

LATAM VS. EASTERN EUROPE

ENDAVA IPO & THE GLOBAL SHIFT IN IT SERVICES



INTRODUCTION EAST vs. WEST

SYNOPSIS:

Today's landscape of IT service offerings – everything from Cloud, Big Data, Business Intelligence, Artificial Intelligence, Digitalization, Blockchain, Cybersecurity, and more – are hot topics of conversation for enterprises across the globe. This wide array of highly technical enterprise technology products and services present an enormous amount of maintenance and constant innovation to improve the enterprise, therefore providing opportunities for the IT Service sector; consisting of professionals that specialize in information technology.

Maintaining and constantly innovating IT systems and offerings is incredibly time intensive explaining why most organizations – **73% of organizations according to a 2016 Deloitte survey [1]** – look to outsource and obtain IT services from regions like Asia, and more recently Eastern Europe and Latin America. Countries like India are known for their low costs, strong work ethic, large human

capital supply, IT expertise and English fluency making them a very advantageous option for IT Services. With the emergence of the Digital Transformation, Eastern Europe and Latin America have demonstrated their strength in IT services with unique strengths differentiating their offerings from that of India and other Asian countries. In fact, IT Services in the **East (Eastern Europe)** and **West (Latin America)**, with endpoint delivery still focused on the US and Europe, are hot service providers slowly pushing Indian players out. Also, firms that can join the strengths of the East and West are highly rewarded (i.e. Endava IPO).

This article discusses why the “East” and “West” are a serious threat to the Indian IT Service market, what these regions have to offer, what makes them different and which markets they cater to most.

73%

of organization look to outsource and obtain IT services from regions like Asia, Eastern Europe & Latin America

GLOBAL OVERVIEW

TOP IT SERVICES & OUTSOURCING COUNTRIES

Eastern Europe:

- Ukraine
- Belarus
- Russia
- Poland
- Czech Republic
- Romania
- Hungary
- Estonia
- Slovakia
- Bulgaria
- Latvia

Africa:

- Egypt
- Kenya
- Morocco

Nigeria

- South Africa

Asia:

- India
- China
- Philippines
- Vietnam
- Bangladesh
- Indonesia
- Malaysia
- Pakistan
- Sri Lanka
- Thailand

Latin America:

