Persistent Systems

Management: Good morning, good afternoon, good evening to everyone. This is Sandeep Kalra joining from Munich along with my colleagues Saurabh and Vineet. We are here to share exciting news with you about a potential acquisition that we have announced, which is the combination of Persistent and Nagarro to form an AI-led digital engineering powerhouse. Before I start, I will hand over to Anand for his initial comments. Anand?

Management: Yes, thank you, Sandeep. Welcome to all of you for being here on a Sunday morning. We are very excited to announce a major step in the life of Persistent, the company we started about 36 years ago. We are very delighted to announce this great partnership with Nagarro. As you would observe when we look at the rest of the slides today and know about Nagarro, it seems like this partnership was made in heaven. We are so aligned in terms of our thinking, in terms of how we look at customers, our employees, our culture, and our engineering DNA that we couldn't have chosen a better partner in this journey as we move ahead.

This partnership will be very valuable to all our customers who will see a scaled partner who is able to deliver globally across various areas of interest, especially AI and the new technologies that are coming up. All the employees should see a very good advantage of having a similar company with scale across the world and the ability to work together as an engineering team at scale. The partners should also see a similar benefit. I am very delighted to say that the shareholders also should see benefit in this arrangement and the agreement that we have for the group. All the Nagarro shareholders will see an immediate return on their share price, and I also believe that as we build a scalable and scaled company over the next few years, Persistent shareholders will also see long-term benefits of being invested in a partner who is at scale, up with new technologies, and has global presence and customers across the world. I must complete the fact that we have also found similar alignment in terms of our commitment to the environment, society, and some of the community work that we do at Persistent, and we have seen similar trends with Nagarro. So we are looking forward to being a globally leading group which would be useful and beneficial to all stakeholders. I will stop here and let's get to the point, and if there are questions, we will take more.

Management: Thank you, Anand. As you would have also noticed, we had another announcement that we did over the weekend. This is regarding a strategic long-term agreement that we have signed with an existing global technology leader headquartered in the US—an existing big customer for us. So let me first start with that announcement and the implication for us, and then I will dig deeper into the Nagarro transaction that we have announced.

From this deal perspective, this is a net new deal which will add roughly about $125 million plus on an annual basis. Overall, for the period of the contract, it will be roughly about $650 million plus over 6.5 years. This is a true testimony to the relationship and to what we have delivered for this customer over the years. It talks about our engineering prowess, the deep domain expertise, and the belief that using AI, we would be able to deliver even better in the years to come. This in our investors' mind should cement the growth that we have seen in Persistent for the last several years and should continue our 24-quarter streak of growth for times to come.

With this, I will move on to the other announcement that we have, which is in line with our stated M&A strategy. You would have heard us—whether it is me, Vineet, Anand, Saurabh, or others—talk about our M&A strategy clearly stating if we were to do a scaled acquisition, that would be aimed at expanding our footprint in Europe. That has been an ambition for us for the last several years. Today is an exciting part of that journey where we have found a partner which is very complementary to us. This is not a consolidation play; this is an expansion play for us, bringing together people, capabilities, and markets which are all complementary to us and very much aligned to the direction in which we want to take our company to make a company to last for many decades to come.

In terms of the combination, what does this mean for us? We are calling it the Persistent Nagarro Group. The two companies have very strong brand names in respective markets. Bringing the group together, we will be 46,000 plus team members globally, spread across 40 plus countries. It will be a $2.9 billion plus powerhouse focused on forward-looking technologies and will also include the addition of complementary verticals and capabilities, providing a career path to our joint employees. As you will hear later in this presentation, the transaction is very accretive to both the exiting shareholders of the Nagarro group and the existing shareholders of Persistent. We will talk about how we intend to create disproportionate value for our shareholders in line with what we have done in the past.

