Mastek: UK Central Government opportunity

TechMarketView analysis – March 2019

TechMarketView credentials

UK depth, global trends

We're an influential analyst and advisory firm focused on the UK tech market. A trusted advisor to tech suppliers – from global market leaders to innovative start-ups – and to tech users and investors, as they navigate change and identify opportunities.

Trusted advisors

Our high-profile team of experts provide robust analysis of suppliers & disruptive market trends. Respected for honest, independent advice TMV analysts are just as happy to share their views over coffee, as they are to present to the Board.

Data-driven insight

Our deep understanding of the UK tech market is supported by decades of data on suppliers large & small, public & private, and augmented by privileged conversations with leaders from across the sector.

More than just research

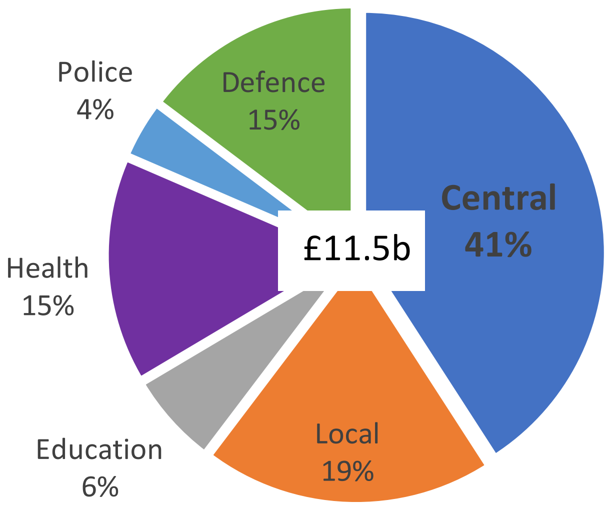
Members of the TechMarketView 'family' rely on our opinionated daily UKHotViews coverage; pour over the analysis in our in-depth research reports; seek our advice through presentations and projects; network at our events and play an active part in our SME programmes.

About me: Georgina O'Toole

- TechMarketView's Chief Analyst since May 2018.
- Focus on the UK public sector tech market since 2003: 16 years of insight
  - Launched PublicSectorViews in 2010: TechMarketView's first specialist research stream
  - Previously launched and ran PublicSector@Ovum: responsible for Government research globally
- Expert in Whitehall (central government and defence) technology market and supplier landscape
- Insight called on regularly by suppliers – large and small - and end users – including MoD, NHS and Cabinet Office

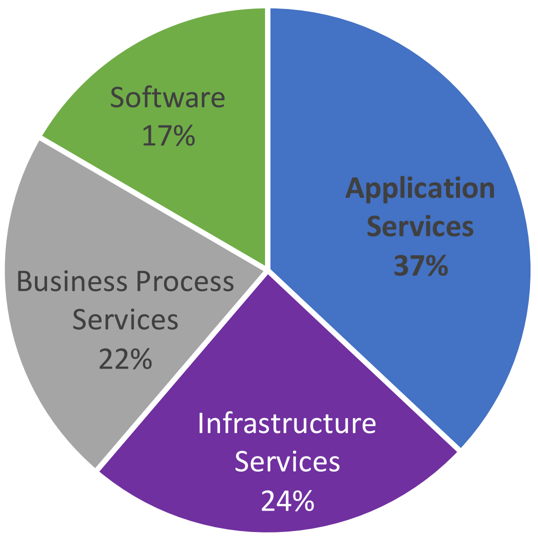
Defining Central Government SITS

UK public sector SITS market



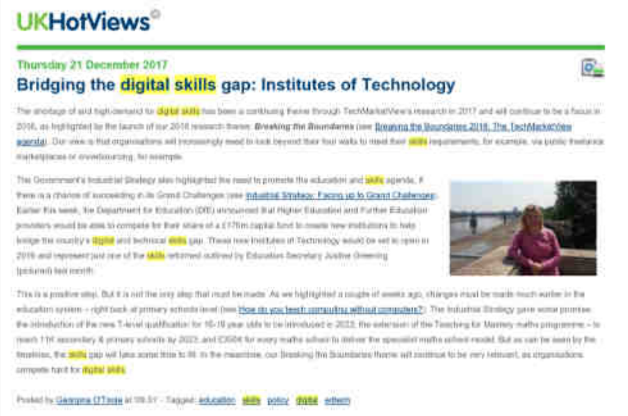
SITS: EXTERNAL spend on *Software & IT Services includes software, application services, infrastructure services and ICT-enabled business process services*

UK central government SITS



Central Government: *Departments, agencies and non-departmental public bodies in the UK, excluding Department of Health (included in healthcare), Ministry of Defence, and Security & Intelligence agencies (included in defence).*

Complex environment


UKHotViews

Thursday 21 December 2017

Bridging the digital skills gap: Institutes of Technology

Opportunity or threat?

