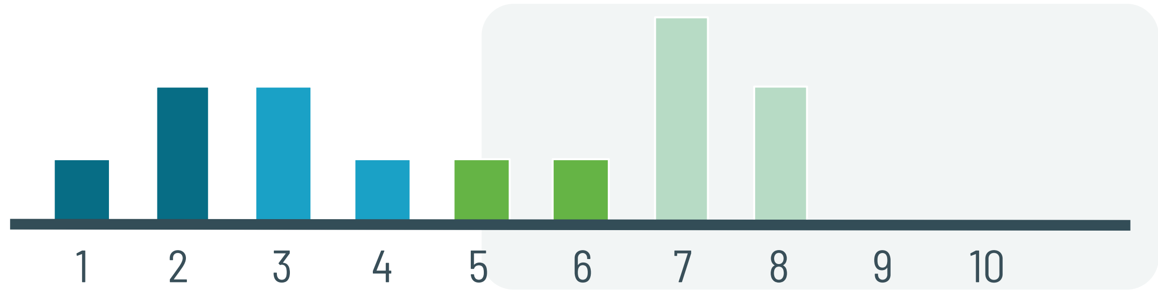
"We're currently at a 3 for AI use in certain areas, but I expect us to be an 8 by the end of this year. It's going to completely change how we operate."

"We've achieved widespread adoption of AI across the organization, both from an internal standpoint and in how we're deploying it as a foundational part of client projects."

Revenue generated from AI in 2024 3.0



Revenue generation from AI potential in 2025 4.8



While some respondents are already generating AI-driven revenue, most are still in the earlier phases of monetization. Some respondents (those characterized as trailblazers) anticipate a ramp-up in 2025, but the majority expect revenue impact in 2026 and beyond.

"We have generated ~$1-2m already and have a pipeline of ~$5m in pure AI deals. Many companies don't have any revenue generation in 2024 and are projecting minimal revenue for 2025."

AI: Internal use cases

Internal use cases are rapidly evolving with notable areas of innovation across the full chain of operations from sales through to service delivery and development work.

Internal AI use cases mentioned by respondents In order of frequency

Pipeline building & conversion

Service delivery

Sales & marketing

Proposal / sales content generation, data enrichment, automated outreach, contract vs. SOW validation; call recording & analysis

"We use AI for deal cycle management via recorded calls and coaching, enabling us to understand sentiment and related metrics."

"We implemented an AI CRM plug-in that helps sales reps get up to speed and speak more confidently about the business and industry."

"For contracts, we feed documentation into AI systems to analyze differences."

Service execution

Automated audits, client document generation and status reporting, service workflow automation, upskilling junior employees

"We have an intelligent triggering system as part of our marketing services syncing customer activity with a multi-touch communications journey."

"Junior talent often don't understand the client's business. AI helps fill the crucial gap in business understanding that employers typically seek in candidates with three to five years of experience."

Development & engineering

Automating engineering workflows e.g., Q&A testing, writing code

"Our coders are 50 to 75% more efficient when using AI. They're utilizing it to write scaffolding code, user stories, test cases, and documentation."

"A lot of the efficiency and margin improvement we've seen from AI is on the engineering side (e.g., writing code)."

"AI can operate most effectively in lower-tier tasks, like code writing."

AI trailblazers are implementing integrated tools across end-to-end operations:

"We built our own internal AI bot, which our team uses for everything from writing reviews, code and emails to conducting company research. We use it across sales, operations, marketing, and development."

AI: External client services

Externally, AI has been focused more on the advisory space and building expertise with partner tools, with fewer firms ahead of the curve in offering more-customized AI productization approaches.

External AI use cases mentioned by respondents In order of frequency

Building expertise in 3rd party solutions

Upskilling in AI capabilities embedded in partner platforms (e.g., Agent Force), evaluating & packaging market-leading 3rd party tools

"We are working with OneStream's salespeople to identify prospects and work through its AI initiatives."

"Our productization of AI is limited – because Workday is the product, they own the AI component of that."

