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Physical AI: The Next Frontier for IT Services

Ten Questions IT Services and M&A Leaders Are Asking About Physical AI

October 2026

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TABLE OF CONTENTS

What Is Physical AI, and Why Is It Accelerating Now?	04
--	----

Market Size & Opportunity	05
---------------------------	----

What is driving demand for physical AI?	06
---	----

Where Does Services Demand Land First?	07
--	----

The M&A Theme	10
---------------	----

Six Ways This Thesis Could Break	14
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What This Means for Industry Stakeholders	15
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Ten Questions Every IT Services and M&A Leader Is Asking

01

What is physical AI, and why is it accelerating now?

02

How big is the IT services opportunity, and how fast is it growing?

03

What is driving demand for physical AI?

04

Where does services demand land first?

05

Which service providers are already moving, and where?

06

Which delivery models is the work sold under?

07

Why is this an M&A theme, not just a build story?

08

What has recent M&A deal activity looked like?

09

What are physical AI assets actually worth?

10

What drives valuation multiples, and what should emerging companies build?

What Is Physical AI, and Why Is It Accelerating Now?

THE SHORT ANSWER

Physical AI refers to AI systems that control and interact with physical devices — robots, vehicles, drones and autonomous machinery. It combines sensing, computing and decision-making to operate in unpredictable real-world settings.

WHY NOW – THREE THINGS CHANGED

Inference Economics

Gartner forecasts that inference on trillion-parameter models will cost over 90% less in 2030 than in 2025.

Simulation Crossed a Threshold

Systems trained in digital twins of factories, warehouses and roads can now be deployed in real facilities with minimal rework.

Scale Expectation

Gartner expects that, by 2028, physical AI will automate up to 50% of the manual industrial tasks that current technologies cannot address.

WHERE THE VALUE ACCRUES ALONG THE CHAIN



Silicon, Sensors and Edge Compute

Edge modules, LiDAR and machine vision. Capital-intensive and supplier-concentrated.



Foundation Models and Simulation

NVIDIA Cosmos, Isaac GR00T and Alpamayo; the Siemens–NVIDIA industrial AI operating system. IP-dense, with few owners.



Integration, Engineering and Managed Services

Where IT and ER&D services firms compete — and where our client universe sits.



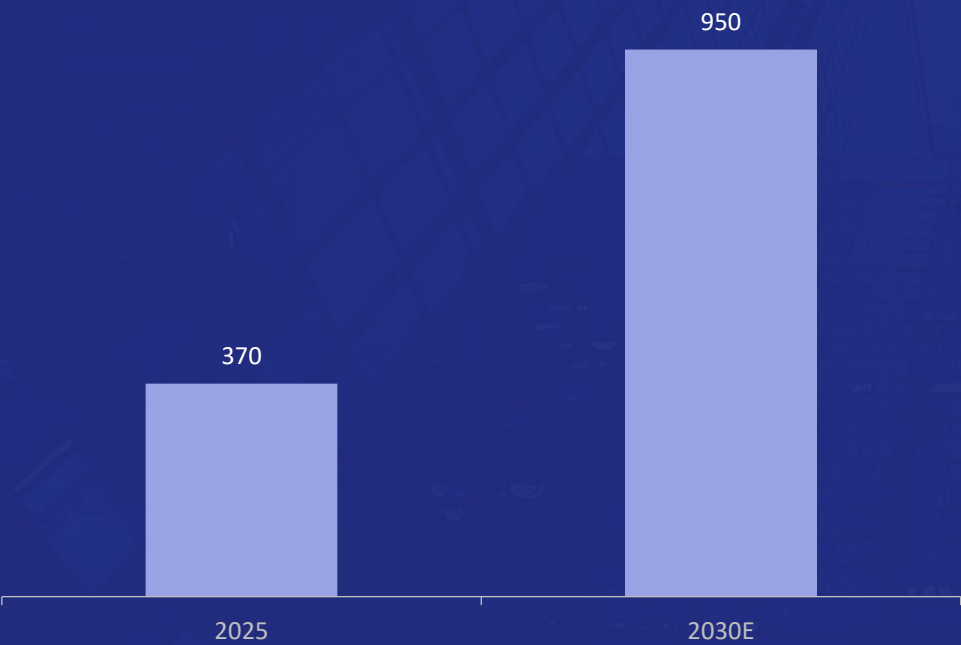
Operations and Outcomes

Fleet management, safety validation and uptime accountability, where recurring revenue is created.