Burning Platform?

Acceleration in digital transformation projects – only way to go!

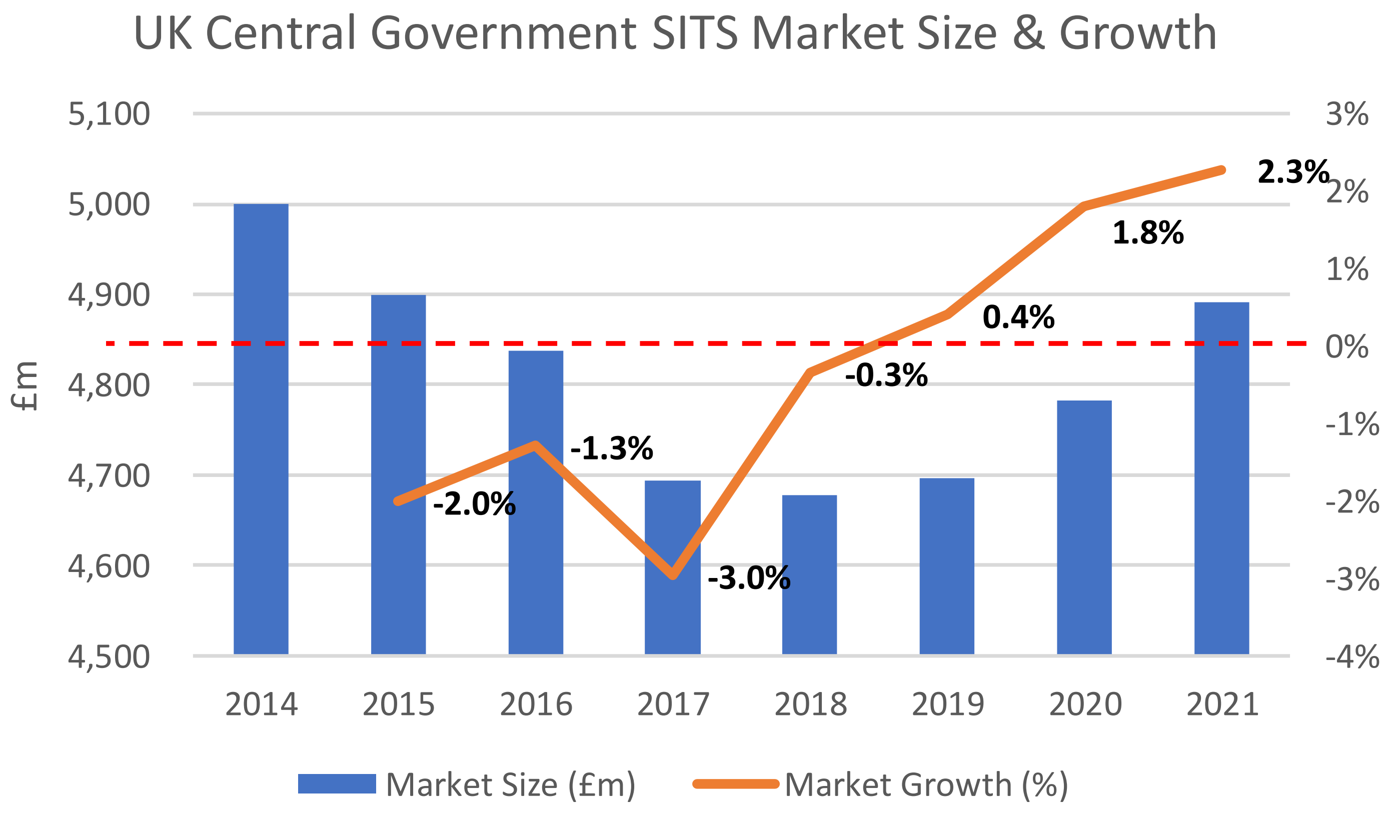
Rabbit in headlights?

