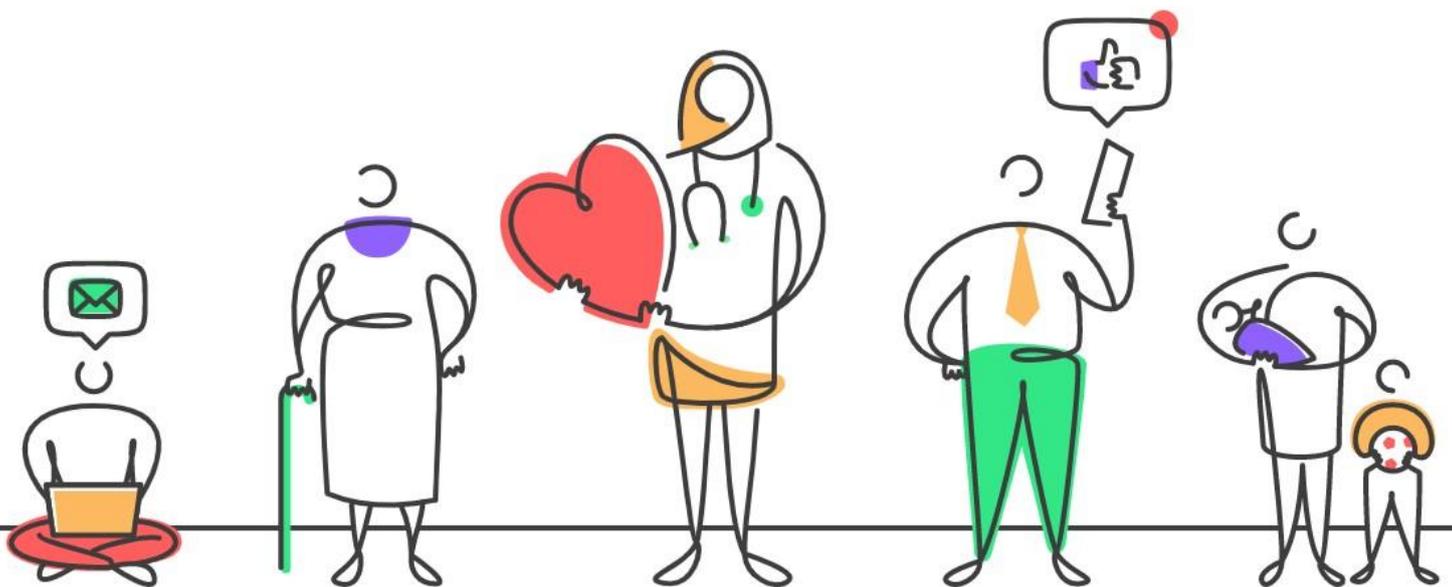


PublicSectorViews

# Agilisys: Adaptation to an evolving market

MARCH 2021



# Agilisys

Cover image source: Ministry of Defence\*

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## Executive Summary

*Agilisys has been a prominent supplier in the UK local government IT and business process services market for twenty years. Consistently, we have highlighted its ability to create intimacy in its customer relationships, effectively responding to their wants and needs, and building the trust that earns it the right to develop pioneering technology solutions.*

*Over the years, we have watched Agilisys evolve. And, notably, since Andrew Mindenhall was appointed as the company's CEO in 2016, the company has made a series of strategic decisions – from refining the proposition, to investing in appropriate skills and talent, to diversifying the customer base - that are now paying dividends.*

*As a result, Agilisys has successfully adapted to changing market demands and continues to grow the business profitably. Its approach has been laser-focused, placing emphasis on the fastest growing areas of its core local government market, while identifying opportunities to expand into adjacent sectors with high potential, such as health and social care.*

*Having shifted away from traditional IT and business process operations (lift and shift) to focus on a managed cloud delivery model and business process automation, Agilisys is now ranked as one of the leading providers of digital transformation services to its core local government market and is trusted by customers to guide them on their approach. This approach has been supported by a move away from developing proprietary solutions to offering the best that the hyper-scalers have to offer. To maintain that position and compete with the growing and diverse range of alternative suppliers in the market, it will need to continue targeting its investment in partnerships, in innovation accelerators, and in its advisory front-end. The aim must be to be the partner of choice as public sector organisations feel a sense of urgency to transform while battling with stretched budgets.*

## Agilisys today

Backed by Blenheim Chalcot, Agilisys, in its current structure, has been in existence since 2004. Having evolved over the years, to meet changing market demands, today it is positioned as a provider of technology and digital transformation services to the UK public sector market.