Sources: PwC, “Physical AI diligence guide for dealmakers” (2026), on inference cost and simulation-to-real transfer; Gartner

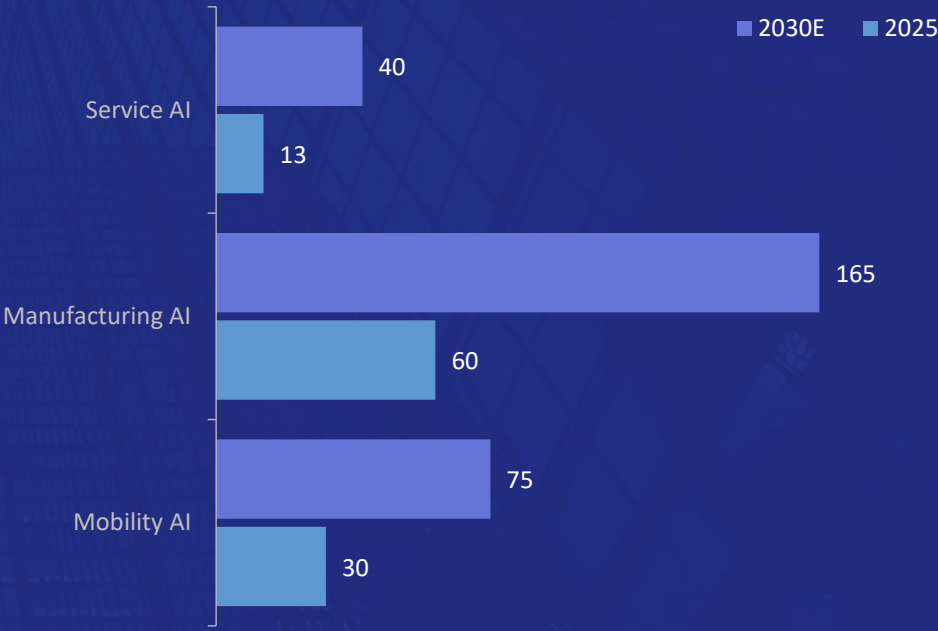
How Big Is the IT Services Opportunity, and How Fast Is It Growing?

GLOBAL PHYSICAL AI SPEND (US\$ BN)



2025: US\$335–405 Bn → 2030E: US\$850–1,050 Bn (~20–21% CAGR, midpoints charted).
Zinnov frames a US\$1 Tn+ physical AI economy by 2030.

SERVICES SPEND BY PILLAR (US\$ BN)



Mobility 18–20% | Manufacturing 21–24% | Service AI 25–28% CAGR. The three pillars charted account for US\$280 Bn of the US\$300 Bn headline figure, with the balance falling outside these categories.

Source: Zinnov, “Physical AI: The Next US\$300 Bn Opportunity for Tech Services.”

What Is Driving Demand for Physical AI?

Workforce Shortage and Ageing Front Lines

Rising labour costs and shrinking labour supply are forcing the automation of repetitive and physically demanding work.

THE SERVICES OPPORTUNITY

Automation deployment and Robotics-as-a-Service

Industrial Policy and Capital Availability

Policy is creating automation demand in some markets, and sponsors are actively pursuing the physical infrastructure behind AI growth.

THE SERVICES OPPORTUNITY

Programme-scale advisory, capital raising and buy-and-build

Fragmented AI Regulation and Sovereignty

Splintering national AI rules are dismantling single, globalised deployment architectures.