Risk aversion kicks in – caution due to difficult operating environment

Reality: A diverse reaction

Impacts organisations and sectors in different ways

Slow growth market…



- Central government SITS: c£5b market
- In decline since 2015: consistently underperforming rest of PS
- 2017 a particularly bad year: 3.0% decline – down £143m
- Dragged down by legacy renewals/insourcing, pricing pressure & shift to cloud
- CAGR of just 1.0% 2017-2021 (real terms decline)
- Boosted by Brexit-related activity in latter years but subdued due to resources issues – both people and money

But not the whole story! Winners & losers…

TechMarketView
UK DEPTH GLOBAL TRENDS

Central government: the policies

So far:

- Contract disaggregation
- Insourcing agenda
- Support for SMEs/new entrants
- Promotion of procurement frameworks
- Digital by default
- Cloud First approach
- Government-as-a-Platform
- Common Technology Services
- Open data & data sharing agenda

ICT & digital at heart of Government transformation strategy

Key Whitehall* challenges

* British civil service & government (central government)

- Push-pull scenario:
  - Need to invest/innovate to attain increased efficiency & productivity, fighting against…
  - **Need to control budgets in the short-term**
- Struggling with digital skills shortage. ***Hamstrung by public sector pay restraints.***
- Desire to leverage emerging technology. ***Fighting against resource constraints/lack of references.***
- Faced with legacy complexity. ***Low hanging fruit already picked.***
- Dealing with increasing complexity of supplier/contractual environment. ***Slowing progress***.
- Sees benefits of extracting value from data. ***Limited progress on determining how.***
- Battling with Government silos. ***Cultural, political, legal barriers remain, limiting collaboration.***

Suppliers must position to support Whitehall organisations to face these challenges