Just to go over the strategic priorities that we have set for Persistent over the years: we have always said we want to be the best technology services firm—not a general-purpose IT services firm—with forward-looking capabilities, whether it was digital engineering and cloud in the past or AI in the current times and for times to come, building on the tenets of the digital side that we had. We have always said we will go deeper and broader into the service lines and add to the verticals as we go along, but first go deeper into the existing verticals, expand in Europe, and also have European delivery presence from a near-shore perspective. We will talk about how with this announcement, we tick off each one of these boxes and even more with the combination coming through.

Let me talk a little bit more in detail on all this. To refresh who we are as Persistent, and for some of the Nagarro shareholders who may be joining this call today, Persistent today is roughly a $1.654 billion entity from an FY26 perspective. From a run-rate perspective, we are more than $1.7 billion. We are focused on AI-led platform-driven digital engineering. We have grown very well over the last several years; whether it is from the time we went IPO, we have grown at about 17% plus CAGR. For the last 5 years, we are happy to say we are among the top as far as growth is concerned in our industry. We have grown at roughly about 23.9% for the last 5 years from a compounded annual growth rate perspective. While we have done that, we have meaningfully expanded our margins. Today our margins stand at roughly 15.6% in terms of EBITDA margins and the PAT margin stands at about 12.6%. Being a public company, the market cap is another indicator of the confidence of the capital markets. Today we stand at about $8.1 billion in terms of market cap. All of this is backed up by 27,500 of our team members across 21 countries. Predominantly, significant amount of our revenue comes from North America, roughly 81% plus. Europe has been roughly about 8% to 8.5% of our revenues. In terms of our team members, roughly 3,100 of us are in North America, 300 plus are in Europe, and 200 plus are in the rest of the world.

Now if we look at a similar footprint, Nagarro today is roughly a €1 billion organization, which translates into roughly $1.14 billion from a trailing 12-month perspective. They have grown very well if we look at the 5-year revenue CAGR, which is 18.4%. The revenue growth in constant currency has been decent for the last 3 years but has taken a small hit compared to what they have done over the last 5 years. If we were to look at their margins, they are today at 13.9% in terms of EBITDA margins. This is for the Persistent shareholders so that they understand what we are integrating into Persistent going ahead.

Nagarro is headquartered in Munich, Germany. They have a very seasoned management board. The founders, Manas and Vikram, have been with the organization from the beginning. They are complemented by Annette who has been there in the organization for 6 plus years and Pratik Aggarwal, who has been a seasoned CFO from an Indian listed perspective and recently joined their management board. They have roughly 18,500 professionals. While they are heavily focused on Europe and a significant part of their revenues come from Europe, culturally they have a fairly good mix between the India-Europe corridor and the rest of the world. This is very important because usually the biggest challenge in any kind of merger and acquisition is the integration part. 13,500 of the team members in Nagarro today reside in India, and 1,500 plus reside in the rest of the world. From a cultural perspective, they are already a very heterogeneous company into a homogeneous Nagarro. We believe we have found the right fit because even from an integration perspective, it would be an easier integration than having a pure-play on-shore European organization. Here the founders come from a different origin, the management is diverse, and the people are diverse. They understand how to live well culturally with each other, and that is one of the biggest reasons we were very enthusiastic about this combination in addition to the customer base and technology prowess.

The partnerships they have, such as SAP, are key. They work with SAP both on product engineering—including forward-looking work—and as a key implementation partner. Our ERP prowess is not necessarily at that scale, so these additions are fairly important for us. Similarly, from an OpenAI perspective, they are one of the few organizations which are accredited resellers to OpenAI and they have a forward-deployed engineering practice around it. Whether it is capabilities on ERP, which are important if you are trying to do end-to-end transformation, or the complementarity in service lines, there is significant value in this. Just to reinforce once more, this is not a cost consolidation or a consolidation of management; this is complementarity, and there is more than enough for every one of us to do globally in this merger.

Overall, we are talking about $2.9 billion, 40 plus countries, and 46,000 plus team members. Pari Natarajan, the CEO and co-founder of Zinnov, sees this as a rare combination, purpose-built for the future and something that can be built to last to deliver significant value to customers, employees, and shareholders.