"I'm partnering with companies that are building products that we can incorporate into our AI solutions."

Advisory and AI strategy

Digital transformation services focused on AI integration / advisory work

"We're executing numerous AI-driven digital transformation projects, helping clients identify where AI can be used effectively."

"We help organizations with their AI strategy, identifying appropriate use cases and building proof of concept solutions."

Custom AI development

Custom AI solutions built into broader service engagements

"We do a lot with Agent Force, but there are many things Agent Force doesn't do yet. For background processes, we build custom solutions. For example, we have a document parsing tool for medical and hospital system bylaws."

"While we do some AI application development for clients, I think it will become the majority of our work in the next couple years."

AI trailblazers spotting opportunities to translate internal innovation into client services:

"When we demonstrate our internal AI bot to clients, many request similar solutions, which has accelerated our pure play AI project development for clients."

AI: Adoption drags

While early success is clear, there are still several barriers to AI adoption and revenue generation to overcome.

Rapid innovation curve

"AI is evolving at lightning speed, creating a continuous challenge to maintain full proficiency. While we're using AI constantly, we're also still learning."

"One of the biggest challenges with AI is the uncertainty around which model will ultimately dominate. Companies don't have clarity on what will be disrupted, which model to choose and whether to build internally, buy solutions, or rely on SaaS providers."

Poor data

"We see many organizations wanting to get their data ready for AI, and we're doing numerous data projects in anticipation of AI implementation."

"We are seeing more and more interest to implement AI solutions – data engineering is a core component that is required to generate value."

Privacy concerns

"AI is very much front of mind for us but we don't yet use it in frontline service delivery because of privacy constraints. Many customers preclude us from using AI as they don't fully understand the potential compliance implications."

"In regions where people are sensitive about data privacy, especially in Europe with GDPR, customers won't allow AI access to their data because they don't trust that the data won't be used elsewhere."

Unproven use cases & ROI

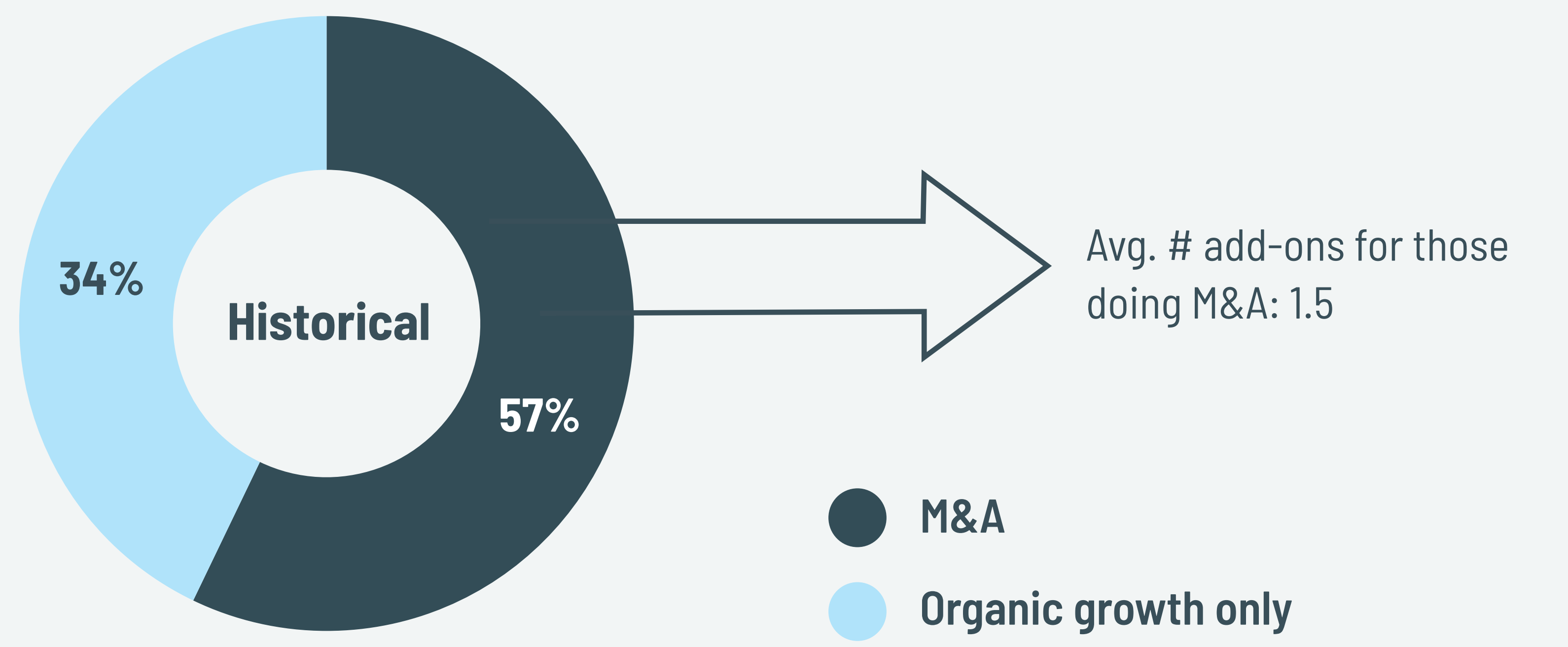
"Without clear use cases, it's difficult to justify significant AI investments. We're starting small with minimal test cases and then building based on results."

