

# Coforge's acquisition of Encora

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## **Context – the AI Imperative**

The current leadership of Coforge came together eight and a half years back. Over the last eight years the firm has delivered one of the highest growth rates of any mid or large cap tech services firm in the industry. This sustained, robust and profitable industry-leading growth has been achieved on the back of an execution intensity that is uniquely our own. It was aided by the hyper-specialization on select industries and exceptional capability depth in emerging technologies. While most of the growth has been organic, it is important to note that every one of the acquisitions that we've done over the last eight years has been very successful.

Over the last eight and half years, the revenue run rate of Coforge has gone up almost five times and the market cap has increased almost 20 times.

It is our intent to ensure that the next eight years see us maintain and improve upon the sustained business performance of the previous eight years. We hope to continue to be the industry leaders when it comes to revenue growth (with increasing margins) and investor value creation.

As we pursue this aim, we recognize that a new era of enterprise tech is emerging—one where AI driven by Cloud and Data is becoming the engine of enterprise reinvention. The next-gen enterprise will have its business capabilities defined and executed via a combination of humans and AI agents, underpinned by an enterprise data core and a cloud foundation that is purpose built for AI.

In that context, Coforge believes that the acquisition of Encora is a defining moment for our organization.

It establishes a scaled AI-led Engineering, Data and Cloud services-based capability moat for the firm. This, allied with Coforge's hyperspecialized industry expertise and execution intensity, is likely to further accelerate our industry-leading growth. It also sets us up as the tech services firm that is likely to be one of the first to deliver upon the promise of the AI-infused future that lies ahead of our industry.

You will note that this transaction is an all-stock deal where the sellers, including Advent International and Warburg Pincus, are rolling over into Coforge and not taking any consideration as cash. This reflects the confidence that the incoming shareholders have in the prospects of the expanded firm.

## **An overview of Encora**

Born in the Silicon Valley, California, Encora is one of the select technology services firms with an AI-native DNA that provides software engineering services for digital native companies and Fortune1000 enterprises. Encora works at the convergence of Cloud, Data and AI, with service offerings that span Intelligent Process Design, Agent Native Product Engineering, Core Modernization, AI foundation, Data readiness and AIOps.

Encora has created one of the industry's first composable AI platforms – AIVA™ – to deliver Integrated agentic-orchestration and software engineering services. With composability at its core, AIVA™ lets organizations compose their own intelligent workflows across engineering and business functions.

Key attributes that are unique to Encora and position it as a transformative AI led engineering disruptor include:

1. It already has the core AI-native asset: an internal agentic platform. The AIVA™ AI Platform is not a slideware accelerator; it is a composable agentic platform.
2. Unlike most AI-native startups, this firm already operates inside Fortune 500 enterprises and has institutional memory inside accounts with multi-year tenured engineers and high advocacy.

3. Its delivery model is already “Human + Agent” with significant Internal adoption of agentic tooling and a roadmap to transition from horizontal agents to verticalized agents.
4. It has a talent composition that matches AI-native winners, not legacy SI’s. It is not a labor-arbitrage play but is a compound engineering asset, which is a prerequisite for AI-native services. With significant presence of onshore and nearshore LATAM based SME’s it is one of the firms closest to making the “forward deployed engineers” paradigm real in the distributed tech services model.
5. The platform can become a Services-as-Software moat that is increasingly identified as the winning archetype in our changing industry

## **Acquisition rationale**

Coforge’s acquisition of Encora will create an ~US\$2.5Bn Tech Services powerhouse with both the scale and capability across AI-led engineering, Cloud and Data services to drive enterprise-grade AI-solutions.