Let's dig deeper into the statistics. In North America, Persistent has a dominant market share of 81% plus of our revenues. In terms of employee footprint, we have 3,100 plus team members there. In contrast, Nagarro gets only 35% of their revenues in North America and has roughly 500 team members there. If we combine these organizations, North America becomes 62% of the combined entity, Europe becomes 22%, and the rest of the world—which includes Australia, Singapore, Japan, Israel, and others—becomes roughly 16%. Not only do we get revenue diversification, we get talent diversification and scaled near-shore centers in Europe from this merger. On the vertical side, Persistent has a dominant share coming from TMT, BFSI, and HLS. With Nagarro, we add significant presence in Industrial, Consumer, and a fledgling business in the Public Sector. This also gives us entry into the Middle East where Persistent's footprint is currently minimalistic and Nagarro has a decent practice. It is a good mix which gives us a large addressable market to expand across verticals, geographies, and service lines.

How does this position us globally? As a combination, we look to be the second largest digital engineering player globally and the seventh largest technology services company in the India-listed landscape. If we bring our track record of consistent growth and operational rigor to combine these two organizations, the amount of synergies we can drive from a revenue perspective would place us at the forefront of value creation for our shareholders.

To summarize for the Persistent Nagarro Group, we become a leading AI-led engineering powerhouse with a new dimension of scale. Scale is important here because it is additive to both companies in different geographies and verticals. When dealing with large customers for large bids, a geographical presence across the globe provides us with a seat at the table and the right to win. Regarding capabilities, we believe our digital engineering, the addition of ERP, and the forward-looking AI-led initiatives—including partnerships with OpenAI, Anthropic, and other leading hyperscalers—make our capabilities impeccable. From a geopolitical perspective, this is a good balance. North American markets are usually ahead of European markets in adopting technology; if we can bring those tenets to Europe, we can gain an unfair share of the market and grow Nagarro significantly. Regarding the cultural fit, the entrepreneurial and engineering-first culture of both organizations, as well as the existing India-US-Europe corridors, will play very nicely into our integration. We are not looking to have Persistent people in Europe take over leadership; in fact, the team in Nagarro will play a bigger role in their strength areas.

Going back to our priorities, the Persistent Nagarro Group creates an impeccable set of forward-looking capabilities built to last. We diversify service lines by adding ERP and augment our verticals in sectors like Industrial and Consumer. We achieve our dream of having a European business at 15% plus—reaching 22% in fact. It adds near-shore delivery and a presence in Japan, the Middle East, and a small embedded software practice. If we had done these as sum-of-parts acquisitions, we would have paid far more and integration would have been more difficult. With that, let's hear from Manas, the CEO and co-founder of Nagarro.

Management: Nagarro is an engineering-first company much like Persistent, and in that, the two companies share a very common culture. At Nagarro, we believe that we should not be running to where the ball is, but where the ball is going to be. With this in mind many years ago, we designed the company around digital transformation, optimizing it for that work, and we were able to ride that wave of growth for many years. Today we are preparing the company for the AI transformation wave, and we really look forward to riding that wave of growth. The partnership with Persistent is extremely exciting because if you sat down with a pen and paper to design the ideal complementarities, you might not do as good a job as we happen to have with Persistent by a sheer stroke of luck. Across industries, geographies, service lines, and partnerships, we are very complementary. We look forward to making this work and riding this wave of AI transformation in the years to come.

Management: We are very excited about this. We believe this could be a game-changer for all shareholders. The existing shareholders of Nagarro who will be exiting get a reasonably good premium. From the Persistent shareholder perspective, we have expanded our horizons regarding addressable market, geography, and accounts. For our clients, we just became an even more relevant player with a global footprint. For our partners, they have more incentive to work with a forward-looking, scaled Persistent. For our employees, it means broader ambitions and opportunities. With that, I will hand over to Vineet to explain the transaction details.