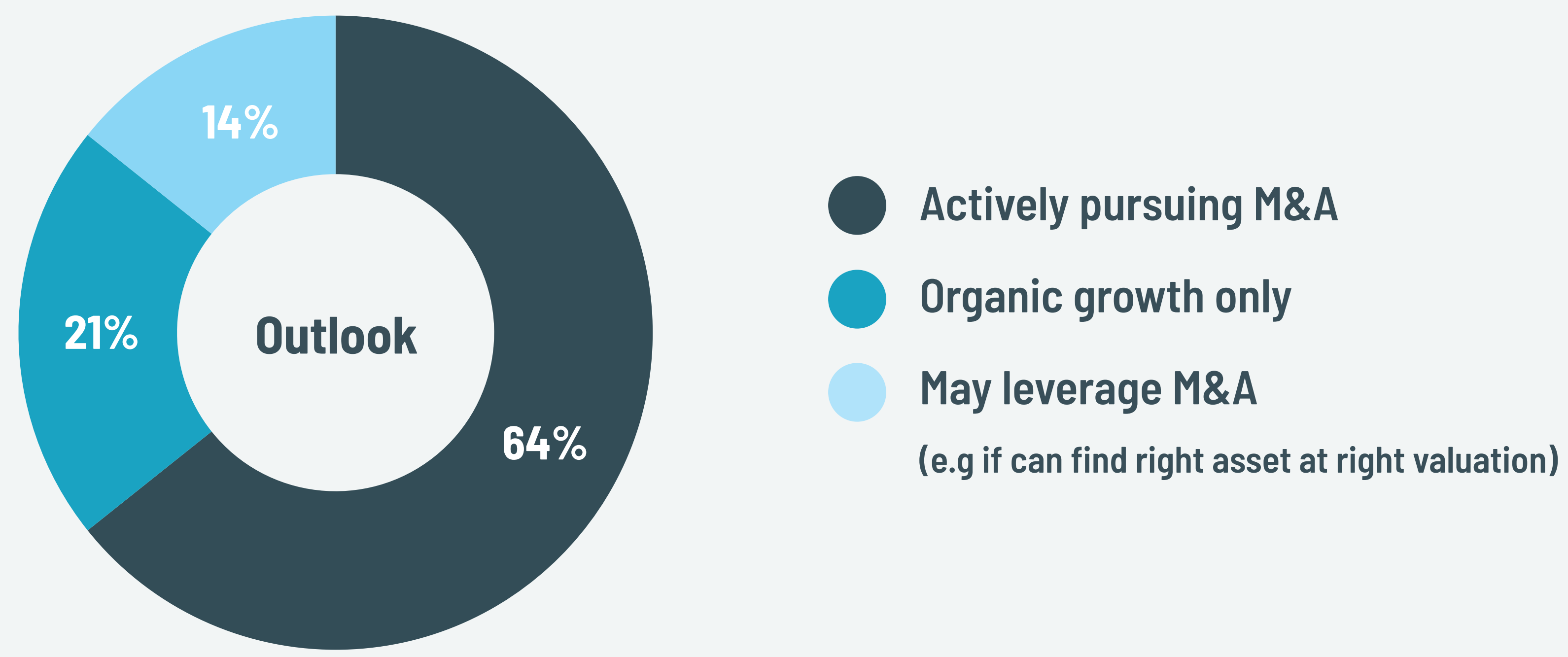
"AI is a technology solution looking for a problem to solve. Unlike cloud and mobile, which were more business and user-driven, AI requires us to demonstrate the art of the possible."