THE SERVICES OPPORTUNITY

Sovereign AI architecture, AI trust, risk and security management (TRISM) and compliance advisory

Resource Strain and Reliability Demands

Strained power grids and mineral supply chains raise the bar for efficient, safe-by-design systems.

THE SERVICES OPPORTUNITY

Edge-optimised AI engineering and safety validation

Sources: Gartner driver framework for physical AI services (three of seven drivers shown here); PwC, “Physical AI diligence guide for dealmakers” (2026), on policy-created automation demand and sponsor interest. Driver 04 and all opportunity mapping are TH Global Capital’s own analysis.

Where Does Services Demand Land First?

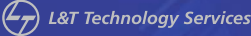


Near-term demand is concentrated in logistics, warehousing and infrastructure inspection, providing a lower-complexity entry point for system integrators. Retail, hospitality and healthcare are expected to follow within two to five years, with homes, offices and commercial spaces developing later.

Source: Gartner domain adoption timeline for physical AI. Sequencing commentary is TH Global Capital's own analysis. Full citations on the final page.

Which Service Providers Are Already Moving, and Where?

Gartner’s inaugural Emerging Market Quadrant for physical AI services assessed 27 established vendors. Capgemini was named the ‘Company to Beat’, while NTT DATA, was named a ‘Market Shaper’. Gartner’s themes for the market are the shift from experimentation to industrialisation, the rise of end-to-end managed services, and a growing focus on safety, compliance and simulation-driven risk mitigation.

PROVIDER	NOTABLE MOVE	PILLAR	DELIVERY MIX
 Capgemini	Market Shaper: simulation-first delivery, human-in-the-loop autonomy. Leads AI model development and sensor fusion behind BMW Level 2/3 autonomy.	Mobility, Mfg	IP + labour
 NTT DATA	Market Shaper: fully managed edge AI platform deployed across manufacturing, transportation and logistics, energy and utilities, and smart cities.	Mfg, Service	Platform-led
 HCLTech	Santa Clara innovation lab for physical AI and cognitive robotics, alongside an SAP partnership in the same area; VisionX repeatable edge-AI offering; live deployment across Carrix’s global port operations.	Mfg, Service	IP + labour
 accenture	Accenture Siemens Business Group; the agreed acquisition of Industries eXcellence adds digital thread, PLM, simulation, digital twins, SCADA and industrial edge.	Manufacturing	IP + labour
 Tech Mahindra	Centre of Excellence for physical AI applications built on NVIDIA Omniverse.	Manufacturing	Labour-led
 L&T Technology Services	Proprietary AD/ADAS platform integrated with AnnotAI for automated data annotation.	Mobility	IP + labour
 luxoft A DXC Technology Company	Robotic Drive Cloud deployed inside Continental’s CAEdge platform to simulate and validate ADAS at scale.	Mobility	Labour-led
 cognizant	Belcan ER&D platform in aerospace and defence; co-building a 5G- and satellite-powered autonomous fleet platform with Darwin.	Mobility, Mfg	Labour-led

Mid-market names to watch on either side of a transaction:



not exhaustive.

Sources: Gartner, “Emerging Market Quadrant for Physical AI Services — Established Vendors” (G00850756, 8 June 2026) and “AI Vendor Race: Capgemini Is the Company to Beat for Physical AI Services” (G00851412, 11 June 2026), as cited in Capgemini and NTT DATA disclosures; company newsrooms; Zinnov. Delivery-mix classification is TH Global Capital’s own analysis.

Which Delivery Models Is the Work Sold Under?

The mix shift is both the margin story and the multiple story. Providers are already platformising into Robotics-, Digital-Twin- and Factory-as-a-Service, and PwC notes that Robotics-as-a-Service is driving adoption in industrial and logistics settings where ROI is measurable. Each step to the right trades effort risk for asset and outcome risk.



Coverage implication: A company's revenue mix across these four models predicts its multiple better than its growth rate does. Mix is also one of the few things a company can change in the 12–18 months before a sale process.