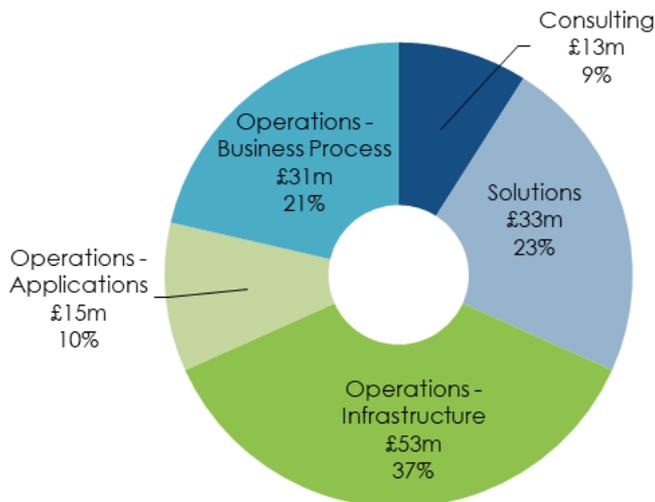
In Agilisys' last completed financial year, to 31<sup>st</sup> March 2020, Agilisys reported turnover of £146m, up 13% compared to the previous year. In the same period, the company's adjusted EBITDA margin improved to 9%, and the balance sheet remained strong across all key financial ratios. With FY21 nearing its end – a year which started as the COVID-19 pandemic was biting - Agilisys' predicts a marginal

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improvement in turnover (to £147m) and another boost to the EBITDA margin (to 11%). The company has a high level of revenue visibility; 98% of FY21 revenues are already contracted, as well as 63% of FY22's forecasted revenues of £152m.

The company's offerings span consulting (strategy, operations and change management), solutions (technology, data, and people solutions), and long-term engagements (in the form of cloud and IT managed services). *Figure 1* illustrates the breakdown of Agilisys' turnover aligned to TechMarketView's UK SITS market model. 'Operations' remains the biggest contributor – across infrastructure, applications, and business process – representing 68% of the total. Meanwhile, 'consulting' and 'solutions', or Professional Services, where 300 of Agilisys' 1,200 employees sit, make up the remainder.

Figure 1 Agilisys FY20 turnover by type of service



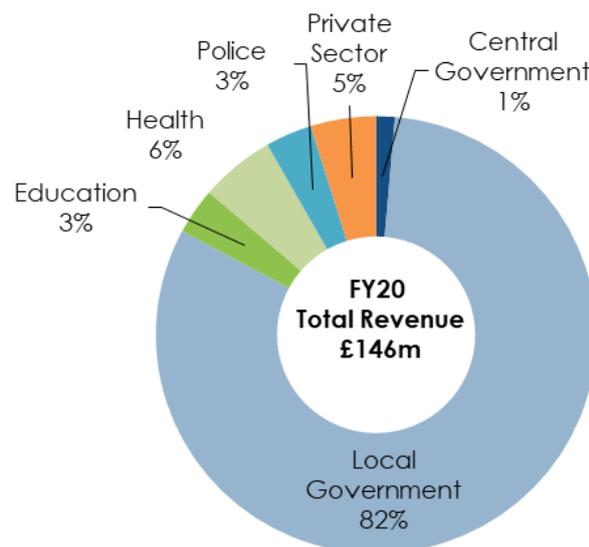
Agilisys has established a strong position in the local government market, having operated in the space for more than twenty years; the subsector contributes the majority of turnover – 82% or £120m in FY20. Based on predicted results for FY21 (to end March), the company's Top 10 clients<sup>1</sup> represent 81% of turnover and have worked with Agilisys for an average of six years. Agilisys also has a small, but

<sup>1</sup> \*Top 10 clients include States of Guernsey, City of London Corporation & City of London Police, North Lanarkshire Council, Sefton Council, NHS Business Services Authority, LB Tower Hamlets, North Somerset Council, Bolton & Wigan Councils, Cheshire East Council, Kent County Council.

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growing, footprint in adjacent sectors. From a strategic perspective, the most important of those are health, police, and education (see Figure 2).

