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“Building on our core strength as a fact-based services firm specializing in operational excellence, we are fast becoming a solutions firm—one that combines products and services to drive greater efficiency and faster growth.”



To My Fellow Shareholders:

ISG demonstrated once again a great combination of energy, passion for clients, innovation and a strong will to succeed during 2019.

Rebounding from the impact of sluggish client decision-making at the start of the year, our resilient and determined team delivered our most profitable second half ever, setting us up for what we anticipated would be a fast start to 2020.

As I write this, the coronavirus pandemic is having a dramatic impact on every facet of modern life. As a firm, we are doing everything we can to safeguard the health of our employees and their families; to serve our clients with minimal disruption; and to preserve our fundamental financial performance in support of our employees and shareholders.

We expect our clients will pull back on certain investments in the near term as they cope with the immediate business impacts of COVID-19. This is especially true in such industries as travel, hospitality and retail—but the reality is, no industry is completely immune from the impact of this pandemic.



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reality is, no industry is completely immune from the impact of this pandemic.

To counter the financial effects of COVID-19, we are seeing a pick-up in demand for our cost-optimization services. Clients are also turning to us for advice on how to support the massive new demands on their networking capacity to accommodate remote workers. And they are seeking our guidance on how to minimize risk and ensure business continuity from their complex ecosystem of third-party suppliers.

Still, we are anticipating that client spending overall will be impacted by the coronavirus in the short term, and we expect this to have an impact on our results—at least through the first half of 2020. Longer term, we think the pandemic will accelerate client demand for, and investment in, the digital transformation services we provide.

Clients are realizing, now more than ever, that they need automation, cloud, data analytics, edge computing and modern networking, infrastructure and workplace applications—and they need to scale these technologies fast. The acceleration of digital, in our view, just got turbo-charged.

As we look beyond these challenging times to the future of ISG, we are creating a firm with a unique value proposition: building on our core strength as a fact-based services firm specializing in operational excellence, we are fast becoming a solutions firm—one that combines products and services to drive greater efficiency and faster growth for clients as they revamp their enterprises for success in the digital age.

Our clients continue to see us as a go-to partner for executing their large-scale digital transformations. Our IT sourcing solutions remain a key part of our business, yet we have pivoted our firm “beyond the transaction.” We have shifted left, helping clients set strategy, design the right operating model, and connect with the broader digital ecosystem to find the right technology and service partners. And we have shifted right, helping organizations adapt to new ways of working, embrace positive change, and realize the full benefits of their digital partnerships and transformations.

[2019 Financial Highlights](#)

After a slower-than-expected start to the year, ISG came on strong, delivering record adjusted EBITDA of \$20 million in the second half, up 15 percent over the like period in 2018. In all, ISG delivered adjusted EBITDA of \$32

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million in 2019, on revenues of \$266 million.

ISG generated strong cash flows in 2019, producing \$20 million of cash from operations for the year—including \$15 million in the fourth quarter alone—our best full-year result since 2013. In 2019, we invested \$2 million in capital expenditures, repurchased \$3 million of shares and repaid \$12 million of debt, lowering our outstanding debt by 12 percent, to \$87 million. We finished the year with a cash balance of \$18 million.

Based on our strong second-half results and cash generation, we were able to renegotiate our credit agreement, cutting our required principal payments by more than \$14 million over the next two years, freeing up cash for the firm, while extending the maturity date to 2025, among other favorable terms.

Go Digital!

Digital is the new normal for our clients. ISG Research shows that today nearly half of all managed services contracts have a digital component. Our revenue reflects that market reality. More than 45 percent of our revenue is now digital, as more and more clients shift workloads to the cloud, adopt SaaS solutions, leverage automation and embrace other digital technologies, such data analytics and IoT.

As our clients go digital, so are we. Our ISG Automation business, which was born digital, has grown at a compound annual rate of approximately 65 percent since it was launched into full service three years ago. Given market trends, we think this asset is undervalued, and we see an opportunity to be a consolidator in the automation advisory space as a way to unleash more value for our shareholders.

Our traditional services are also going digital. That journey began in earnest in 2018 when we launched ISG GovernX®, our digital vendor compliance and risk management solution, and continues with our launch this year of our newly enhanced version, ISG GovernX® 2020.

Our traditional benchmarking business also has gone digital with the 2019 launch of ISG Inform™ 2.0, our groundbreaking data-as-a service solution that allows clients to compare their digital transformation and applications maturity, along with traditional IT measures, against their peers in real time.



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ISG Sourcing Solutions, which provide sourcing strategy, transaction and transition services, also is being digitized. After revolutionizing the industry in 2017 with the launch of ISG FutureSource™, to help clients choose the right partners at the speed of digital, we followed that up in 2019 with the launch of ISG Blockchain Now™. This new advisory and sourcing solution enables enterprise clients to improve the efficiency, accuracy and security of their business processes through distributed ledger technology.

