

## **Digital Intelligence Systems aims to grow healthcare clientele, RPO services through M&A**

By Joshua Armstrong

15 JAN 2019

**Digital Intelligence Systems**, an IT staffing and outsourcing firm, plans to use M&A to grow in the healthcare and recruiting process outsourcing (RPO) sectors, founder and CEO Mahfuz Ahmed said.

The McLean, Virginia-based company, which generated more than USD 300m in annual revenue in 2018 and brands itself as DISYS, plans to make at least one acquisition in 2019, the CEO said.

DISYS is considering M&A targets with USD 50m-USD 100m in revenue, and that serve US-based customers in all sectors, Ahmed said. Potential sellers must show deep relationships with clients by having contracts worth about USD 10m or more.

It is evaluating several companies regarding its healthcare entry. It seeks clients in the provider space such as large hospital systems and pharmaceutical giants like **Pfizer** [NASDAQ:PFE], **Merck** [NASDAQ: MRK] and **AstraZeneca** [LSE:AZN].

At the same time, to begin offering recruiting process outsourcing (RPO) services, DISYS is evaluating companies with a minimum of USD 50m in revenue. Targets with USD 100m in

revenue are easy to digest for the company, but it would consider larger sellers in the right conditions.

DISYS expects revenue between USD 450m-USD 500m in 2019, up from the mid-USD 300m range in 2018, the CEO said. The anticipated increase is largely attributed to its 2018 acquisitions of two smaller IT staffing firms: Kirkland, Washington-based **Xtreme Consulting Group** and North Massapequa, New York-based **Princeton Information**.

Founded in 1994, DISYS operates in “kind of a secondary market” of IT staffing services and consulting, Ahmed said. The company engages a client when the initial warranty from a large consultancy such as **Deloitte** or **Accenture** ends. He compared these services to HVAC and plumbing maintenance once the warranty expires on a new house.

About 90% of its clients are Fortune 500 companies, he noted. DISYS has 3,000 employees in the US, 600 in Brazil, and about 150 each in Eastern Europe and Asia-Pacific. It has 400 employees in India and will likely add another 300 there in the next 18 months, the CEO said.

DISYS had not engaged lead financial advisors on acquisitions. It uses **Wells Fargo** for funding, **Cooley** for legal counsel, **Alvarez and Marsal** for quality-of-earnings analyses and **BDO** as accountants.

Ahmed is the majority owner of DISYS. President and board member Maruf Ahmed is a minority stakeholder, and private equity sponsor **Weston Presidio** acquired a 20% stake in the company in 2012. The PE firm’s interest will likely be picked up by another financial sponsor when an exit occurs, Ahmed said.

DISYS aims to reach USD 1bn in revenue in three years, Ahmed said. He regularly considers the prospect of an IPO, but with enough money available in the private sector to fuel DISYS’s planned growth, he doesn’t see a current strategic need to tap the public equity markets.

Machine learning and automation will likely squeeze margins in the space as companies are able to serve more customers at a lower cost, Ahmed said. Also, customers are requesting more specific services and dividing up what previously were broad contracts. Staff augmentation services can bring a gross profit margin of 18%-24%, but margins have dropped to 10%-11% in areas such as Europe from these pricing pressures. Ahmed expects DISYS will be a consolidator as lower margins press other companies to sell.

In the staff augmentation areas, DISYS competes with **TEKsystems**, **On Assignment** [NYSE:ASGN] and **Insight Global**. Recently, it has been competing with **Infosys** [BOM: 500209], **Wipro**[NYSE: WIT] and **Tata Consultancy Services** [BOM: 532540] for contracts in outsourcing.

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