The acquisition is highly synergistic because:

- 1. AI-led engineering + Data + Cloud services alone are likely to deliver US\$2Bn revenue in FY’27.**
  - a. AI led product engineering business is likely to be a US\$1.25Bn+ business
  - b. Cloud services a ~US\$500Mn business
  - c. Data engineering a ~US\$250Mn+ business
- 2. HiTech and Healthcare industry verticals of Coforge are expected to reach material scale immediately post-acquisition.**
  - a. The HiTech vertical will be a US\$170Mn+ run-rate business with several \$10Mn+ relationships post-acquisition
  - b. The Healthcare vertical will be a US\$170Mn run-rate business. Encora substantially expands Coforge’s healthcare presence in Pharma, MedTech, and HealthTech and brings new AI led solutions such as AI-Biomed Research Assistant, AI-Enabled Patient Guardian, Multi-omics data ingestion and AI foundation for clinical trials.
- 3. Will reposition Coforge as a player with scaled-up nearshore delivery capability in LATAM with an exceptional engineering and AI Talent base servicing US Clients**
  - a. Encora has a large and widespread near-shore delivery capability with 3100+ delivery team strength in its LATAM Delivery centers.
- 4. Will significantly expand the West and Mid-West US client footprint of Coforge**
  - a. Pre-acquisition, only 25% of Coforge’s North America Geo unit revenue comes from the US West and Mid-West. The acquisition will provide a fillip to Coforge’s North America growth plans.
  - b. Coforge’s North America business is expected to jump by ~50% to US\$1.4Bn+ post-acquisition

## **5. The combined firm will have forty-five US\$10Mn+, highly-scalable relationships**

- a. Encora adds eleven US\$10Mn+ tenured client relationships with its top 10 client relationship tenures averaging 10+ years.
- b. Coforge has an exceptional record of growing acquired client relationships by effective cross-selling and up-selling. The most recent evidence of this was the Cigniti acquisition where all US\$10Mn+ relationships have experienced strong growth post-acquisition.

## **Transaction Details:**

Coforge has signed a definitive agreement to acquire 100% shares of Encora from Advent International, Warburg Pincus and other minority shareholders. The enterprise value of the transaction is US\$2.35Bn, which will be financed through the following:

- Equity value of US\$1.89Bn, paid in the form of equity shares through preferential allotment by Coforge. This will result in shareholders of Encora holding approximately 20% of the company's shares.
- A bridge loan or Qualified Institutional Placement (QIP) of upto US\$550Mn to retire the term loan in Encora. The pricing of the QIP will be determined by SEBI regulations at the time of the transaction.

As noted earlier, this transaction is an all-stock deal where the sellers, including Advent International and Warburg Pincus, are rolling over into Coforge and not taking any consideration as cash. This reflects the confidence that the incoming shareholders have in the prospects of the expanded firm.

QIP is one of the many funding options being considered only to retire the debt. If we do decide to do a QIP, it will only happen around closing, which is around six months away. We shall also explore other options of funding other than a QIP, hence there is a possibility that a QIP may never be triggered.

The consideration has been agreed at a share price of Rs 1815 per share which is at a premium of 8.5 % of today's close.

The process and the timeline for closing is as outlined below:

- Shareholder's approval will be secured within 30 days of signing.
- Regulatory approvals are expected within 4 to 6 months of signing.
- Coforge to assume debt in overseas geos to retire existing term loan in Encora on date of closing, which is expected to be within 4 to 6 months from signing.
- Coforge to evaluate launch of QIP, if required.

## **Financials:**

- The consolidated turnover of Encora Group for FY26E is US\$600Mn. The Adjusted EBITDA for FY26E is 19%.
- In FY24 and FY25, the consolidated turnover was US\$481Mn and US\$516Mn respectively.
- With Encora's current margin profile, and the anticipated synergies in the business, the combined business is expected to operate at an EBIT margin of 14% post amortization of intangibles that will be created as part of the purchase price allocation for this acquisition.
- Despite the primary infusion, the deal is not expected to be EPS dilutive on a consolidated basis because of the strong margin profile of Encora and expected synergies from the two businesses i.e. Coforge and Encora coming together.

**Concluding Remarks:**

As noted at the outset, the Encora acquisition is a defining moment for our organization. Over the last eight years, Coforge has established a reputation for execution intensity, hyperspecialized industry expertise and a perfect track record of making every acquisition very successful.

The new US\$2.5Bn firm, with a US\$2Bn enterprise core of AI-led Engineering, Data and Cloud services, will set the benchmark for making the promise of AI real for enterprises. In turn, this AI-infused core led growth, is likely to move Coforge's already exceptional growth numbers to the next higher orbit.