

Chairman's Message

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Michael P. Connors

Chairman and Chief Executive Officer



To My Fellow Shareholders:

2020 was a year like no other.

We began the year with a solid growth plan and strong momentum coming off a successful second half of 2019. Then the bottom fell out. I remember it well. I was on my way to the airport to visit a client when I learned my flight was cancelled. It was mid-March and the pandemic had just hit the U.S. with full force, after sweeping across Europe from Asia. I was grounded. And for a moment, it felt like ISG was grounded too.

How would the lockdowns impact our clients and their demand for digital? How would we deliver on our commitments to them? How could we grow in this environment? The words leadership, resilience and trust came to mind. It was time to draw on our reserves of each and navigate the firm into the unknown.

We immediately adjusted our business plan. We pivoted quickly to a work-from-home model, made tough but necessary decisions to lower our cost base to match anticipated client demand, and reset our financial expectations.

In parallel, we began the process of creating a business model that would allow us to meet the challenge of the pandemic head on—and emerge from it a stronger, more energized and vital firm for our clients.

Turning a Challenging Year into a Successful One

Thanks to our swift and decisive actions, and the collective contributions of our 1,300 professionals around the world, ISG bounced back from the initial economic shock of the pandemic and turned a challenging year into a successful one.

As with most businesses, the pandemic had an immediate negative impact on our revenues. But that impact was short-lived. After a difficult first half, ISG turned the corner, delivering quarter-over-quarter revenue and adjusted EBITDA growth in the second half. Client demand rose, as companies realized they needed to continue investing in digital to recover faster and emerge stronger from this crisis.

For the year, ISG generated \$249 million in revenue, with 50 percent derived from digital solutions. Recurring revenue from our subscription-based research and platform services and long-term public sector contracts reached \$82 million, up 10 percent, and now accounts for 33 percent of our total. Adjusted EBITDA for the year was \$28.3 million, with adjusted earnings per share coming in at \$0.28.

Our renewed revenue momentum, coupled with our disciplined operating approach, enabled ISG to generate a record \$44 million of cash in 2020. We used \$8 million to pay down debt, lowering our balance by 9 percent, and we ended the year with \$44 million of cash, 2.4 times the amount we had at the end of 2019.

In summary, we had a great finish to a challenging year.

Supporting our Clients

Faced with sudden business disruption at the outset of the pandemic, our clients immediately turned to the trusted ISG brand for the advice and support they needed to cope with the business impacts of COVID-19.

We responded quickly and authoritatively, offering pragmatic guidance through dozens of articles, research reports, podcasts, videos and webinars in the early days and weeks of the pandemic. Our expertise and insights kept flowing throughout the year via our ISG Events business, which pivoted from in-person to virtual events. Despite holding three fewer events in 2020 than in 2019, our combined attendance soared by more than 40 percent, underscoring the need for sound advice in a time of crisis.

The market's thirst to understand the impact of the pandemic also was demonstrated in the growing audience for our quarterly ISG Index™ briefings, which have been held, uninterrupted, now for more than 15 years. Our latest state-of-the industry briefing in January drew a record audience of more than 2,000 financial and industry analysts, clients, academics, journalists and other industry influencers.

Beyond our thought leadership, we turned our ideas into action by supporting critical client needs in such areas as cost takeout, transformation to the cloud, refreshed IT strategies, captive monetization and supply chain integrity—initiatives that were crucial to weathering the initial impacts of the pandemic.

Throughout the year, we saw many enterprises putting their large-scale digital transformation programs on hold due to the pandemic. Despite this, ISG found opportunity in helping clients with more agile and incremental approaches to digitization. This included support for digital workplace, cloud and network modernization initiatives—important for enabling remote work at scale and enhancing digital customer experience in the current environment.

In all, we served 722 unique clients in 2020, up 3 percent over the prior year. Of that total, more than 200 were brand-new clients to ISG, as organizations of all kinds sought our advice and support navigating the pandemic and advancing their digital futures.

The growth in our client base is all the more impressive because it was achieved in a work-from-home selling environment.

Go Digital and the ISG Platform

Our Go Digital investments over the last few years helped ISG pivot quickly to new ways of working, collaborating and engaging with clients. You might say we were “pandemic ready.”