Figure 2 Agilisys FY20 turnover by type of client subsector



Agilisys is ranked #21 in TechMarketView's UK public sector SITS rankings. And in local government, is the 5<sup>th</sup> ranked supplier of software and IT services (see Figure 3). Capita, Civica, BT, and Fujitsu sit in positions 1-4. However, a slightly different picture emerges if we look at the delivery of digital transformation services<sup>2</sup> (excluding software/SaaS) in local government. On this basis, our estimates suggest that Agilisys (which in FY20 made £70m delivering digital transformation services) takes 2<sup>nd</sup> place in the local government market, behind Capita.

### Recent activity

Recent success for Agilisys has been evident via the extension and expansion of existing client relationships, as well as in the addition of new clients (23 new names in FY21 to date), both within local & regional government and within the health & social care sector. Highlights during the last three years are included in Table 1.

Our analysis indicates that most of Agilisys top clients by annual contract value have several years left to run. Some are recently signed logos like States of

<sup>2</sup> Agilisys' definition of digital services aligns with TechMarketView's definition of 'New' (see appendix in [UK SITS Market Trends & Forecasts](#)).

Guernsey, Sefton Council, and the NHSBSA (Business Services Authority), taken on under multi-year deals. Others are long-term clients that have further extended their contracts; these include City of London Corporation & City of London Police, Kent County Council, and North Somerset Council, all with end dates between 2024 and 2025. The next large contract to expire will be the company's managed infrastructure services arrangement at Tower Hamlets in 2021. Notably, over the last five years, over ten clients have continued beyond their original contract term. And looking at Agilisys' 31 managed services clients (2018 to 2021), growth in the average contract value has been 67%. This base of contracts means Agilisys has a solid foundation of long-term contracts, giving it the confidence to pursue the diversification of the business.

In line with the direction of the market, volumes on Agilisys' core IT managed service contracts are reducing over time. In addition, Agilisys has not been 100% protected from headwinds in its core local government market. Some clients over the years have, for example, chosen to take management of their IT services back in-house. Indeed, those headwinds resulted in Agilisys' revenues declining from £147m in its FY15 to £127m in its FY18, prior to the refresh of its strategy. However, growth over the last two completed financial years (FY19 and FY20), along with impressive win rates in local & regional government for IT and cloud managed services pursuits (north of 70%), is testament to the fact Agilisys has successfully re-aligned to the needs of its customers and prospects.

The company has been able to fill any revenue gap by a) expanding its services footprint with long-term clients and b) winning new business in both traditional IT managed services and newer proposition areas, such as IT consulting, cloud services, and digital transformation services.

When expanding its footprint with existing managed services clients, there is growing evidence of Agilisys helping them reinvent and adopt new capabilities. For example, at Bolton & Wigan Councils, the 2.5-year contract extension also expanded the services provided, by adding cloud, workforce productivity, and strategic advisory services. Meanwhile, as a trusted strategic advisor, guiding clients on their digital transformation journeys, it is proving itself and is, subsequently, being selected to support implementation and/or operational services.

The numbers speak for themselves. The company can boast 37 consultancy-led clients since 2018; the total initial contract value for those clients was £1.3m, but the total contract value (TCV) has since expanded to £40.5m. There is a similar trend in the solutions/propositions business (though not as dramatic) - 49 clients had an initial contract value totalling £58.3m; the total contract value now stands at £79.2m. A good example of this success is at Sefton Council, where Agilisys undertook an initial engagement to develop the authority's transformation

strategy and business case; the company now also works with the council on its cloud, Microsoft 365 and Windows 10 programme via an IT outsource.

The other driver of growth for Agilisys is its expansion into adjacent sectors. Between FY19 and FY20, Agilisys revenues from health, police and education all grew – by 238% to £7.9m, by 9% to £5.2m, and by 15% to £5.3m, respectively. The biggest shift has been in health, where the company's win with NHSBSA had a big impact. In addition, the relationship with Sefton Council sees Agilisys supporting ICT for social care and integrated care.