- Argentina
- Brazil

Chile

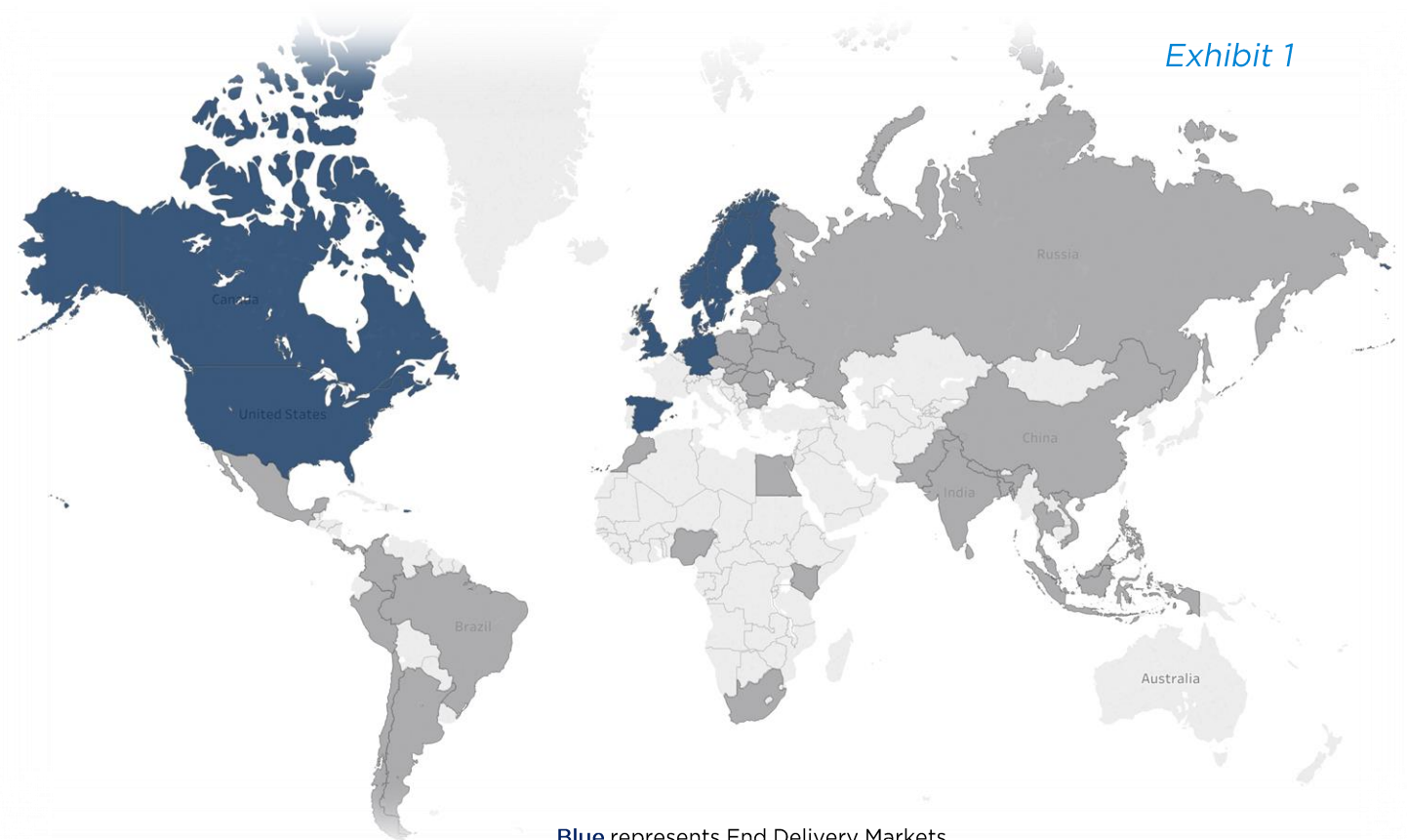
- Colombia

Costa Rica

- Mexico

Panama

- Peru



Blue represents End Delivery Markets
Gray represents IT Service Delivery Markets

Source Data: Daxx [2]

DELIVERY OVERVIEW

DIFFERENCES IN EAST, WEST & INDIAN IT SERVICES

Historically, India dominated the IT Services and Outsourcing market with their plethora of talented professionals. However, over the past decade a gradual shift has taken place as Eastern European (East) and Latin American (West) players emerged.

These two regions possess a variety of strengths differentiating them from one another and, more importantly, from their larger counterpart, India, as depicted in *Exhibit 2*. Both compete for North American and European market share in their delivery; Latin America with a foothold in the US & Canada while Eastern Europe remains close with Western Europe.

Below are six attributes that these two regions have on their side when it comes to IT Services and are constantly used in comparing the regions by

industry experts.

- Talent:** Although these regions have significantly smaller populations; they still possess large pools of qualified IT professionals.
- Work Style:** Indian teams are sometimes non-confrontational [3] whereas the East and West are known to give push-back.
- Culture & Time Zones:** With physical proximity to the US and Europe on their side both the East and West have cultural advantages over Asian players.
- Agile vs. Waterfall:** Culturally the East and West have a longer track record with Agile and DevOps delivery models in comparison to using a Waterfall approach. See *Exhibit 4*.

5. **Rates:** On average Asian IT Service providers offer lower per hour rates than anywhere else in the world, yet the East and West are not far behind. See *Exhibit 5* in the Appendix.

6. **Language:** Most of these regions are proficient in English; a necessity when primarily delivering to English dominant Countries.

IT Service Delivery Matrix

LATIN AMERICA		EASTERN EUROPE		Delivery Region
- Creative			- Engineers	Strengths
- Excel in UX / UI Design			- (Europe) Time Zone	
- (US) Time Zone			- Data Scientists	End Market
- Innovative			- Highly Educated	
- Agile Delivery			- Agile Delivery	
US & Canada		Europe		

Overlapping Market Share

Exhibit 2

REGIONAL OVERVIEW

EAST (EASTERN EUROPE)

Eastern Europe houses some of the best IT related talent in the world - one example being the Ethereum founder and prodigy, Vitalik Buterin. After the fallout of the Soviet Union the highly educated and highly talented culture filled with aerospace engineers and physicists reallocated their intelligence and efforts towards computers and data science. Countries such as Ukraine, Romania, Bulgaria and Russia are a few of these human capital “gold-mines” that we are calling the East.