Management: Thank you, Sandeep. I will walk you through the transaction details. Persistent has agreed to acquire 100% of Nagarro shares at an enterprise value of €1.27 billion based on €81 per share in cash. This is a premium of 140% to the undisturbed closing price on June 25, 2026, and 94% to the 3-month volume-weighted average price. The transaction values Nagarro at 1.27 times enterprise value to revenue and 9.12 times enterprise value to EBITDA. We have already secured a 21% stake in Nagarro via a share purchase agreement from a major shareholder. The management board has expressed their interest to tender their shares into the open offer. Both Nagarro boards fully support the transaction and have signed a business combination agreement. Persistent extends the voluntary public takeover offer to all outstanding shares at €81 per share. We have set a minimum acceptance threshold for this open offer at 50% plus 1 share.

Regarding valuation, the offer price is €81 per share across 12.4 million outstanding shares (excluding treasury shares). That translates to an equity value of €1 billion. With reported net debt of approximately €267 million, it results in an enterprise value of €1.27 billion. Based on the calendar year 2025 revenue and EBITDA, or the calendar year 2026 consensus guidance, these multiples are attractive. In fact, on the upper end of the calendar year guidance, the EBITDA multiple drops to around 7.73. We believe this is a very fair and attractive valuation for both Nagarro shareholders and the asset we are acquiring.

Regarding financing, this will be completely funded through a committed bridge financing from Barclays. The interest rate is Euro-IBOR plus a margin of 175 to 250 basis points. At this point, that translates to a range of 4.1% to 4.8%. The leverage—net debt over combined EBITDA—is expected to be 1.9 times to 2.5 times based on open offer acceptance, reducing to 1x by FY30. The total facility of €1.4 billion includes the refinancing of Nagarro's existing debt if required. Persistent Systems Limited will provide a corporate guarantee of €1.4 billion. We anticipate roughly 70% will be goodwill and 30% other intangibles, with the latter amortized over 8 years. The transaction is expected to be cash EPS accretive and reported EPS accretive in year one, excluding one-time transaction expenses.

Regarding timelines, we announced the offer for the voluntary public takeover on June 26, 2026. In the next 4 weeks, we will file the document with the regulatory authority BaFin in Germany. Following their clearance, we will launch the voluntary public offer, which will have an initial acceptance period of 4 weeks, potentially followed by an additional 2 weeks. The Persistent Annual General Meeting is expected in the last week of July, where we intend to put the transaction forward for shareholder approval. We expect the transaction to close in Q4 of calendar year 2026 or early Q1 of calendar year 2027.

Management: Thank you, Vineet. To summarize, between the large deal and the Nagarro acquisition, we are confident in maintaining growth for Persistent. We have the right partner to sustain revenue momentum and create unique capabilities. We look forward to your support. We will now open the call for questions.

Operator: Thank you. We will now open the call for the Q&A session. Our first question is from Kumar Rakesh.

Kumar Rakesh: Hi, good afternoon. My first question is regarding the books of Nagarro. Have we done incremental due diligence on their books, and are we confident that all issues are behind them? Related to that, the acquisition multiple looks like a premium compared to European peers; what was the rationale behind the valuation?

Management: Regarding the books, if you are referring to the BaFin queries, there were two sets: one related to when they were carved out of Allgeier, and the second about accounting principles. We have done diligence on both and are confident these are matters of answering BaFin rather than issues impacting financial performance or practices. We are convinced after legal and tax diligence. Regarding the premium, when comparing growth profiles and where stock prices were recently, we believe we have paid a reasonable premium for a control transaction. Value creation for us is about buying the right asset with the right management and technical capabilities. It is a value and complementary acquisition.

Kumar Rakesh: You spoke about ERP and CX capabilities, but many service line capabilities are similar. Beyond industry and geographical expansion, are there sizeable cross-selling opportunities?

Management: Yes. They have a very strong consulting practice, and on the vertical side, we gain scaled Industrial, Consumer, and Public Sector businesses. We also gain the ability to service customers globally across Germany, Italy, France, Switzerland, Spain, and Turkey. These are meaningful vectors for synergies.

Operator: Thank you. The next question is from Ravi Menon.

Ravi Menon: Congrats on the deal. Are the management team members staying on, and are there earn-outs or other factors attached?