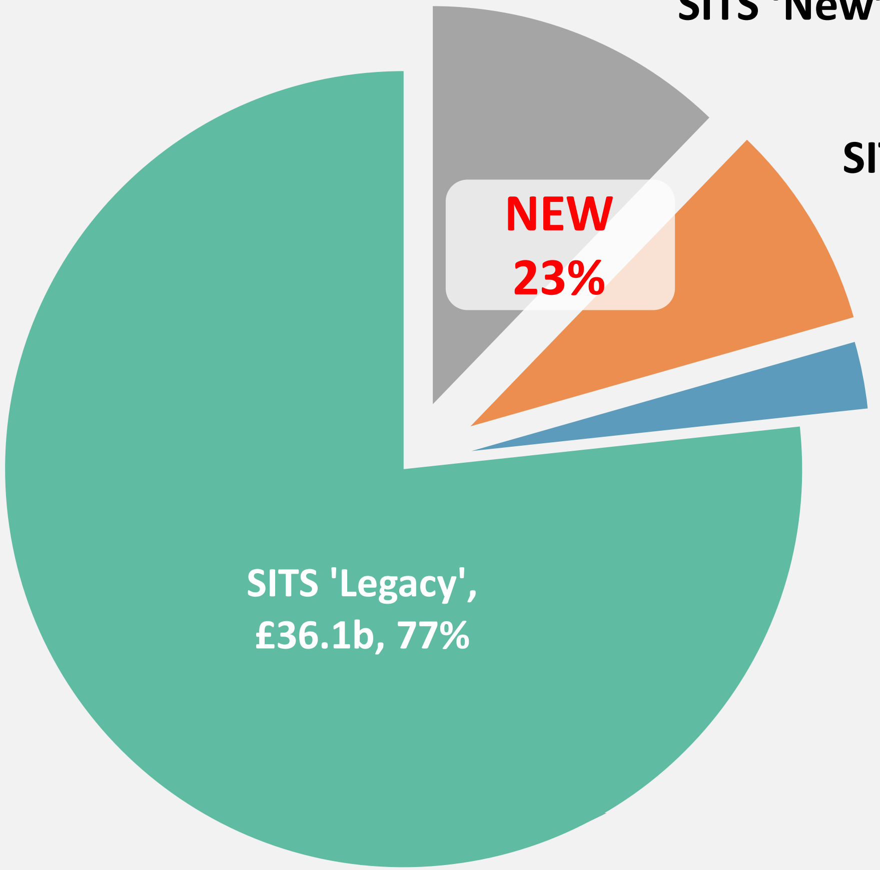
Central government: the opportunity

Demand Drivers	Suppliers who will benefit
Strong demand in the 'new' (digital, platform, cyber)	Those not dragged down by ITO legacy contract run off
Digital skills shortage & insourcing challenges	Large & small - particularly those willing to work in a collaborative environment and help upskill internal ICT
Brexit challenges: medium-term requirement for new processes & systems	Those who understand complex governmental processes & can work in agile way for rapid change
Shift in focus from 'simple' to 'complex' digital	Those who understand legacy ICT & can de-risk legacy migration
Push on specific emerging technologies & how to scale, led by Government Digital Service	Those with reference case studies on successful deployment of emerging tech & simple propositions
More intelligent approach data – no one size fits all	Those who can navigate complexities of Government data policies & demonstrate ability to extract value
Need to focus on Government transformation for efficiency & productivity	Those who can demonstrate ability to release money from legacy to invest in new transformational tech

UK market*: strong demand in the 'new'