M&A outlook

Respondents are actively pursuing M&A and believe it will remain a key growth driver through 2025, supported by improving valuation expectations and deal conditions.

Mix of organic vs. acquisitive growth across respondent base





Organic growth vs. acquisitive growth

64% of respondents plan to actively pursue M&A in 2025 up from 57% historically reflecting:

- Improved performance of tech services firms – budget / plan misses were a key reason deals fell through in 2024
- Ongoing realignment between buyer-seller valuation expectations
- More favorable deal execution environment, supported by falling interest rates

"Valuations are now back down to earth, and I expect there will be more activity in 2025 at lower multiples. We can do some accretive M&A of smaller firms at a much lower cost of capital than we could a year or two ago."

While most firms are actively exploring M&A, 21% expressed a strong preference for organic growth.

These were more likely to be founder-owned firms with a desire to avoid capital risk, integration complexity and management bandwidth strain.

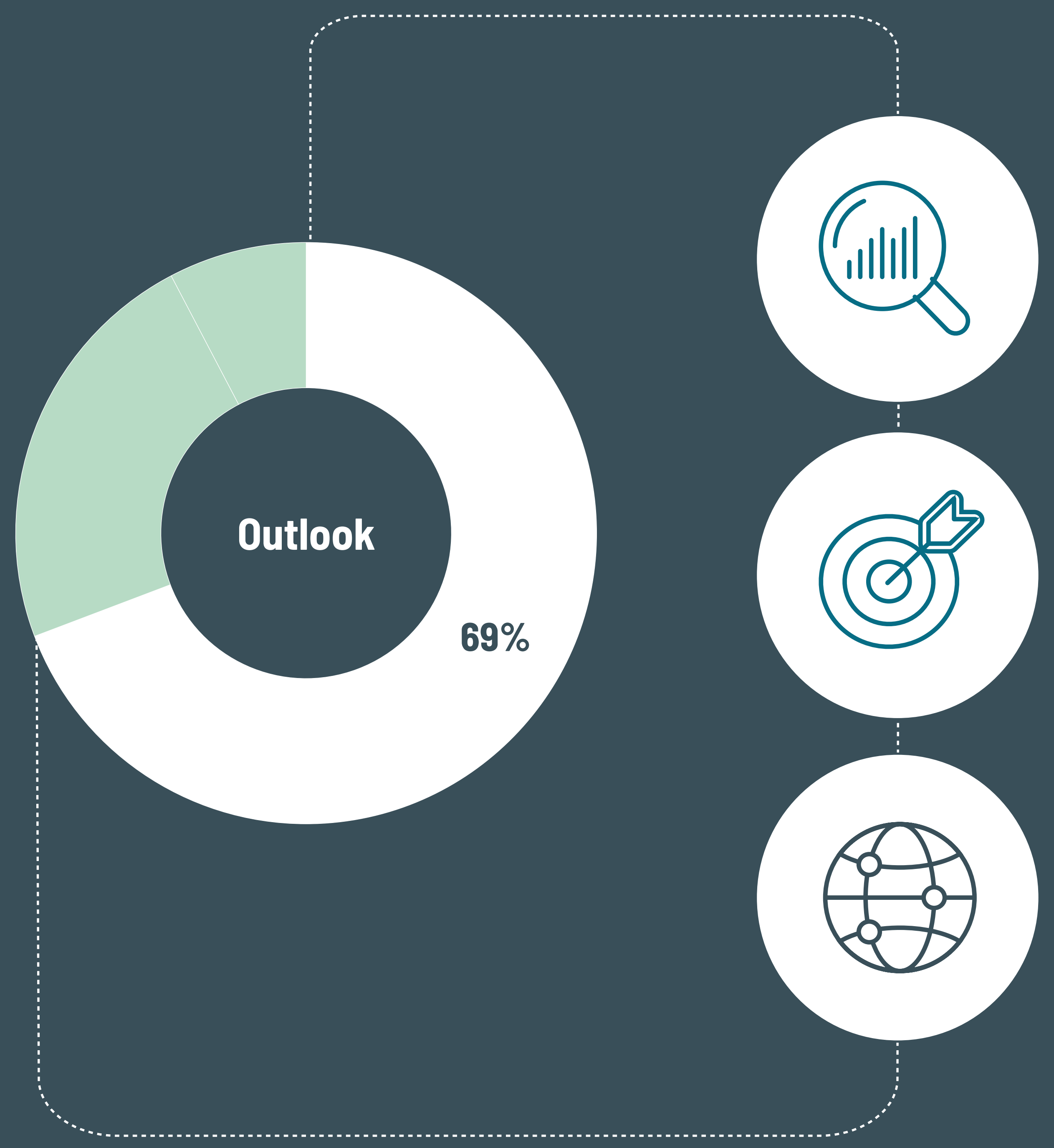
"We plan to grow organically and probably won't think about using M&A to fill gaps. I haven't seen anyone that brings enough to the table to do what we need them to do, and it means we have to take on debt."