Sources: Zinnov, "Physical AI: The Next US\$300 Bn Opportunity for Tech Services," on platformised RaaS, DTaaS and FaaS offerings; PwC, "Physical AI diligence guide for dealmakers" (2026). Margin and multiple commentary is TH Global Capital's own analysis.

Why Is This an M&A Theme, Not Just a Build Story?

PwC’s 2026 mid-year outlook identifies robotics, industrial software, sensors, inspection technology and connected systems as the categories buyers are actively pursuing to capture the physical AI shift, alongside IT managed services, infrastructure services and AI implementation more broadly.

THE PATTERN IS ALREADY PLAYING OUT

JUN 2026	2024–2026	2026
accenture agrees to acquire eng IndX	Carve-outs are the main source of supply	AI-native targets are scarce
A Siemens Digital Industries partner acquired for its depth in digital thread, PLM, simulation, digital twins, SCADA and industrial edge — bought, not built. Terms undisclosed; subject to closing.	Belcan from AE Industrial, HARMAN DTS from Samsung, in-tech and ASAP from prior owners. Four of the five largest recent engineering-services deals were carve-outs or sponsor exits.	PwC reports that acquirable AI-native targets are increasingly scarce two years into the AI deal cycle, pushing buyers to smaller targets or organic build. Scarcity supports the bid for proven capability.

WHAT THIS MEANS FOR COVERAGE

- ☒ **Near Term:** Consolidation is underway in industrial automation, logistics and connected safety platforms — the same “Now” window as Question 4.
- ☒ **Buy Side:** Integrators short on edge AI, simulation or sensor-fusion depth are natural acquirers of niche robotics-software targets.
- ☒ **Sell Side:** Sub-scale robotics-software, sensor and inspection vendors become targets as integrators shift from partnership to ownership.
- ☒ **Sponsors:** PwC estimates that clearing existing PE inventory would take close to nine years at the current pace; PE–AI partnerships to transform mid-market portfolio companies are the emerging catalyst.
- ☒ **TH Global Capital view, 2027–2028:** Medical and surgical robotics, aerospace dual-use platforms and autonomous delivery are approaching sponsor readiness.

Sources: PwC, “Global M&A Trends in Industrials and Services: 2026 Mid-Year Outlook”; PwC, “US Deals 2026 midyear outlook”; PwC, “Physical AI diligence guide for dealmakers” (2026); Accenture newsroom (17 June 2026). Coverage implications and the 2027–28 view are TH Global Capital’s own analysis.

What Has Recent M&A Deal Activity Looked Like?

Four of the five are carve-outs or sponsor exits. Corporates are the main source of physical AI capability; sponsors set the timing.

ANNOUNCED (CLOSED)	ACQUIRER	TARGET	COMPANY / SITUATION	EV	EV / REVENUE	WHAT IT ADDS
Jun 2026 (agreed)	accenture	eng IndX	Carve-out from Engineering Group	n/d	n/d	Siemens digital thread, PLM, simulation, digital twins, SCADA, industrial edge
Aug 2025 (Dec 2025)	wipro	HARMAN A SAMSUNG COMPANY	Carve-out from Samsung / HARMAN	US\$375 Mn	~1.19–1.22x*	Embodied AI, embedded software, device engineering, CX platforms; 5,600+ staff
Oct 2025	Capgemini	SEIMAF GROUPE	Founder-owned	n/d	n/d	Industrial engineering and technical consulting for the nuclear and energy sectors
Feb 2025	Deloitte.	efficientIA	Founder-owned	n/d	n/d	Industrial and manufacturing technology integration and support
Jun 2024 (Aug 2024)	cognizant	Belcan	Sponsor exit, AE Industrial Partners	US\$1.3 Bn	~1.55x	ER&D across aerospace, defence, space, marine and industrial; ~6,500 engineers

*~1.19–1.22x, based on the disclosed EV of US\$375 Mn against DTS's disclosed CY22–CY24 annual revenue of US\$308–315 Mn (Business Standard, 22 Aug 2025, citing deal terms and analyst calculations)

Sources: acquirer press releases and newsrooms (Accenture, Capgemini, Cognizant, Deloitte, Wipro); Everest Group commentary on Cognizant/Belcan; published broker analysis on Wipro/HARMAN DTS.