Table 1 Significant contract wins 2018-2021

Date	Client	Sector	Length/Value	New/Extension?	Description
Aug-18	<a href="#">NHS Business Services Authority (NHSBSA)</a>	Health	4 years (+1+1)/ £30m	New	Cloud and digital transformation partner (infrastructure & related services)
Sep-18	<a href="#">Sefton Council</a>	LRG/Health	5 years/ £15m (est.)	New	Managed IT services
Apr-19	<a href="#">States of Guernsey</a>	LRG	10 years/ £200m	New	Future Digital Services partner: core IT, public service reform, economic development
Apr-19	LB Tower Hamlets	LRG	2 years/ value £16m (est.)	Extension	Managed infrastructure services
May-19	LB Westminster	LRG	3 years	Extension	IT service desk
Nov-19	<a href="#">North Lanarkshire Council</a>	LRG	2 years (+6 months)/ £11.9m	New	SI partner (incl. legacy cloud migration, workforce productivity, Microsoft Dynamics implementation).
Jul-20	Bolton & Wigan Councils	LRG	2.5 years/£28m	Extension	Managed IT service, plus cloud, workforce productivity and Microsoft services.
Sep-20	North Somerset	LRG	5 years/ £50m (est.)	Extension	Transformation & service improvement programme partner (with Liberata)

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Jan-21	<a href="#">City of London Corporation &amp; City of London Police</a>	LRG	3 years (+2)/ value N/A	Extension	Managed IT services (including next-generation IT)
Dec-21	<a href="#">Kent County Council</a>	LRG	4 years/ £140m (est.)	Extension	Contact point: all centre, digital offering, back office processing

**Attractive markets: clear opportunities**

On the face of it, the UK local government market looks unexciting from a growth perspective. According to TechMarketView's latest forecasts (see [UK local government: suppliers, trends & forecasts](#) and [UK public sector market forecast update](#)), UK local authorities spend £2.2b with external suppliers on software and IT services (2019). Of that, £1.8b a year is spent across consulting, solutions, and operations (where Agilisys plays). Agilisys' turnover from local government accounts for 6-7% of that spend. Between 2019 and 2022, TechMarketView predicts that the UK local government SITS market will grow by a CAGR of just 0.3%.

Meanwhile, if you look specifically at the 'new' (digital, platform & cyber), which accounts for c£471m of that expenditure, our analysis shows Agilisys commands c12% of that local government digital transformation market. In other words, there is still plenty to play for. Moreover, the local government 'new' or 'digital' part of the market is set to grow by a CAGR of 15.1% between 2019 and 2023, as authorities look to transform their legacy estates - generally settling on a hybrid or multi-cloud IT environment - and invest in emerging digital technologies in response to pressing challenges. With finances tight, investment in tech will be laser-focused on key areas, one of which will be social care. As technologies like intelligent automation and AI/ML become more commonplace as part of solutions, demand for digital ethics expertise will increase.

The healthcare market, where Agilisys has a nascent presence, is due to grow faster than local government from a total SITS perspective (+3.8%) and from a 'new' or 'digital' perspective (+19.5%). The healthcare IT services market is worth £1.9b, while the 'new' or 'digital' element is worth £489m (see [UK health: suppliers, trends, and forecasts](#)). Highly relevant to Agilisys, due to its existing footprint in the local government sector, is the drive to an integrated care system, requiring improved interoperability and sharing of data across GPs, hospitals, community services and social care. This direction of travel is integral to the NHS' Long Term Plan and will require investment in systems integration, IoT for remote care, and predictive data analytics to pre-empt care issues.

**Agilisys' transformation**

Agilisys' business has evolved to respond to changes in its core target market – local government – over its life. From around 2007, for the best part of a decade, it

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adapted to the pursuit of tower-based services deals in their various formats. From 2016 onwards, it began to add digital-first propositions to its portfolio, to respond to the desire of local authorities to cut costs and modernise public services through investment in, and the exploitation of, the latest technologies. Following the appointment of Andrew Mindenhall as CEO in 2017 (see [Agilisys announces new CEO](#)), the company's development continued; Mindenhall stated at the time, "In the midst of a rapidly evolving technology landscape we see growing confidence across both the public and private sectors in the use of digital technologies, which makes for a very exciting time to be taking on the role as Agilisys CEO. Whilst we're proud of the way we anticipate and respond to the changes in the market and how we meet our customer's changing needs, *we will be seeking to better understand the new ways in which our customers are procuring digital services, technologies and suppliers.*" Over the last couple of years, as local authorities have faced tighter budgetary constraints and a more complex technological landscape, we have seen Agilisys position as a trusted advisor, able to help its clients map a digital transformation path to respond to their biggest challenges.