"We're not prioritizing M&A this year. We're open to it, but only if it's the right fit, low distraction, high value and reasonably priced."

M&A strategies

M&A strategies are strongly focused on additive growth and priority areas align to identified strategic proposition gaps rather than buying scale in existing core offerings.

Focus areas for M&A over the next 12 months Listed in order of frequency



Acquire new capabilities and fill strategic proposition gaps.

Building out strategic skillsets (e.g., data, upstream advisory, marketing content, managed services) or additive / adjacent technology expertise (e.g., AWS, Salesforce, Snowflake).

"We looking to make an acquisition to expand our digital experience (DXP) capabilities."

"Every one of our clients has data needs that we are not servicing right now, and our goal is to have that capability in house."

Expand into new market verticals.

Adding expertise in up to 3-4 key verticals, which may be on an opportunistic basis or focused on building expertise in specialized sectors (e.g., HLS, FINS).

"While we're heavily embedded in HLS, we might bring in a company focused on financial services."

Expand into new geographies.

Expanding reach and building out off/nearshore capabilities

"Pure-play onshore firms are feverishly hunting for nearshore bolt-on acquisitions."

Overarching theme of additive growth across respondents

"The ideal acquisition adds value – whether through new geographies or complementary technologies that serve our existing audience."

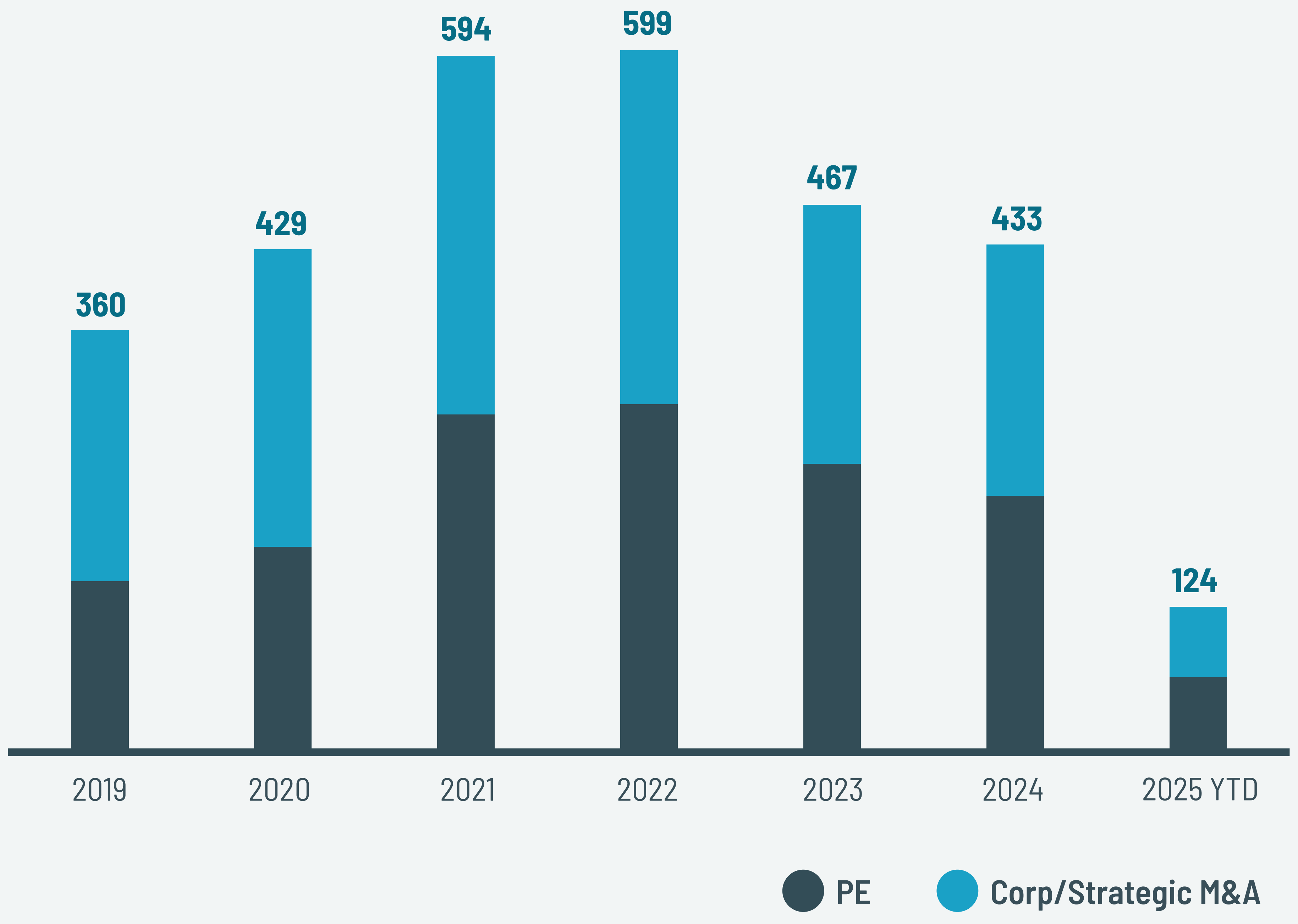
"Smaller acquisitions are quicker to integrate, even if they take the same effort to close. If that's what it takes to meet our goals, we'll do three or four instead of one or two. We're confident in our core and believe we can grow organically better than anyone."

M&A activity

There have been several competitive processes and high-profile transactions within the last 12 – 18 months, despite an overall slowdown in M&A deal volumes.

The graph below shows the volume of deals across the IT consulting and outsourcing market, looking at both trade and private equity interest

U.S. IT consulting and outsourcing deal volume (2019-2025)



The IT Consulting and Outsourcing market has remained resilient amid the broader M&A slowdown, with deal volumes being steady as we come into 2025, but still off the peak of volumes seen in 2021-2022.