What Are Physical AI Assets Actually Worth?

There is no physical AI multiple yet. The closest available comparables are recent engineering and ER&D services transactions, where disclosed multiples cluster between roughly 1.2x and 2.6x revenue.

DATE	TARGET	ACQUIRER	ENTERPRISE VALUE	EV / REVENUE	READ-ACROSS
2024			EUR 450 Mn	~2.6x	Top of the range. German automotive engineering with scarce domain depth.
2024			~INR 280 Cr	~1.8x	Semiconductor design. IP-adjacent skills command a premium over generalist engineering.
2024			EUR 250 Mn	~1.6x	European automotive engineering. Mid-range: scale without differentiated IP.
Jun 2024			US\$1.3 Bn	~1.55x	Largest recent ER&D deal. A disciplined price for scale on a sponsor exit.
Aug 2025			US\$375 Mn	~1.19–1.22x*	Carve-out discount; EBIT-dilutive at entry. The floor of the observed band.
2022			US\$2.36 Bn	n/d	Prior-cycle scale benchmark; the last marquee deal before the current wave.

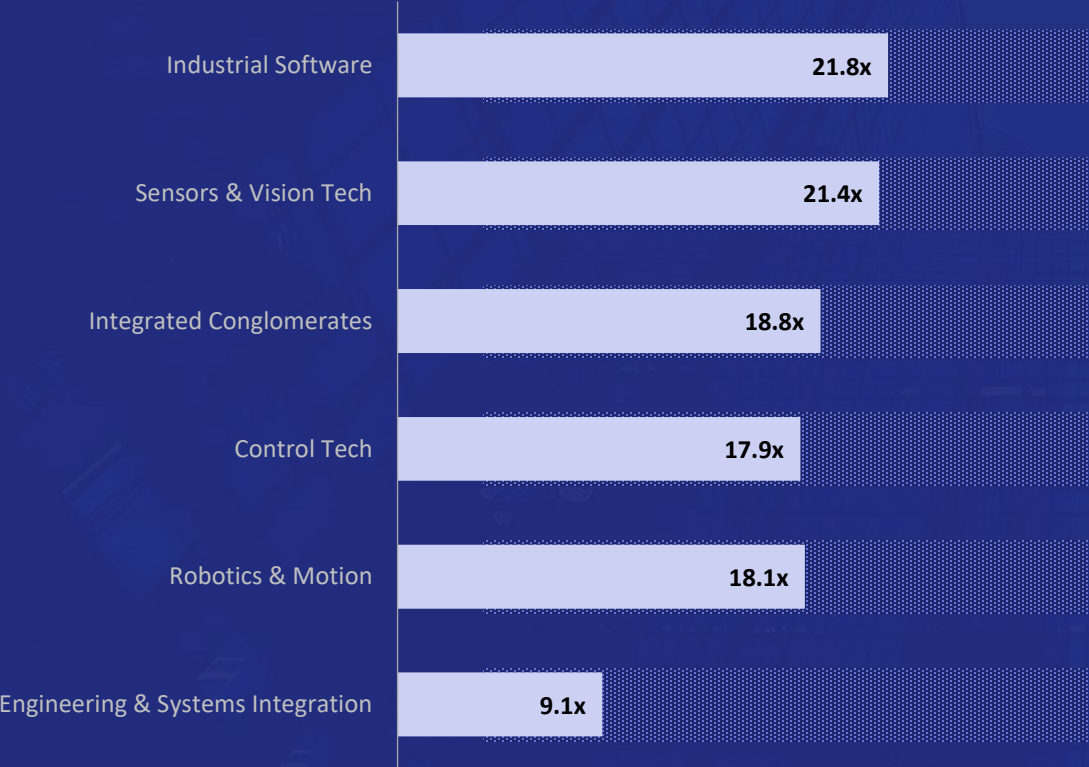
What we take from this: scale alone does not clear 1.6x revenue. The premium goes to scarce domain depth and owned IP, not to headcount — and that is the case a company must be able to evidence.