The key adaptations we have seen include:

- *Proposition investment:* Agilisys has not stood still. Its accepted position as a trusted partner, with the ability to advise, implement, and operate, is backed up by a continued commitment to strengthening its domain expertise and developing its offerings. Investment is focused on four opportunity areas: automation, citizen engagement, data, and productivity. The big shift over the last few years has been the move away from being a provider of proprietary solutions (such as Agilisys Digital, its citizen engagement platform – see [here](#)), to bringing its customers the best that the hyper-scalers have to offer. Development of propositions, via the creation of innovative IT solutions in Robotic Process Automation and AI, Workplace Productivity, Data & Insight, Citizen Experience Management (CXM), Cloud Migration, and Business Change, have supported the pursuit of opportunities in these areas. Some propositions are more mature than others. Last year, we saw significant investment in the company's Microsoft Dynamics capabilities (CXM) and in Robotic Process Automation. This year, it has been much more about strengthening the Data & Insights team. Next, we expect attention to turn more to health and social care integration. Technology investment consideration takes in sector relevance and alignment to Agilisys' existing capabilities. The aim is always to time the investment so that it catches the market at the right time, i.e., when the early majority of clients and prospects are taking an interest.
- *Client relationships:* Agilisys has always been a company to listen to its clients' needs, respond with tailored solutions, and fully commit to delivery on its promises. This has transpired in innovative commercials, contract flexibility, and, notably, the inclusion 'ahead of the curve' of social value

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elements in its client engagements. More recently, Agilisys has shown a desire to further boost its growth by investing in focused marketing and ensuring earlier engagement with clients to shape opportunities. Agilisys is also considering the way in which it will deliver innovation to its clients – via the development of ‘innovation accelerators’ for local & regional government, offering clients a safe space to innovate, and via the development of centres of excellence within the NHS to promote best in class practices.

- *Partner ecosystem development:* Agilisys’ leading position in the local government market, and its in-depth understanding of the sector, makes it an attractive partner proposition. The company’s focus over the past few years has been on its Microsoft partnership (started in 2017) and the development of related capabilities. It is the only Tier 1 Microsoft partner in the local & regional government market. With Microsoft use widespread in local authorities, the company has, therefore, been well-positioned to help its clients extract maximum value from their investment in Microsoft products, including those in the cloud (Microsoft 365, Azure). Notably, Agilisys was a launch partner for Microsoft’s Project Cortex, which is aimed at bringing together content in Microsoft 365 with external data sources to that organisations can manage knowledge and streamline processes with advanced security, compliance, and automated workflow. Also added to the ecosystem in 2017 was Blue Prism (Thoughtonomy); the partnership supports Agilisys’ RPA proposition. Agilisys already runs the RPA community of interest for local government organisations and the RPA work for the NHS Digital Academy and the AI council. More recently, it added AWS to its partner ecosystem to support its cloud migration pursuits in the healthcare sector (where AWS is used more widely than in local and regional government). It will be important for Agilisys to extend its partner ecosystem to support the multi-cloud strategies of its clients, for example, by adding partners such as Google Cloud or Oracle. Helping to strengthen offerings in newer areas – like data & insights – is also an aim of partnerships. This is illustrated by the announcement made at the beginning of 2021 - Agilisys is partnering with data management specialist Infoshare (see [Agilisys and Infoshare join forces to drive public sector data innovation](#)) with the aim of transforming the way public sector manages, understands, and uses its data to support citizens. The proposition will combine Agilisys’ Data & Insights platform with Infoshare’s data management and integration capabilities, as well as its low-code ClearCore product family.
- *People engagement:* There is clear evidence of investment in attracting, retaining, and reskilling Agilisys’ employees. The approach has enabled Agilisys to start reshaping the business to enable alignment with market demands and with a new style of selling and delivering. In attracting new

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staff, there has been increased emphasis on industry expertise, for example to lead on the pursuit of new target sectors such as health and social care. In addition, reducing the number of people in 'legacy' areas, such as products and ERP, and bringing down the use of associates, has allowed Agilisys to take on more people in areas where growth expectations are higher, such as CXM, business change, cloud services, and data & insights. Up until now, the focus has been strengthening the talent pool at senior levels across the main propositions; this has been crucial to enable consultancy-led selling. We now expect greater focus on early talent to broaden the pyramid base. This will make having a clear career development path even more important; the need to be able to reskill rapidly has been recognised and is being acted upon. Talent development programmes include the 'Cloud Development Programme' (on-the-job, classroom and formal skills accreditation), 'RPA Development Programme', and 'Early Talent Development'. The company now boasts 300+ technical consultants across permanent staff and associate contractors. Across the board, employee satisfaction levels are high – standing at 90% compared to an industry average of 70% (according to CIPD).