According to Daxx, an Eastern European IT Outsourcing and Consulting group, one the benefits of the Ukrainian workforce “**Ukrainian developers want to be the smartest person in the room.**” [2] Not only that, but Eastern European engineers will argue their case helping to eliminate a unilateral “yes” culture. [4]

With regards to the previously discussed attributes, let’s take a closer look at the East:

1. **Talent:** According to Daxx, a “Massive Talent Pool” and “High-Quality Technical Education” are their top two listed benefits of Eastern European developers. [5]
2. **Work Style:** Push-back on areas they don’t agree with yet willing to collaborate on projects.
3. **Culture & Time Zones:** Physical proximity with the rest of Europe and therefore can 1) work similar hours as European end users and 2) can more easily relate to Europeans.
4. **Agile vs. Waterfall:** Are experienced in an Agile delivery style and willing to use it on projects. See *Exhibit 4*.

5. **Rates:** On average, rates tend to be slightly higher than Asia but similar to Latin America depending on the expertise level of the delivery team. See *Exhibit 5* in the Appendix.

6. **Language:** Typically proficient in English but also known for their ability to rapidly learn foreign languages.

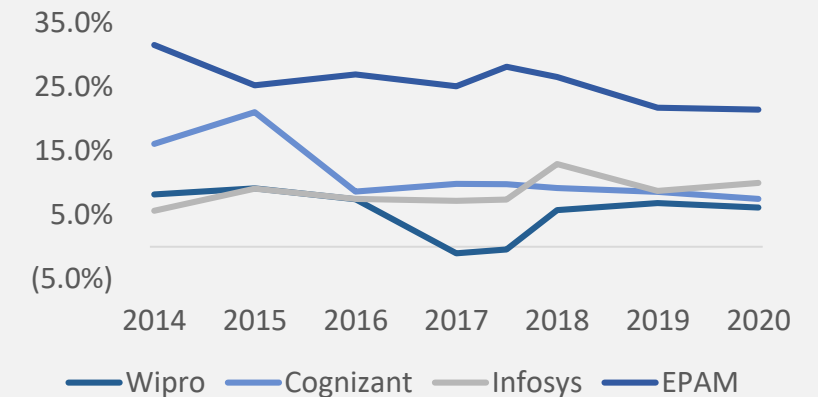
Industry Leader:



CapIQ Statistics:

- 25,962 Employees
- Founded 1993
- Ticker: EPAM (NYSE)
- LTM Jun-18 Revenue of \$1,646.6M
- LTM Jun-18 EBITDA of \$244.4M

Revenue Growth %'s:



Note: Per CapIQ data, EPAM recorded between 25.0% - 31.5% (2013-Jun-18) revenue growth rates exceeding top Indian IT Service companies. EPAM is estimated to maintain approximately 23% growth rates through 2020.

REGIONAL OVERVIEW

WEST (LATIN AMERICA)

Of the six attributes, some of the same is true for Latin America. They differ from Eastern Europe in that they have a US & Canada delivery advantage and a different styled workforce. First, countries referenced as part of the West: Argentina, Brazil, Mexico, Panama to name a few.

Latin America has a strong appeal to the US and not by coincidence. According to a Deloitte report, “Latin American governments continue to support free trade and promote various English language support programs to attract global service providers and companies alike.” [6] With regards to the previously discussed attributes, let’s take a closer look at the West:

1. **Talent:** A growing trend and focus on technical education

in the region; historically the workforce is known for their creative skills.

2. **Work Style:** Known to be collaborative on projects and experienced in agile project delivery models (accustomed to “back-and-forth”).

3. **Culture & Time Zones:** Shares a time zone with North America enabling quick responses and fluid collaboration compared to Asian providers.