*** Public Sector 25% of UK software and IT services market**

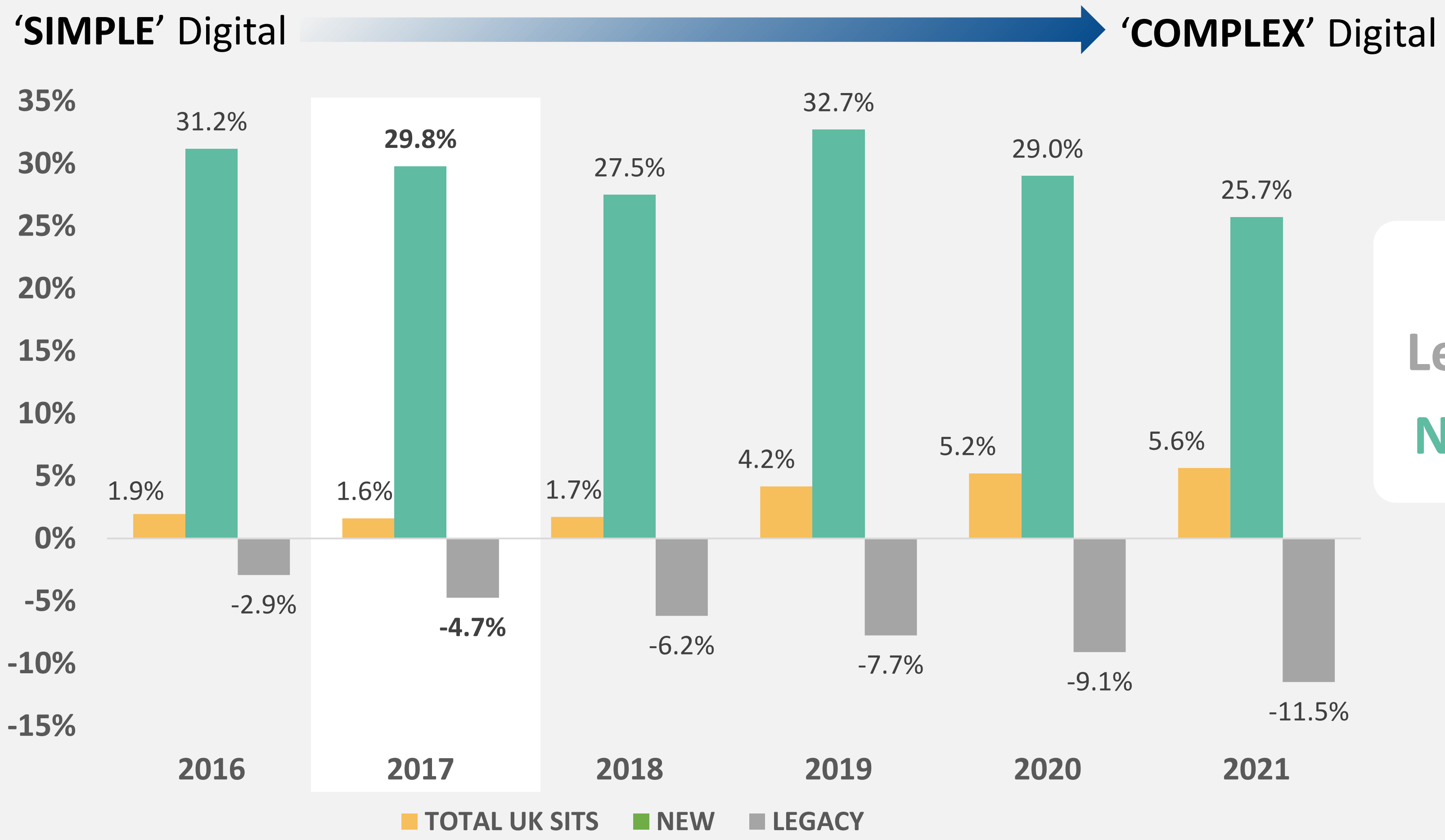
2017



- **Digital:** advisory, design, implementation, integration, run
- **Platform:** cloud – IaaS, PaaS, SaaS, BPaaS
- **Cybersecurity:** related software & services

‘New’ ICT driving the UK market

*** Public Sector 25% of UK software and IT services market**



2017

Legacy: -4.7%, -£1.8b

New: +29.8%, +2.5b

Digital marketplace: growth in the 'new'

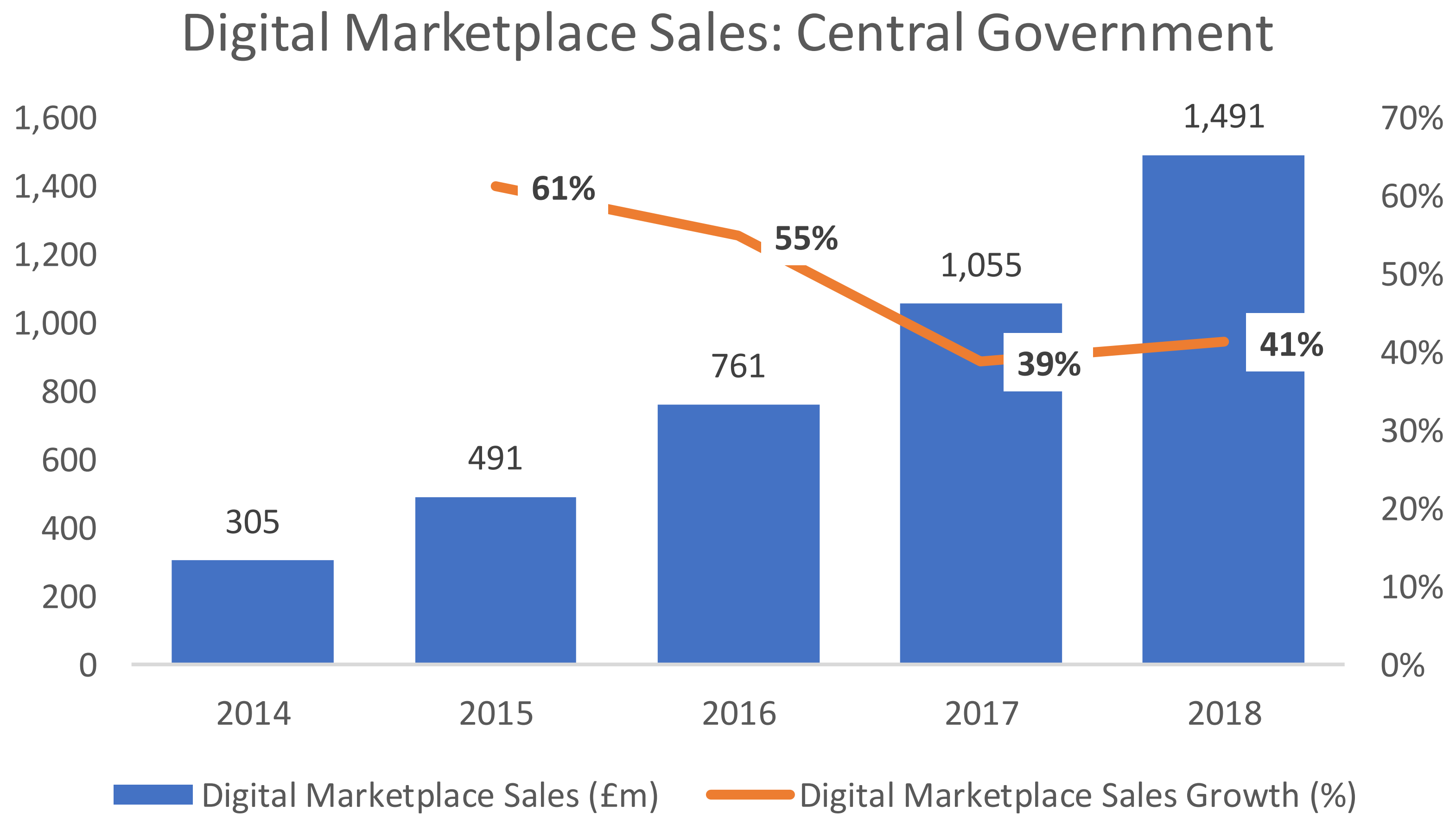
Digital Marketplace helps public sector organisations find cloud technology and specialist services for digital projects via 3 frameworks:

1. **G-Cloud** (since 2012): cloud services including IaaS, SaaS and PaaS
2. **Digital Outcomes & Specialists (DOS)/Digital Services** (since 2013) : outcomes, specialists and user research services for digital projects.
3. **Crown Hosting Data Centres (CHDC)** (since 2015): physical datacentre space for services (sole supplier)

Take care!

- Not everything channelled through these procurement channels is 'pure' cloud or 'pure' digital
- Not everything 'cloud' or 'digital' is channelled through these procurement channels
- But sales are a reasonable guide to how demand is shifting from large end-to-end outsourcing contracts to smaller, shorter, more agile contracts utilising a mix of suppliers for different skills

Digital Marketplace growth



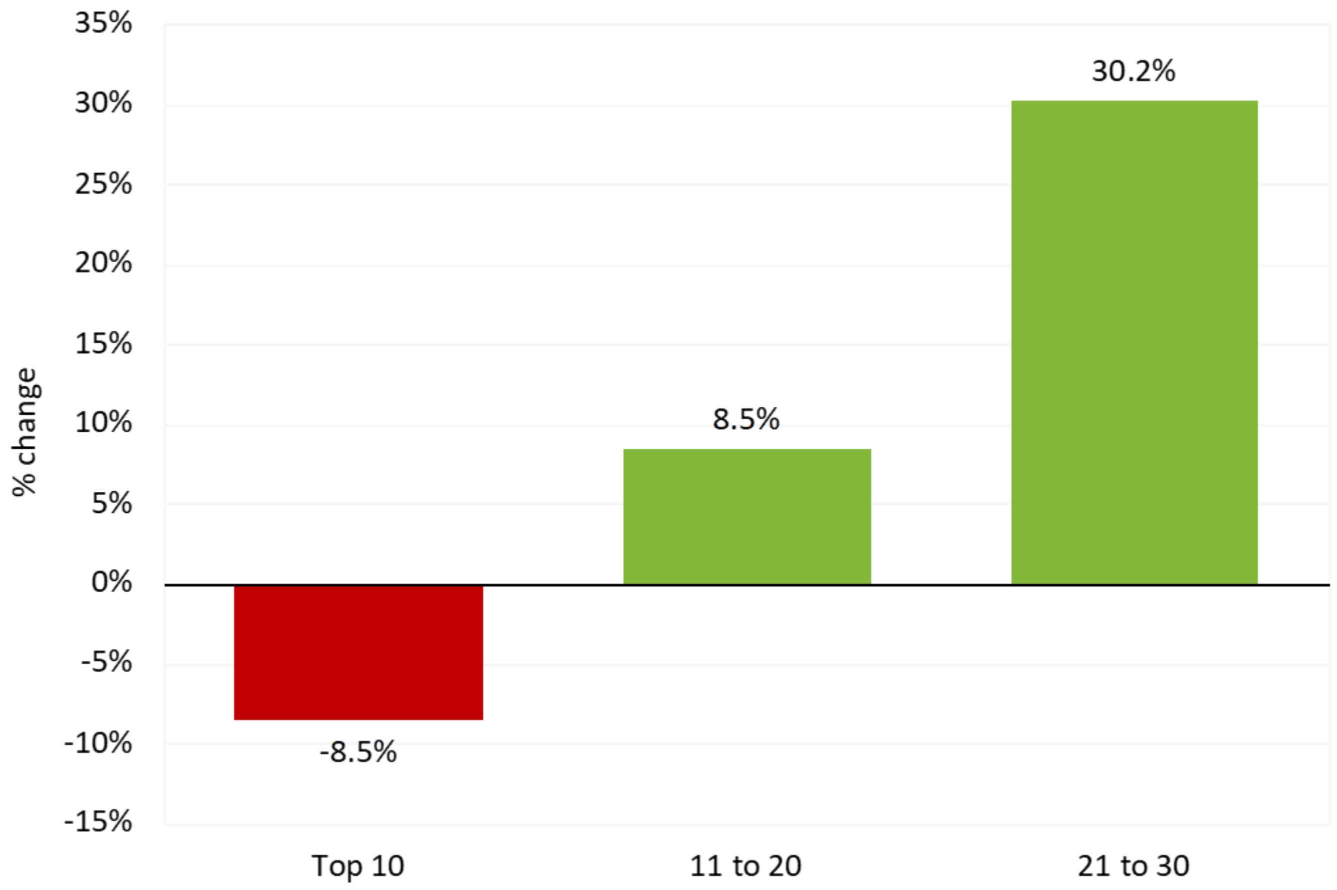
- **Digital marketplace sales continue to grow year on year (£5b total)**
- **Central government 84% of sales in 2018**
- **Represented 30% of central government SITS market**
- **Mix of large & SME suppliers (65:35)**