- *Launch of new corporate identity:* Agilisys kicked off 2020 launching a new identity to update its brand in line with its core values: “innovation, passion, integrity, and partnership” (see [here](#)). The values have been ingrained in Agilisys from the start, but emphasising the company's ability to innovate for good, while remaining a reliable partner, was at the forefront of the new positioning. Agilisys highlights that the new identity has also contributed towards the creation of a diverse and welcoming work environment; its 2020 Agilisys employee survey showed 90% of employees rating their satisfaction at work and 85% believing they make a positive impact to the communities and areas in which they work.

### TechMarketView on Agilisys' prospects

Agilisys' strengths are numerous. It has stuck to its core values since its inception. One of the keywords we associate with the company is 'trust'. Its domain expertise in the UK local government market is well respected and built on years of ensuring it listens to customers' needs and responds accordingly. This has allowed the company to be a pioneer in innovative commercial arrangements involving initiatives designed to support local communities. As the market has evolved, it has evolved with it, adapting its offerings, skills base, domain knowledge, and partnerships. The result is a resilient business founded on strong, long-term relationships and good revenue visibility.

We are confident of Agilisys' ability to maintain a footprint in its biggest clients, even when existing contracts come to their natural end. However, with a shift to disaggregation and some moves to insource IT and business process services in

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local government, Agilisys must continue to diversify into new clients and adjacent sectors to mitigate against the risk of reduced contract sizes or reduced volumes in existing deals. In particular, we would like to see a reduction in the level of revenue concentration in the Top 10 clients.

Already, we are seeing KPIs heading in the right direction. Targeting growth in customer accounts, whether the entry point has been advisory or managed services, is proving successful; of the 117 clients with whom Agilisys has worked since 2018, the initial contract value of £1.1b across those accounts has grown by 61% to a total contract value of £1.7b. With the smallest client earning Agilisys just £850 last year, there is plenty of scope to do more of the same.

In our view, the biggest threat to Agilisys is increased competition in the market. While many of the traditional local government IT services players are struggling, a new cohort is competing in the digital transformation services space. These range from the major, full-line, IT services players, that are showing increasing interest in opportunities linked to the integration of health & social care, some of which bring greater health sector experience, such as Accenture, CGI, and NTT DATA; small or mid-sized players offering digital transformation or application modernisation/cloud migration services, such as Version 1 (at the larger end of the scale), The Panoply (at the smaller end), BJSS (also at the smaller end); and Advanced (with strength in integrated care); or the Big 4, which are leading on advisory in areas like service design but are pushing into implementation. All will struggle to match up to Agilisys' depth of sector understanding and experience, or to its reputation in its core stomping ground of local government. But being squeezed from many sides means Agilisys must continue to invest in the right places, especially if it wants to grow a greater proportion of accounts to the extent it has at clients such as Sefton Council (£140k in June 2017 to £30m today).

Ensuring the company continues to grow market share will mean a doubling down on investment in certain areas – in the development of partnerships that support propositions in emerging technologies and in multi-cloud environments (such as in Google Cloud Platform to support its data & insights push, or in digital ethics expertise – an area that Agilisys must be seen to take seriously); in the growth of its innovation accelerators such that it can develop a range of case studies demonstrating a strong ROI and strengthen the association of its brand with emerging tech; and in the continued bolstering of its advisory front-end to ensure it makes an impact in both its traditional local government market and in newer market pursuits (for example in areas of increasing local government interest, such as sustainability).

Notably, there will be a need to respond to local government's need to transform with urgency (perhaps via an increasing emphasis on the repeatability of offerings or 'accelerators' in Agilisys' kitbag), and to increasingly stretched budgets (perhaps via putting more 'skin in the game'). Agilisys is not one to stand still; we

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expect to see a lot more investment as it cements its position as a local government digital transformation partner and carves out its position in health and social care.

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