4. **Agile vs. Waterfall:** Increasing number of North American clients seeking agile based projects forcing delivery teams to be in similar time zones [7]. See *Exhibit 4*.

5. **Rates:** On average, rates tend to be slightly higher in Latin America compared to Eastern Europe and India but still significant cheaper than in the US. See *Exhibit 5* in the Appendix.

6. **Language:** Typically proficient in English with less adaptability to new languages in comparison to Eastern Europe.

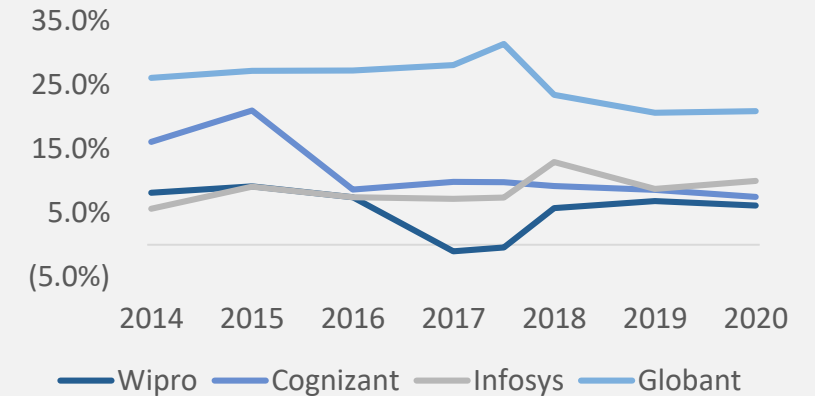
Industry Leader:



CapIQ Statistics:

- 7,279 Employees
- Founded 2003
- Ticker: GLOB (NYSE)
- LTM Jun-18 Revenue of \$444.4M
- LTM Jun-18 EBITDA of \$59.8M

Revenue Growth %'s:



Note: Per CapIQ data, Globant recorded between 26.1% - 31.4% (2013-Jun-18) revenue growth rates exceeding top Indian IT Service companies. Globant is estimated to maintain approximately 22% growth rates through 2020.

IT SERVICE PYRAMID

HOW EACH REGION DELIVERS IN THE IT SERVICES SECTOR

The graphic to the right depicts an *IT Service Pyramid*. The pyramid helps to illustrate different aspects involved in IT Services starting with the foundation, seen as the “back-end,” all the way to UX & UI design, which focuses on the human interaction with technology.

IT Infrastructure is typically viewed as the physical technology (i.e. hardware, data centers, etc.) or components foundationally in which IT Services stand. From there, Databases are stored within the foundational components, ERP / CRM Platforms represent the powerful systems and software (i.e. Salesforce), and Apps along with UX & UI make-up the consumer experience.

As the dependency on

technology grows for consumers and businesses alike, so too does services around that technology. Not only are organizations able to leverage the physical capacity and capabilities of technological systems, but there is **growing market pressure** to **enhance** the **interaction** and **engagement** of the **users** creating opportunities for companies specializing in those areas also playing to the strengths of Eastern Europe and Latin America.

The three regions to the right have capabilities across the entire IT Service Pyramid; however, depicted is each aligned to fit that regions' strengths.