"The digital solutioning of ISG will reach a new level of value as we develop the ISG Platform, an integrated set of software-driven solutions, data and research."

The ISG Platform

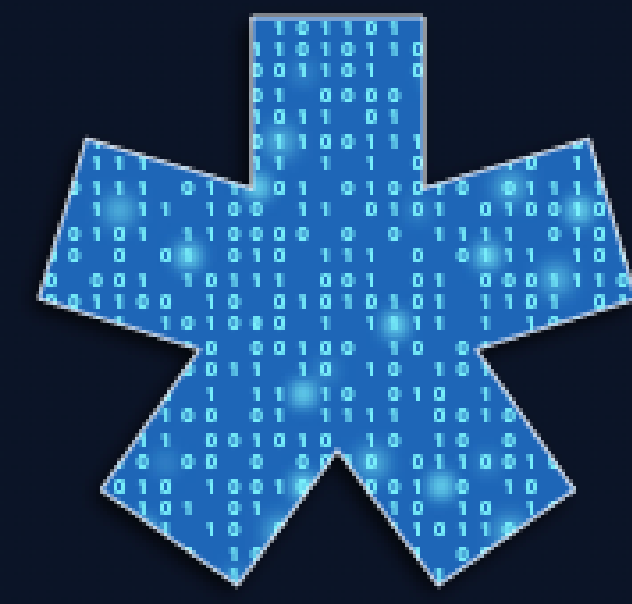
Each of these solutions represents another step in the digitization of ISG, as we pivot from a services firm to a solutions firm. The digital solutioning of ISG will reach a new level of value as we develop the ISG Platform, an integrated set of software-driven solutions, data and research that will allow us to increase our subscription-based recurring revenues and penetrate new market segments. ISG Inform™ and ISG GovernX® will be at the core of the ISG Platform, as will our new set of ISG Select™ offerings that will continue to streamline and digitize the provider selection process.

The first of those offerings, ISG Network Select™, was launched in 2019 to help our clients identify the best providers and technologies, including software-defined networking and 5G, to power their digital transformations.

I am excited about the potential of our asset-based consulting model, the success of which requires the digital "skilling up" of all ISG advisors. We have made tremendous progress enhancing the digital capabilities of our people over the last two years under our ISG Digital XPert training program. In 2020, we will continue to hire more digital talent (DigiTalent) in such areas as software product management, enterprise-grade cloud orchestration, analytics, artificial intelligence, machine learning and large-scale digital transformation



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management.

Our digital capabilities and thought leadership were on display during 2019 as our ISG Events business produced a number of digitally focused events, including the ISG Digital Business Summit series, the ISG Automation Summit series, the ISG Future Workplace series, and such new events as the ISG CX-UX Summit, ISG Agile Enterprise Summit and the ISG SourceIT symposium.

Our ISG Research business increasingly turned its research and analytical capabilities toward the digital ecosphere in 2019. For instance, our ISG Provider Lens™ evaluation research continues to grow in awareness, scope and value, by focusing on such tech topics as cybersecurity, Internet of Things, public cloud, software-defined networks, automation, artificial intelligence, and future workplace services. We also produced several ISG Insights™ studies focused on such topics as Agile/DevOps, automation, cloud computing and workplace of the future aimed at offering our clients additional insights and guidance from our real-world experience on the front lines of digital.

Both ISG Events and ISG Research, along with our platform solutions and software-as-service offerings, are crucial components of our growing base of recurring revenues, now representing nearly 30 percent of the firm's total.

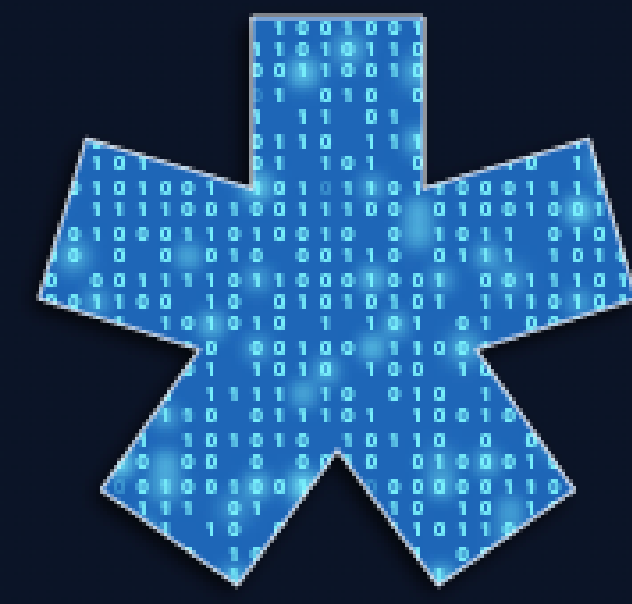
"The ISG edge will always be our data-driven market intelligence and expertise in managing the digital ecosystem."