Management: The management team is absolutely committed to staying on. In Germany, laws regarding management as investors are different, so we must be compliant with minimum pricing regulations. There is strong commitment from both sides. Given our minimalistic presence in Europe and the Middle East, we will look to their leadership to take on more responsibilities. We will put the right incentive plans in place as we integrate.

Ravi Menon: Nagarro had good growth recently, especially in automotive and manufacturing. Can you talk about the work they do in this segment?

Management: At a high level, they count some of the largest automotive manufacturers as clients, though automotive is not their largest segment; the broader Industrial segment is. They have a strong partnership with Siemens, performing both product engineering and go-to-market implementations. They have done significant work for Lufthansa and SAP itself. The work they do is cutting-edge across Industrial, Consumer, and Travel.

Ravi Menon: Some segments like horizontal tech and energy have declined sharply. Are there structural issues there?

Management: I don't want to go into every vertical, but from a high level, they have grown more than 5% even in this environment. They were somewhat distracted by a potential take-private transaction last year. With that behind them and a single-minded focus on growth within the joint entity, we are confident in bringing this back to industry-leading growth.

Ravi Menon: Do you see cost synergies, or will the merged entity operate at lower margins than Persistent currently does?

Management: Our ambition is to maintain and better those margins. While we will have cost synergies, we intend to reinvest a significant part in growth initiatives. We do not believe the combined entity will be at significantly lower margins than Persistent today.

Operator: Thank you. The next question is from Vikas Ahuja.

Vikas Ahuja: Congrats on the win and the acquisition. Nagarro's revenue has been flat for 2 years with margin pressure. What gives you confidence this is a turnaround asset, and how can you help the business recover given the stock price decline?

Management: Look, the stock price and fundamentals are related, but valuation multiples in different geographies also play a role. Regarding growth, Persistent has grown at 17.5% plus CAGR since the IPO and 23.9% over the last 5 years. By bringing in the technical capabilities and rigor of Persistent, we are confident. Unlike many acquisitions where integration is a major hurdle, Nagarro already has a significant cultural mix and footprint in India, which makes integration easier. Because the management is entrepreneurial and the technical ethos is common, we are focused on expansion rather than fixing a broken model.

Vikas Ahuja: On margins, I thought Nagarro's EBIT margin was in the high single digits versus Persistent at 15-16%. Is value creation contingent on lifting those margins?

Management: Their EBITDA margin is actually 13.9% plus. For CY25, their EBIT was 10.9%, and for Q1 CY26, it was 12.1%. They recently brought on a CFO which will help bring more regimented financial operations. We are confident in taking their margins up through integration and synergy plans.

Operator: Thank you. The next question is from Karan Uppal.

Karan Uppal: Regarding Nagarro's financials in CY21 and CY22, how much of that growth was organic?

Management: They had a couple of acquisitions then, but for our CY25 and Q1 CY26 basis, the growth we are factoring in is primarily organic.

Karan Uppal: Automotive and Industrial have been consistent, but other verticals seem volatile. What changes will you make to ensure performance is consistent like Persistent?

Management: We have a value-creation hypothesis that our board approved. However, we must wait for regulatory approvals in India and Germany before sharing a detailed plan.

Karan Uppal: Vineet, how much interest cost should we bake in for FY28 assuming the transaction is completed?

Management: That depends on the open offer acceptance and total debt. Both companies generate strong cash flow, and our intent is to repay loans through those cash flows. We anticipate reaching 1x leverage by FY30 and being cash EPS accretive from year one.

Operator: Thank you. The next question is from Nitin Padmanabhan.

Nitin Padmanabhan: Nagarro's average client size is significantly smaller than Persistent's, and they have a long tail. How do you address that risk, and will you need to invest more in Go-To-Market or let go of tail accounts?

Management: This is actually an opportunity. Persistent moved from having no $100 million accounts to having several. Nagarro has 180 logos that are $1 million plus, but their largest client is less than $50 million. There is very little customer overlap—less than 10 accounts. If we apply Persistent's mining strategies to these high-quality logos, we don't necessarily need to hunt for new ones. We think there is significant untapped potential. We may rationalize some tail accounts to release SG&A for better investments.