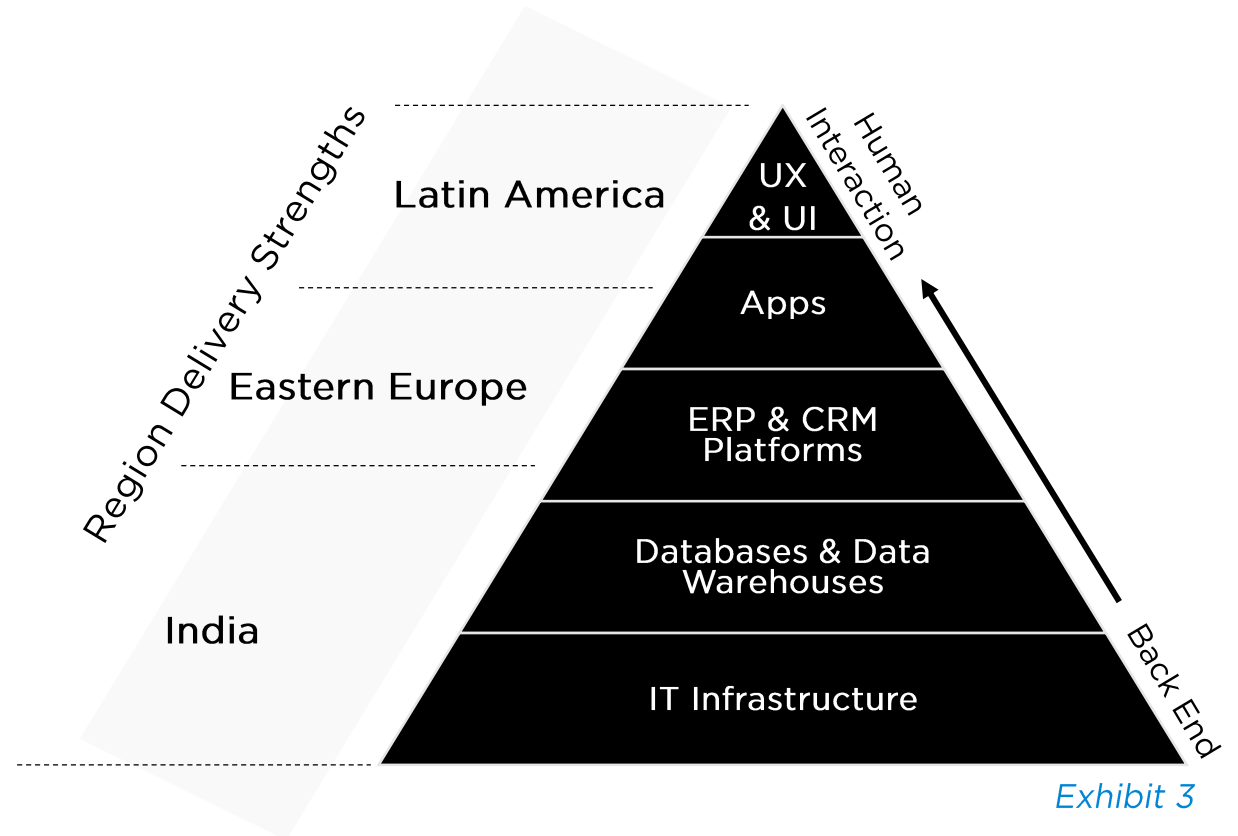
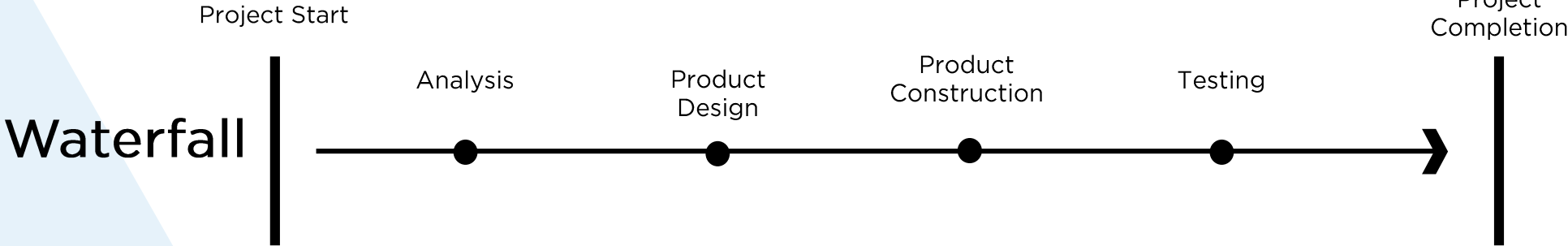


Exhibit 3

PROJECT DELIVERY MODELS



VS.