Pivoting from Services to Solutions

Since ISG was founded in 2006, our core capability has been as a technology advisor to the world's largest enterprises, helping lead their most significant technology and services transactions. We have built our reputation and succeeded on the strength of this core capability—leveraging data and expert talent to deliver custom-fit services to each client. To improve the efficiency of our delivery, we have relied on repeatable processes and methodologies.



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Over the last several years, ISG has evolved into an even broader technology research and advisory firm—offering a data-driven, practitioner-led approach to guiding major organizations in their operating model and digital transformations.

The ISG edge will always be our data-driven market intelligence and expertise in managing the digital ecosystem. To meet the demands of the digital marketplace, we are evolving toward being a solutions firm—one that combines products, services and data-driven advice to deliver positive business outcomes for our clients.

[Digital. Unleashed!](#)

The theme of our 2019 Annual Review—indeed, our rallying cry for 2020—is “Digital. Unleashed!”

Simply put, we have a great opportunity to help our clients unleash the power of digital in their organizations, as we unleash the power of digital in ours.

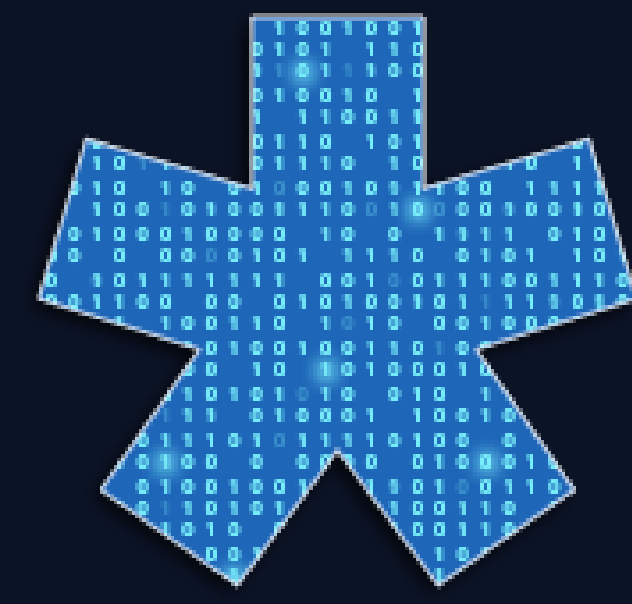
With our advice and support, our G2000 clients are leveraging digital to get closer to their customers, enhance the customer experience and analyze customer data for new growth opportunities. They are digitizing the workplace for greater efficiency and collaboration, enhanced employee engagement and to attract the best talent. And they are using smart manufacturing technologies to make production faster and leaner, streamline their entire supply chain and generally reduce the friction of business.

And yet, even as they adopt new technologies in pursuit of these goals, they still struggle with their digital transformations.

Why is that? Most are burdened with enormous technological debt, having sunk countless millions into legacy systems that, while still vital, are at risk of becoming obsolete. They are forced to operate at the slower speeds of the past, relying on old technology and processes just to keep the lights on, even as they attempt to move faster and faster to compete at the warp speeds of today's global markets.



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They test the waters with proofs of concept, only to struggle scaling technology across the enterprise. They are unsure how much to invest and where to invest it, because they have a hard time measuring digital ROI. And worst of all, they are slowed by organizational structures and dynamics that aren't adaptable enough, or agile enough, to compete in the digital age.

Into this great challenge—and great opportunity—steps ISG.

Our firm is uniquely positioned to help clients unleash the power of digital in their enterprises. We understand how to make digital work. We know that plugging new technology into old ways of doing business rarely results in significant improvement, and going it alone never works. Instead, we show the way to new operating models that function at the speed of digital business, and we connect our clients to the digital ecosystems they need for success. We help clients reduce operating costs, so they can reinvest in digital capabilities. And we help them transform the way they think about business, and adopt new ways of working, sharing, co-creating and collaborating. In short, we get them ready for digital, and help them evolve with digital over the long term.

At the same time we're helping our clients go digital, we are applying our digital experience to improve our own performance and prepare for the future. We are evolving from a pure services firm to a digitally driven solutions firm powered by digital expertise, data and software platforms.

In closing, I want to thank our employees for the passion, dedication and expertise they bring to serving our clients every day. I also want to thank our leadership team, our Board of Directors and our loyal clients for the success we enjoyed in 2019. Finally, I want to thank you, our shareholders, for your continued support and confidence in ISG.

Yes, these are challenging and unprecedented times. The coronavirus will pass, but the lingering economic impacts of the pandemic may be felt for some time. Still, ISG stands ready to support our clients through it all, and to come out the other side with an even greater sense of purpose, optimism and momentum for the important role we play in changing the way business operates in the future.



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It's time to unleash the full power of digital—for our clients, our firm and our shareholders—and create a new era of growth for all of us.

Sincerely,



Michael P. Connors
Chairman and Chief Executive Officer
March 20, 2020



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