European Technology/Software

IT services sector: Does the Persistent Systems/Nagarro deal reflect a new logic?

Derric Marcon
+33 1 58 98 06 30
derric.marcon@bernsteinsg.com

Richard Nguyen
+33 1 42 13 54 22
richard.nguyen@bernsteinsg.com

Specialist Sales

Kiran Shah, CFA
+44 20 3547 1533
kiran.shah@bernsteinsg.com

In our view, Persistent Systems' acquisition of Nagarro (link, both not covered) is not reflective of a new industrial logic. Indeed, we have often seen consolidation like this in the IT services sector. While the profiles of the buyer and seller inevitably lend a unique character to a transaction of this kind, the underlying logic is unsurprising – opening up new avenues for growth, access to new clients, new vertical markets, new expertise and complementary offerings, coverage of international clients across more geographies, and revenue/cost synergies.

What strikes us most is what the acquirer is willing to pay for this listed asset, an IT services company with annual revenue of €1bn and 90% of its delivery resources in India, Romania and the Philippines. The price differs significantly from the valuation assigned by equity investors, with a 140% premium being offered. The multiple implied by the deal (10.8x EV/CY25 adjusted EBIT) is also substantially higher than the current multiples of many other listed IT services firms (Exhibit 1). In our view, this again reflects equity investors' excessive pessimism —a pessimism not shared by industrial entities: Alten (O, PT €135)/ Klanik; Accenture (NC)/Faculty; Infosys (NC)/Stratus/Optimum Healthcare; Cognizant (NC)/3Cloud/Astreya) or the private equity firms associated with them (OpenAI Deployment Company, Artefact).

In announcing the agreement, the CEO of Persistent Systems reaffirmed his vision for the IT services industry: he believes that productivity gains achieved through AI will be offset by an increase in project volume. In an increasingly digital and AI-driven world—a reality that is already here, not just a prospect for the future—this view is widely shared by other players in the sector.

We believe that the 2Q26 figures released by IT services companies in the coming weeks will be consistent with the trends observed in 1Q26. While the warning issued by Accenture (NC) warrants monitoring, it does not in itself constitute a strong indicator, as Accenture has so far been the only company to flag early signs of a slowdown in client decision-making at the end of May (although we note that consulting orders for the quarter were actually solid).

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EXHIBIT 1: **IT services sector valuation**

	Share price (29/06/26)	Market capitalization (m)	Rating	PT	EV/Sales 2026e (x)	EV/Sales 2027e (x)	EV/EBIT 2026e (x)	EV/EBIT 2027e (x)	EV/EBIT 2028e (x)	PER 2026e (x)	PER 2027e (x)	FCF 2026e yield (%)	FCF 2027e yield (%)	FCF 2028e yield (%)
Accenture ($)	125.6	79 400	NC	na	1.11	1.05	7.0	6.6	6.0	9.1	8.6	14.3%	14.3%	15.7%
Cognizant ($)	39.6	18 749	NC	na	0.74	0.63	4.6	3.9	3.0	6.9	6.4	14.9%	19.1%	24.2%
CGI (C$)	89.8	19 056	UP	141	1.25	1.14	7.1	6.3	5.6	10.2	9.2	9.2%	11.4%	13.0%
Capgemini (€)	90.5	15 523	OP	208	0.83	0.75	7.4	6.2	5.2	10.1	7.9	9.6%	12.0%	14.3%
Atos (€)	33.8	677	UP	43	0.47	0.48	11.3	8.4	7.5	na	10.4	4.4%	8.5%	10.2%
Indra (€)	48.1	8 449	OP	66	1.27	1.05	12.5	9.9	7.9	19.0	15.5	6.4%	7.5%	9.6%
Sopra Steria (€)	143.8	2 831	OP	242	0.53	0.47	6.1	5.2	4.4	8.4	7.5	10.5%	12.8%	15.6%
Aubay (€)	55.5	703	OP	66	0.91	0.84	10.0	9.2	8.0	15.5	14.7	6.5%	7.6%	8.3%
Alten (€)	54.0	1 918	OP	135	0.35	0.31	3.9	3.3	2.6	7.6	7.0	13.6%	15.2%	22.2%
Reply (€)	92.1	3 352	MP	120	1.04	0.91	6.8	6.1	5.3	11.9	11.3	8.3%	9.3%	10.8%
Average					0.85	0.76	7.7	6.5	5.6	11.0	9.9	9.8%	11.8%	14.4%
European IT					0.77	0.69	8.3	6.9	5.8	12.1	10.6	8.5%	10.4%	13.0%

Source: Factset, Bernstein estimates and analysis

INVESTMENT IMPLICATIONS

The vast majority of companies in the sector are trading at extremely low valuation multiples—lower than the troughs seen during previous recessions—reflecting investor fears that these firms will be disrupted by AI. Our view is unchanged: these companies will adapt rather than be disrupted; productivity gains will be offset by volume growth; client IT budgets will not shrink due to AI (clients will achieve more with at least the same budget); and AI neither simplifies IT nor allows clients to do without IT services firms.

Among the eight IT services companies we cover, the majority of our recommendations are Outperform, reflecting our positive outlook on the sector's prospects and the fact that the players' valuations are too low relative to the high quality and strength of their fundamentals.

BERNSTEIN TICKER TABLE

			29 Jun 2026		TTM		Adjusted EPS			EV/Adj EBIT (x)		
			Closing	Price	Rel.							
Ticker	Rating	Cur	Price	Target	Perf.	Cur	2025A	2026E	2027E	2025A	2026E	2027E
ATE.FP (Alten)	O	EUR	53.95	135.00	(46.1)%	EUR	4.91	7.07	7.72	5.4	5.1	4.7
ATO.FP (Atos)	U	EUR	33.82	43.00	(13.7)%	EUR	(50.11)	(1.73)	3.25	(7.5)	7.8	5.8
AUB.FP (Aubay)	O	EUR	55.50	66.00	(5.8)%	EUR	3.06	3.57	3.76	13.1	11.0	10.4
CAP.FP (Capgemini)	O	EUR	90.54	208.00	(55.8)%	EUR	12.86	13.00	13.95	7.0	7.0	6.5
GIB/A.CN (CGI)	U	CAD	91.29	141.00	(56.6)%	CAD	8.28	8.82	9.72	11.0	10.4	9.4
IDR.SM (Indra)	O	EUR	48.10	66.00	18.9%	EUR	2.48	2.53	3.10	19.4	19.0	15.5
REY.IM (Reply)	M	EUR	92.05	120.00	(54.1)%	EUR	7.13	7.71	8.13	8.1	7.3	7.0
SOP.FP (Sopra Steria)	O	EUR	143.80	242.00	(48.6)%	EUR	16.47	16.87	18.84	7.5	7.3	6.7
EDME			1,582.25									
SPX			7,440.43									

O - Outperform, M - Market-Perform, U - Underperform, NR - Not Rated, CS - Coverage Suspended

CAP.FP, GIB/A.CN, IDR.SM valuation is Adjusted P/E (x);

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