Nitin Padmanabhan: 68% of their revenue is Time & Material (T&M). How do you view this in the context of AI cannibalization? Also, how sustainable is their free cash flow relative to the debt interest?

Management: Regarding T&M, both companies are on the "build" side of digital engineering rather than managed services. T&M models aren't dead; they are evolving toward business outcomes and AI-led engineering. Regarding cash flow, we will bring the best of both practices to ensure debt is serviced and reduced over time. On cannibalization, if we disrupt ourselves using tools like our Sasva platform, we win more business. The large deal we won was exactly because we could offer more for the same cost using AI. Even if T&M revenue for current scopes reduces, we expect to win a disproportionate share of the market as a $2.9 billion entity.

Operator: Thank you. The next question is from Abhishek Bhandari.

Abhishek Bhandari: The press release mentions Persistent does not intend to enter a Domination and Profit Loss Transfer Agreement (DPLTA) today. Does that mean Nagarro will run independently for 2 years?

Management: We will have control as the majority shareholder and will work with the management team to drive synergies. We are in no hurry for a full squeeze-out and can do that at the right time. This is how mature public-to-private transactions in Europe work.

Abhishek Bhandari: Since this is almost two-thirds of your size, would a cash plus share swap have been better to reduce risk and ensure skin in the game?

Management: In a public-to-private transaction in Germany, the dynamics are different. We don't intend to do any equity dilution or QIP at the Persistent level. We are confident in the Barclays financing and our combined EBITDA. We may look at private equity participation at the asset level to deleverage later, but for now, we are going solo.

Abhishek Bhandari: Regarding the large $650 million deal, can you share timeline details? Will the $125 million ACV start from Q2, and what are the margin implications?

Management: We are responsible for the end-to-end product engineering and support of a significant portfolio. It will be accretive to revenue and margins from Q2 onwards. While large deals like this don't usually sit at the company average margin, this deal is at a healthy margin and we are very happy with it.

Operator: Thank you. The next question is from Kawaljeet Saluja.

Kawaljeet Saluja: Vineet, can you walk through the GAAP EPS accretion for the first year? And is the interest expense tax-deductible?

Management: We anticipate a 70-30 split for goodwill and intangibles, with the latter amortized over 8 years at an interest rate between 4.1% and 4.5%. When we say cash EPS accretive, we mean excluding amortization. If you remove the one-time transition expenses, it will be reported EPS accretive in year one as well.

Kawaljeet Saluja: Sandeep, with a 2-year integration period before a squeeze-out, how do you ensure the growth engine continues, especially for Nagarro which has been growing slowly?

Management: We have seen phases before where growth slowed down. Based on our diligence, we see low-hanging fruit in their Go-To-Market structure and we have established strong chemistry with their leadership. We will put contracts in place to drive synergies while we run as a combined entity. Our track record should give confidence in our execution.

Management: In the interest of time, we will take one last question.

Operator: The last question is from Vibhor Singhal.

Vibhor Singhal: You have 21% from promoters and need a 50% plus 1 share threshold. If acceptance is lower than 50%, does the transaction go void? Also, what are the rules for taking the company private after reaching that threshold?

Management: We have a share purchase agreement for 21%. Management's intent to tender adds 13-14%, taking us to around 35%. Other shareholders have also expressed interest. Given the healthy premium, we are confident in reaching the 50% mark and will aim for as close to 100% as possible. Reaching 50% gives us control over the supervisory board, allowing us to integrate with the help of the management team.

Management: We will follow up with one-to-one meetings. To summarize, with the momentum in our current business, we are confident in Persistent's growth. With this transaction, we are confident in building our future together. We believe this asset gives us the ability to build the next generation of Persistent and add value to customers and shareholders at a larger scale.

Operator: Thank you very much to the Persistent management team. On behalf of Persistent Systems Limited, that concludes today's conference. You may now disconnect.