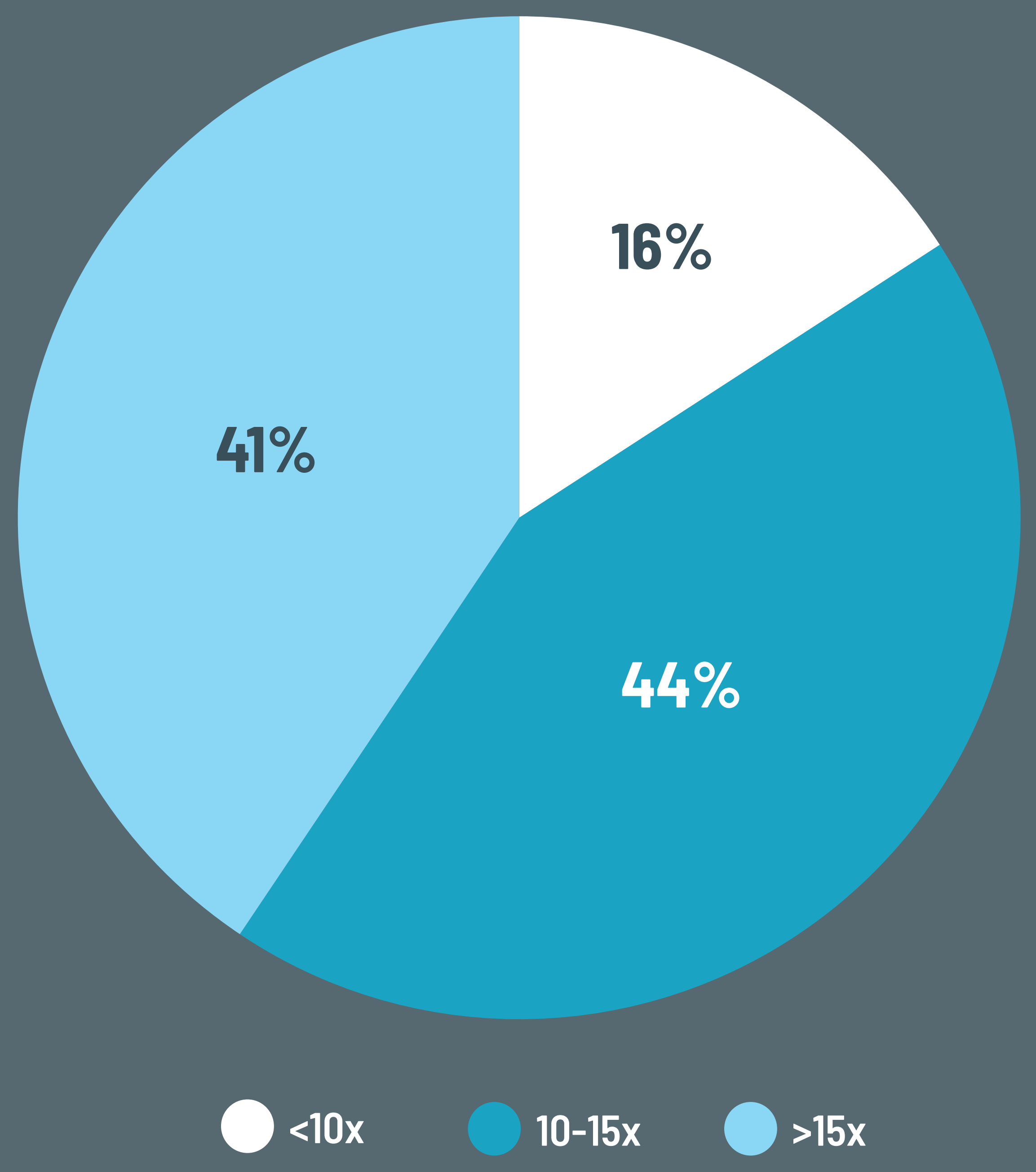
The sector has remained comparatively robust relative to the broader market, and we have seen a number of high-profile transactions complete over the period including:

- Apax Partners' take-private of ThoughtWorks, a global technology consultancy (Nov-24)
- EPAM Systems' acquisition of Neoris, a provider of IT outsourcing and consulting services, from Advent International (Nov-24)
- EQT's take-private of Perficient, a provider of IT management consulting services (Oct-24)
- IBM's acquisition of Accelalpha, a global Oracle services provider, from Century Park Capital Partners & Graycliff Partners (Sep-24)
- Endava's acquisition of GalaxE.Solutions, a global IT and business solutions provider (Feb-24)
- Cognizant's acquisition of Thirdera, an advisory, implementation and optimization solution provider focused on the ServiceNow platform, from Sunstone Partners (Jan-24)

M&A activity

Digital transformation is driving demand for cloud services, cybersecurity, and analytics, which is in turn driving continued investment and M&A activity in the sector.

Proportion of M&A transactions by EV/EBITDA multiple ranges (2022-2024)



- A substantial majority of transaction multiples in the sector have exceeded 10x EBITDA, which has generally been driven by the accelerating pace of digital transformation
- As organizations accelerate adoption of cloud infrastructure, strengthen cybersecurity, and invest in advanced analytics, both strategic and financial investors are driving sustained deal flow at healthy valuation multiples
- Deals in the >15x EBITDA multiple range reflect premiums paid for high-growth businesses with resilient performance during economic uncertainty, recurring revenue models and scalable delivery capabilities

Conclusion

While early uncertainty lingers in 2025, the market outlook remains optimistic. Firms continue to invest in growth and are poised to seize opportunities as conditions stabilize in this fast-evolving market.

2025 may have started on uncertain footing, but market sentiment points toward a brighter close to the year. As election-related uncertainty fades, client budgets rebound and recent investments in new capabilities begin to yield returns, optimism is gradually building. While the new administration and broader macro environment still pose some ambiguity, the tone across the market can best be described as "cautiously optimistic."

Firms, still navigating the aftershocks of a tough 2023 and 2024, are proactively pursuing proposition enhancements and operational innovation to differentiate and drive growth. Confidence in these initiatives is growing, supported by macro tailwinds like ESG, regulatory tightening and a sustained demand for outsourced expertise.

Other positive signals are emerging. Margin pressure has fueled disciplined investment in both revenue and cost optimization strategies. Off/nearshore delivery models are gaining ground, and AI is moving from hype to real-world implementation. Most firms are investing in AI to improve internal efficiency and launch monetizable client offerings, and some are already seeing returns, with momentum expected to accelerate in 2026.

Finally, after a quieter M&A period through 2023 and 2024, inorganic growth is firmly back on the agenda. Market participants are capitalizing on more realistic valuation expectations, with a strong focus on additive acquisitions.

> "There was a bit of market uncertainty in 2024 across our clients. Some companies were conducting layoffs. Most of that is in the rear view now and clients have found a more stable footing, which means they're more likely to be able to spend on needs, as opposed to trying to batten down the hatches and manage the solutions they already have in place."

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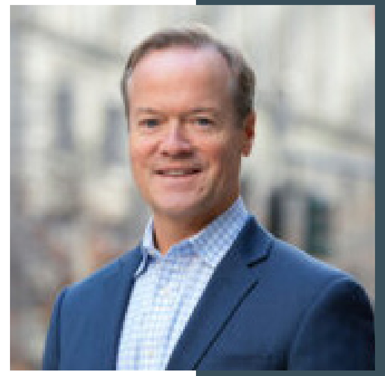

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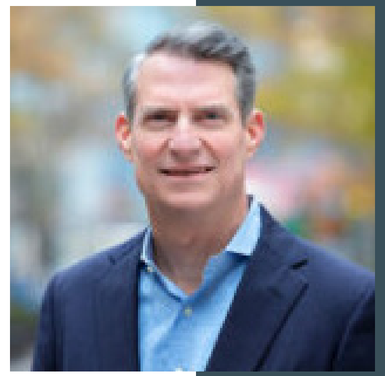

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