Sources: Everest Group commentary on Cognizant/Belcan and comparable engineering-services transactions; acquirer disclosures.

What Drives Valuation Multiples, and What Should Emerging Companies Build?

Value accrues to the IP layer, not the integration layer. Industrial software trades at 21.8x EV/EBITDA, compared with 9.1x for engineering and systems integration, representing a spread of more than twelve turns. Moving the revenue mix from the second bucket towards the first is the largest value lever available to a mid-market company.

WHERE THE MULTIPLE SITS (EV/EBITDA)



Five of six sub-sectors trade at or above historical averages; dispersion, not the headline, is the story.

WHAT MOVES A PHYSICAL AI MULTIPLE

Recurring Share: as-a-service and outcome-based pricing versus time and materials.

Replicability of the AI Claim: PwC finds that defensibility claims based on “proprietary AI” often fail structured replicability testing.

Unit Economics at Scale: Bill-of-materials costs presented at prototype volumes frequently mask margin compression at production scale.

Data and Toolchain Rights: Ownership of field and sensor data, and of the simulation-to-real toolchain.

Safety and Certification: Track record, and where liability sits when an autonomous system fails.

End-Market Mix: Non-cyclical exposure earns a re-rating; heavy automotive or food-and-beverage exposure attracts a discount.

Platform Alignment: Siemens, NVIDIA and SAP relationships are both a moat and a dependency.

Sources: Investec, “Industrial Technology Valuation Update, Q1 2026” (trading multiples as at Q4 2025); PwC, “Physical AI diligence guide for dealmakers” (2026). Driver weighting and coverage conclusions are TH Global Capital’s own analysis.

Six Ways This Thesis Could Break

TALENT SCARCITY AND MARGIN COMPRESSION

Edge, robotics and safety engineers are scarce. Wage inflation compresses margins in the labour-led model precisely as pricing shifts toward outcomes and fixed fees.

PILOT-TO-PRODUCTION ATTRITION

ROI achieved in controlled environments often does not transfer to production. PwC identifies industrial, logistics and connected infrastructure as the segments where deployments are genuinely repeatable, a narrower beachhead than the headline TAM implies.

REGULATORY FRAGMENTATION CUTS BOTH WAYS

The same splintering that creates sovereign advisory demand also fragments deployment economics and erodes the reusability of delivered IP.

DILIGENCE FAILURE MODES

Defensibility claims that do not survive replicability testing, and bill-of-materials economics that break at volume. Both tend to surface as post-close surprises rather than being priced in as pre-close discounts.

POWER AND SUPPLY CHAIN

Grid and mineral-supply constraints weaken the capex case for deployment at scale, deferring the services revenue that follows installation.

SAFETY, CERTIFICATION AND LIABILITY

Certification burden and unresolved liability allocation slow adoption in exactly the high-stakes verticals (healthcare, aerospace, public space) that carry the largest services budgets.



Sources: PwC, "Physical AI diligence guide for dealmakers" (2026), on deal-ready segments and diligence failure modes; Gartner driver framework, on resource and regulatory strain. Risk framing is TH Global Capital's own analysis.

What This Means for Industry Stakeholders

FOR SERVICE PROVIDERS

- Shift revenue mix toward platform and outcome pricing before running a sale process. Mix, not growth, sets the valuation bracket.
- Document repeatability: the same deployment delivered twice, with evidence. This is what survives diligence.
- Secure data and toolchain rights early; they are frequently the only defensible assets in the business.
- Reduce automotive and single-client concentration. Both attract explicit discounts in the current market.
- Expect an opening frame of 1.2x to 2.6x revenue, and know which end of it you are arguing for.