Working with clients across computer screens instead of conference tables, we didn’t skip a beat, delivering the same high-quality advice and support our clients have come to expect from ISG. Indeed, our virtual delivery model was so successful that our client experience scores rose in each of the 13 dimensions we measure, from the quality of our deliverables and data assets, to our market knowledge and expertise.

Importantly, we did not allow the pandemic to impact our long-term vision for the firm. We continued to invest in the ISG Platform, our suite of subscription-based, on-demand software solutions. That included expanding the capabilities of ISG GovernX®, to meet rising demand from clients looking to manage their supply chains and mitigate risk. During the year, we almost doubled the number of GovernX users and the number of contracts—valued at combined \$46 billion—managed on the platform.

We also leveraged the capabilities of ISG ProBenchmark®, as clients sought market pricing data to renegotiate their technology contracts. And we continued to develop a new platform-based sourcing solution, code named “Jaguar,” that will revolutionize how we help clients evaluate their sourcing ecosystem, select providers, negotiate contracts and transition to new partners. This solution will launch later this year.

The Art of the Possible

As it has for many of our clients, the pandemic has opened our eyes to the art of the possible and allowed us to think differently about our business. The result is ISG NEXT, an entirely new operating model for ISG.

Under ISG NEXT, we are pivoting from services to solutions, building our capabilities around two major areas: ISG Digital, focused on developing technology, transformation, sourcing and digital solutions for clients, and ISG Enterprise, helping clients manage change and optimize operations in such areas as finance, HR and Procure2Pay. These solutions are supported by ISG Research, with its extensive market analyses and provider evaluations; our ISG Network and Software Advisory services, and our software platforms, including GovernX. We also are building more industry-specific capabilities, in such areas as banking, insurance and smart manufacturing.

Every client engagement now passes through our dedicated Solution Hub, to bring the best thinking, tools and capabilities to bear to solve every client challenge. A key part of ISG NEXT is our new ISG iFlex™ virtual delivery model, which enables us to rapidly deploy our global resources to support clients, regardless of geography or time zone.

To support our new delivery model, we created the ISG Workbench, an internal platform that reimagines how we collaborate and access the tools, information and IP we need to make our delivery more efficient and more valuable for our clients. Considering our current work-from-home model, the timing could not have been better.

We believe ISG NEXT will provide a step-change in financial performance for ISG, including expanding our EBITDA margins by 400 basis points over the next two years, compared with the full year of 2020.

ISG NEXT

ISG NEXT is more than the name of our new operating model, it is the very embodiment of the promise, potential and future of our firm. And I see a very bright future for ISG.

As I write this letter, new vaccines are coming to market and the pandemic shows early signs of receding. This is the first indication that life will begin to return to normal in 2021 and release the pent-up demand for our advice, data, and support. If there is a silver lining to the pandemic, it is this: it is accelerating digital adoption and transformation.

Every company now sees, clearer than ever, the need for digital—**to get closer to their customers**, enhance customer experience and analyze customer data for new growth opportunities; **to digitize the workplace** to make work more efficient and collaborative, improve employee engagement and attract the best talent; **to become more agile** and flexible to address rapid-fire changes in the market, and **to make operations smarter and leaner**, streamline the entire supply chain and generally reduce the friction of business.

ISG is ideally positioned to be our clients' partner in digital transformation. Our full range of digital, network and research solutions, and subscription software platforms, are here to help clients see, plan for and realize what's NEXT.

In closing, I want to thank our employees for helping us weather this storm. Making extraordinary personal sacrifices, they responded with great energy, teamwork and can-do spirit to serve our clients when they needed us most. I also want to thank our leadership team, our Board of Directors and our loyal clients for ultimately making 2020 a successful year. I must admit, faced with that cancelled trip back in March, it was difficult to imagine how 2020 would turn out for ISG. In the end, I am very proud of the results we delivered.

And, finally, I want to thank you, our shareholders, for your continued support and confidence in our firm.

Looking back on this year of enormous challenge and sacrifice, I believe we have come out of this experience stronger and better. I am confident the best lies ahead for ISG and our clients as we imagine and realize The New Future together.

Sincerely,

A handwritten signature in black ink that reads "Michael P. Connors". The signature is written in a cursive, flowing style.

Michael P. Connors
Chairman and Chief Executive Officer
March 18, 2021