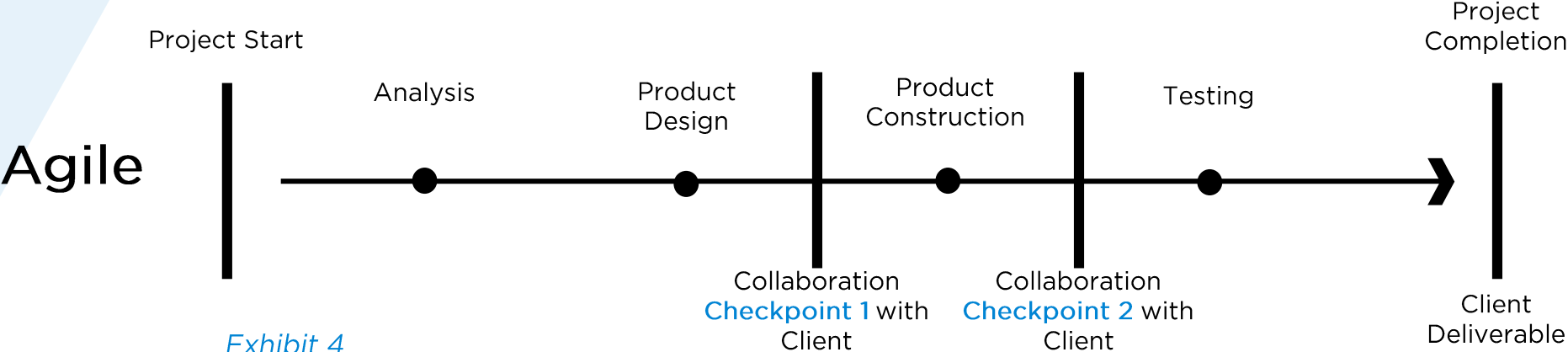


Exhibit 4

Most teams that practice the agile development method are using scrum – **objective based** vs. **assignment based**.

Rapid technology development and **changing business environments** force delivery models which are **'agile'** and encourage constant feedback throughout the process. [8]

WHY THIS MATTERS

ENDAVA IPO (Jul-18)

[Endava](#) is an IT Services organization with delivery centers in Romania, Bulgaria, Macedonia, Moldova, Serbia, Argentina, Colombia, Uruguay, and Venezuela.

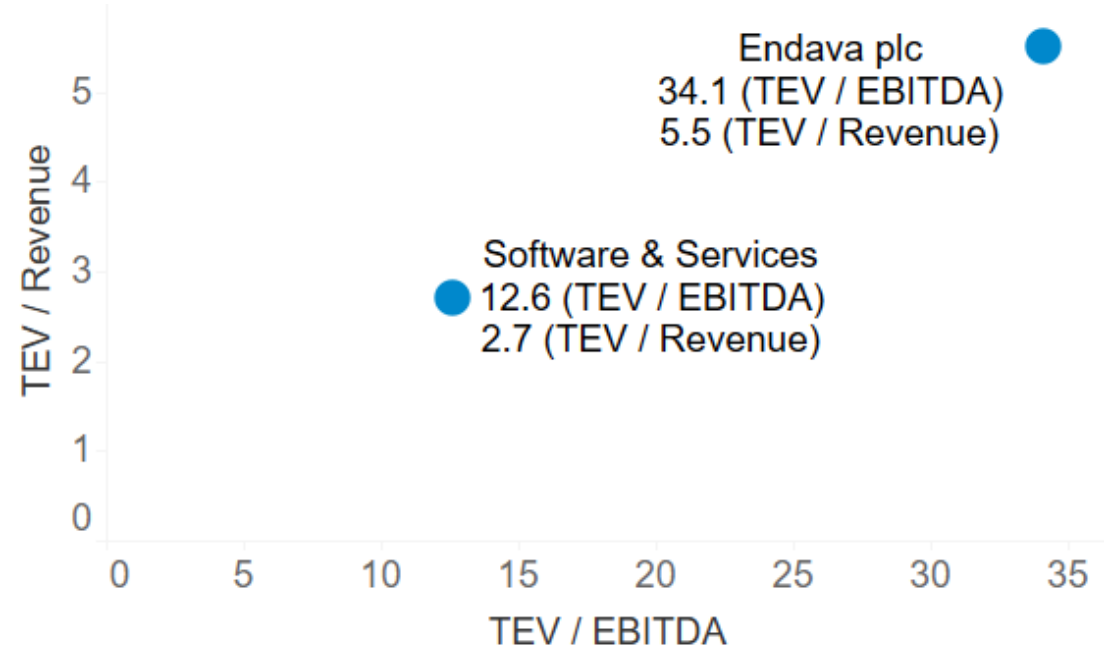
What is unique about Endava? They are one of the **first IT services organizations to join forces between the “East” & “West”** delivery centers to more effectively service the North American and European markets and be **highly rewarded** for it.