Dominant SIs suffering in Whitehall

CENTRAL	Company	FY17	FY16	Change	FY16 Position	Change
1	Atos	586	602	-2.7%	2	+1
2	Capgemini	499	648	-23.0%	1	-1
3	Fujitsu	423	425	-0.5%	3	=
4	DXC	320	400	-20.0%	4	=
5	Capita	314	327	-4.0%	6	+1
5	IBM	314	353	-11.0%	5	=
7	Sopra Steria	252	256	-1.5%	7	=
8	CGI	160	169	-5.3%	8	=
9	Computacenter	144	125	15.2%	10	+1
10	Oracle	130	128	1.6%	9	-1
TOTAL		**3,142**	**3,433**	**-8.5%**		

Source: TechMarketView estimates

Mid-size players (and smaller) thriving



<u>Ranked 11-20</u>

- **Accenture** (#11): **+22%**
- **BAE Systems** (#12): **+32%**
- **Deloitte** (#14): **+10%**
- **Serco** (#20): **+25%**

<u>Ranked 21-30</u>

- **Civica** (#21): **+56%**
- **BJSS** (#22): **+100%**
- **NTT DATA** (#24): **+23%**
- **Advanced** (#26): **+1300%**

<u>Ranked >30</u>

- **CACI** (#31): **+14%**
- **Mastek** (#41): **+33%**

Mastek's winning formula

- Not reliant on large ICT outsourcing contracts
- UK HQ'ed but with access to offshore digital skills
- Successful on Government frameworks (12th on Digital Marketplace in 2018, 8th on DOS)
- Ability to leverage IndigoBlue acquisition for consultancy led sales
- Non-dominant but corporately resilient
- Relationships with Brexit impacted departments
- Adept at working in collaborative client-supplier ecosystem development environments
- Strong relationships have allowed 'land and expand'
- Building relationships with UK universities to tackle skills gap
- Strong capabilities & references in digital development including agile
- Only Indian heritage company to have made an impact in UK public sector
- Successful diversification to a direct sales model

RESULT: Steady double digit growth in UK public sector revenues

UK Government: attractive client?

- Financial challenges intensifying: must act ✓
- Brexit potential to drive digital investment ✓
- Citizens demanding online public services ✓
- Looking to expand supplier base ✓
- Supplier code of conduct/prompt payment: fair treatment ✓
- Frameworks simplify procurement process ✓
- Traditional outsourcing out; true partnership in… ✓

What more is Mastek doing?

- Investing further in raising profile
- Penetrating more new logos (sale & marketing)
- Increasing its consultancy strength for a sharper front end
- Ensuring ability to scale up for new opportunities
- Expanding & maturing partner relationships
- Deepening agile development skills
- Opening up to commercial innovation
- Being adaptable to new Government policy & strategy


Q&A