FOR STRATEGIC INVESTORS

- Screen for replicable IP, not headcount. Scale alone has not cleared 1.6x revenue in this cohort.
- Run teardown, full-stack and manufacturing diligence alongside commercial and financial workstreams.
- Treat corporate carve-outs as the primary source of capability, and price in the stand-up costs accordingly.
- Underwrite entry-year EBIT dilution: recent carve-outs in this space have been dilutive on day one.
- Move value-creation planning into diligence. The critical integration window is now the first 30 days.

FOR FINANCIAL SPONSORS

- Target current platform lanes: industrial automation, logistics, and connected safety and inspection platforms.
- Watch the emerging 2027–28 lanes: medical and surgical robotics, aerospace dual-use, autonomous delivery.
- Use PE–AI partnership models as a credible route through the inventory backlog, which PwC estimates would take close to nine years to clear.
- Back enabling layers (sensors, LiDAR, machine vision) for platform economics without full deployment risk.
- Bolt IP onto a services platform: it is the most direct multiple-arbitrage play available in this theme.

TH Global Capital: Transaction Track Record

TH Global Capital is exclusively focused on **M&A and capital-raising advisory services for Technology Services, Software, Consulting, Healthcare & Life Sciences and Business Process Management companies**. Over its 26-year history, TH has built deep expertise in digital platforms, with global reach and extensive strategic buyer and private equity relationships to help clients navigate a sale and/or capital-raising process, and to secure premium valuations.

 2026	Regional Deal of the Year Award (Asia)	 2025	M&A Deal of the Year Award (US\$50m–\$100m)	Best M&A Advisory Firm of the Year	
 2026	Information Technology Deal of the Year Award (Under \$1 Billion)	 2025	Corporate/Strategic Deal of the Year Award (US\$50m–\$100m)	Cross-Border M&A Consultancy of the Year	
 2026	Corporate/Strategic Deal of the Year Award (\$25m–\$50m)	 2025	Boutique Investment Bank of the Year Award	Global Technology M&A Advisory Firm of the Year	
 2026	Cross-Border Deal of the Year Award (\$10m–\$25m)	 2025	Regional Deal of the Year Award (Asia)	Client Service Excellence Award	
 2025	Investment Bank of the Year – International	 2025	IT Deal of the Year (\$10m–\$25m)	Professional Services Deal of the Year (\$10m–\$25m)	

Recent Technology Platforms & SaaS Transactions

AUG 2025  Has been acquired by  Generative AI & Hyperautomation Software	JAN 2025  Has been acquired by  Payments Software, Fintech & Regtech	OCT 2024  Has been acquired by  AI and Data Science	FEB 2024  Private Equity Buyout  ServiceNow Consulting & IP
DEC 2023  Has been acquired by  Salesforce Consulting & IP	AUG 2023  Has been acquired by  B2B SaaS E-commerce Software	AUG 2022  Has been acquired by  AI and Data Science	JUN 2022  Private Equity Buyout  Digital Banking, Fintech & Wealth Management IT CHF 57 Million
NOV 2021  Has been acquired by  AI-Powered News Analytics Platform	FEB 2021  Has been acquired by  Payments Software, Fintech & Regtech	NOV 2018  Has been acquired by  Digital Insurance Software	SEP 2016  Private Equity Buyout  Financial Services Platform BPO £112 Million

About TH Global Capital



TH Global Capital is an award-winning global investment banking firm specialising in sector-focused investment banking, asset management, and growth advisory services. With a 26-year track record, TH Global Capital's offering includes Sell-Side M&A, its Buy-Side M&A practice 'TH Buy and Build', Growth Capital advisory, Debt Financing, Financial Sponsor Coverage & Secondaries, IPO Advisory, Asset Management and Growth Advisory services. TH Global Capital's full-service, purpose-driven approach reflects its mission: to create wealth for founders, companies and investors. Operating in 14 countries across the Americas, Europe, and Asia-Pacific, TH Global Capital combines global reach with local presence to deliver exceptional results.

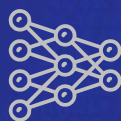
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