In Jan-18 Endava announced its acquisition of [Velocity Partners](#), a 500 employee Latin American based software development firm with offices in Argentina, Uruguay, Colombia and Venezuela, for \$60.5M according to CapIQ. On an LTM basis in Mar-18 Velocity recorded \$34.7M in revenue. The acquisition

expanded Endava’s footprint from primarily Eastern Europe to South America providing a nearshore development service for the North American market while maintaining nearshore development in Eastern Europe.

Endava currently consists of an estimated 4,700 employees and operates as a global threat to other IT Service providers.

7 Mile tracked, based on medians of public companies, the Software & Services sector as of Q2-18 trading at **12.6x TEV / EBITDA** and **2.7x TEV / Revenue**. Comparatively, Endava well exceeded market averages trading at **34.1x TEV / EBITDA** and **5.5x TEV / Total Revenue** – nearly 2-3 times industry averages.



Note: 7 Mile tracked metrics based on CapIQ medians of public companies to make-up the “Software & Services” sector as of LTM Q2-18.

Appendix

The table to the right depicts [software development outsourcing rates](#) by region based on an Accelerance survey conducted in 2018.

Latin America and Eastern Europe operate in a similar range of rates while Asia is typically known for low-cost outsourcing.

Title of Full Time Employee (FTE)	United States	Latin America	Eastern Europe	Asia
Business Analyst	\$110-\$205	\$45-\$55	\$40-\$63	\$30-\$42
Architect	\$198-\$292	\$60-\$72	\$50-\$77	\$35-\$48
Project Manager	\$133-\$233	\$55-\$66	\$45-\$70	\$35-\$48
Jr. Developer	\$105-\$111	\$35-\$44	\$25-\$42	\$18-\$24
Mid-level Developer	\$132-\$140	\$30-\$52	\$35-\$56	\$24-\$35
Lead Developer	\$176-\$187	\$50-\$61	\$45-\$70	\$30-\$42
Sr. Developer	\$154-\$163	\$45-\$55	\$45-\$70	\$30-\$42
Junior QA	\$77-\$81	\$30-\$39	\$25-\$42	\$15-\$24
Mid-Level QA	\$99-\$105	\$35-\$44	\$30-\$49	\$20-\$30
Senior QA	\$143-\$169	\$40-\$50	\$40-\$63	\$25-\$36
Graphic Designer	\$79-\$163	\$40-\$50	\$35-\$56	\$25-\$36

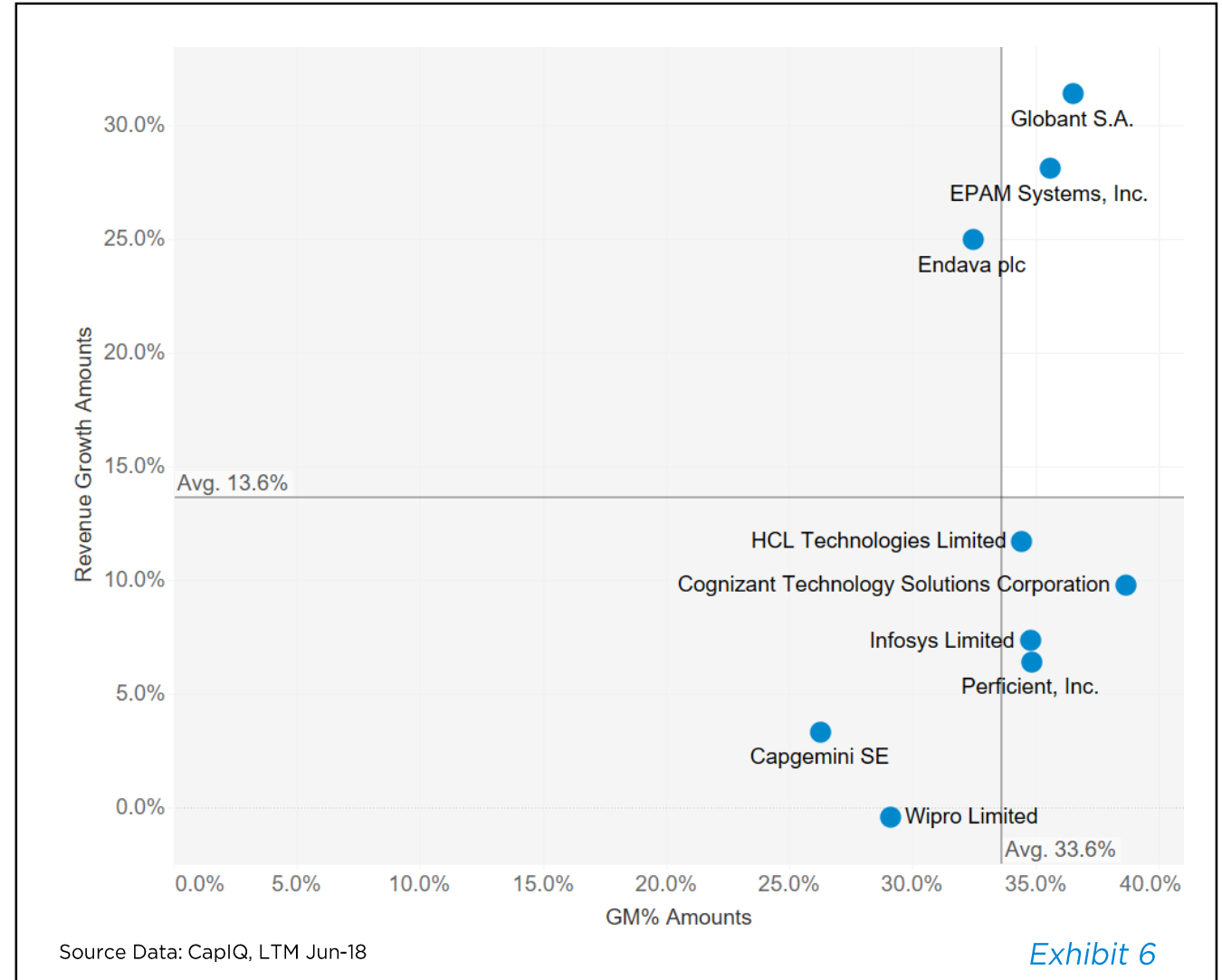
Source: 2018 Guide to Global Software Outsourcing Rates [\[9\]](#)

Exhibit 5

Appendix

The Quadrant to the right depicts **GM %'s** vs. **Revenue Growth Rates** for the LTM period Jun-18.

Revenue growth is compared to the prior period.



Sources

- [1] - [“Deloitte’s 2016 Global Outsourcing Survey”](#)
- [2] - [“A Guide to Offshore Developer Rates: Where to Hire Offshore Developers?”](#)
- [3] - [“The 7 Ways an Indian Programmer Says ‘No’”](#)
- [4] - [“The Best Custom Software Development Companies in Ukraine”](#)
- [5] - [“How Software Development in Eastern Europe Transforms the Way We See Outsourcing”](#)
- [6] - [“Deloitte’s 2014 Global Outsourcing and Insourcing Survey”](#)
- [7] - [“10 Reasons Why Latin America is a Great Location for Software Outsourcing”](#)
- [8] - [“To Agility and Beyond: The History - and Legacy - of Agile Development”](#)
- [9] - [“The 2018 Guide to Global Software Outsourcing Rates”](#)

Contact Information

7MA provides Investment Banking & Advisory Services to the Business Services and Technology Industries globally. We advise on M&A and private capital transactions, and provide market assessments and benchmarking. As a close-knit team with a long history together and a laser focus on our target markets, we help our clients sell their companies, raise capital, grow through acquisitions, and evaluate new markets. Securities offered through 7M Securities LLC.

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