

MANAGED IT SERVICES M&A UPDATE | 2022 Year In Review



STRONG YEAR & OUTLOOK FOR MSP M&A

Despite headwinds facing the broader economy and M&A activity, MSP and IT Services M&A remained strong during 2022. Over 800 M&A transactions closed in the U.S., ~45% were private equity-related and ~55% were strategic acquisitions.

Even with high levels of M&A activity, the MSP market remains highly fragmented, presenting an opportunity for acquirers to continue consolidating the market, expand service offerings, and ultimately achieve greater economies of scale. Given the high volume of private equity-backed platform acquisitions in 2021 and 2022, 2023 is expected to be a strong year for add-on acquisitions as platforms seek growth through M&A, presenting exceptional exit opportunities for MSPs of all sizes.

RECENT MSP AND M&A INSIGHTS



Questions Every MSP Owner Should Ask Their M&A Advisor

Before selecting an M&A advisor there are several important questions you must ask



Preparing Your MSP for a Transaction

With a few basic preparations, MSPs can increase their attractiveness to buyers to drive exceptional outcomes

MSP INVESTMENT GRADE ASSESSMENT OVERVIEW

Our desire to help owners prepare for an eventual exit has led to the formation of the Investment Grade Assessment. We've curated 90 of the most important questions we've heard buyers and investors ask to help owners benchmark the likelihood their company could receive an institutional investment, and whether they could expect a premium valuation.

This assessment is specifically catered to MSPs and IT Services businesses with questions weighted towards the most relevant industry KPIs and is designed to provide exceptional value in the short 20 minutes it takes to complete.

Link: <https://app.foundersib.com/auth/sign-up>

Free Discount Code: Q123ITS

Here's a brief video discussing it further: <https://vimeo.com/647794938>

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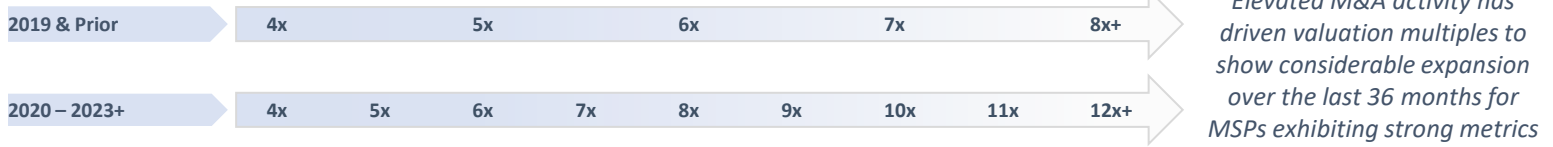
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VALUATION DRIVERS IN MANAGED IT SERVICES

Founders Managed IT Services Valuation Scorecard

Founders' MSP Valuation Scorecard isolates the most critical quantitative and qualitative factors driving valuation multiples

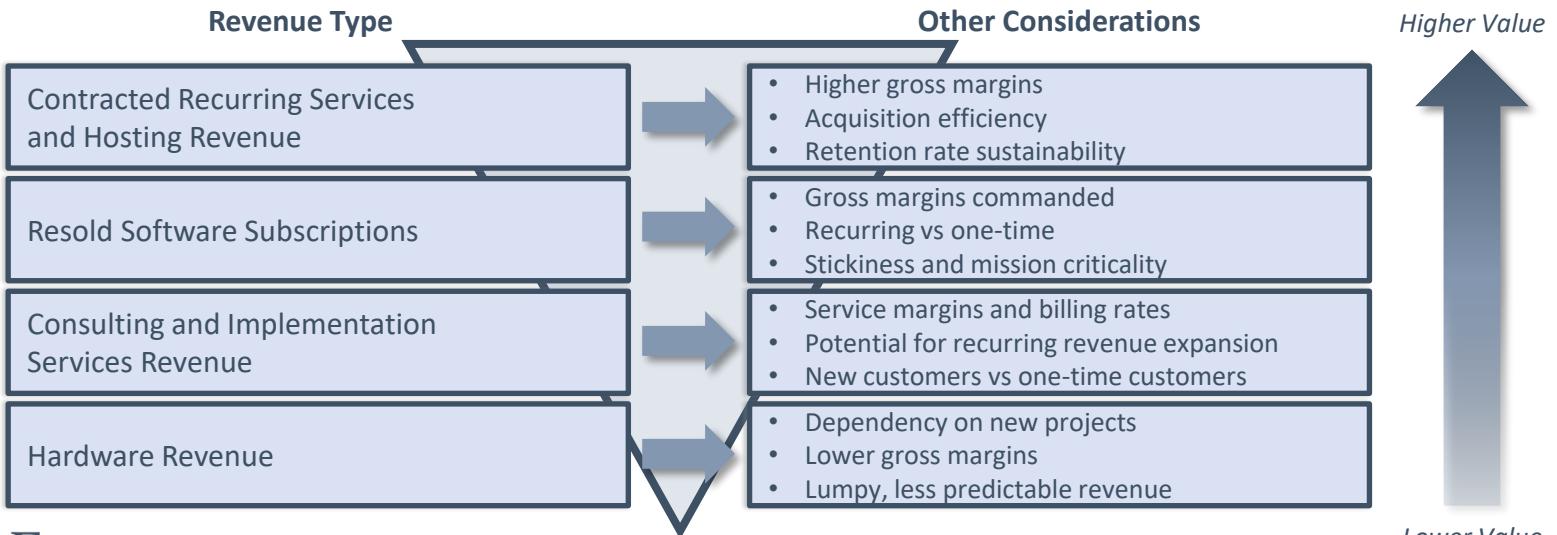
Enterprise Value / EBITDA Ranges Observed



Quantitative Factors			
Financial Preparedness	Consistent reporting; ability to analyze at the customer level; GAAP; proof of cash → quality of earnings + full audit is likely with investors		
Growth	< 10%	> 30%	It is important to monitor recurring growth separately from total revenue growth
Size (Total Revenue)	< \$15M	> \$15M	>\$15M is rare, and that scale would be highly differentiated in the fragmented sector
EBITDA Margin	< 10%	> 20%	If <10%, should exhibit extraordinary marketing-driven investment and growth
Recurring Revenue	< 50%	> 80%	80%+ of revenue should come from managed customers rather than project / one-time
Retention	< 85%	> 95%	85%+ Customer Retention & 90%+ Net Retention are key benchmarks to track to
Gross Margins	<35%	>50%	Fully burdened gross margins for employee costs; measure margin by revenue stream
Agreements	< 12 Months	> 24 Months	What is the average length of managed services terms and do clients auto-renew?
Customer Concentration	> 20% for Top Customer	< 50% for Top 5 Customers	Mitigate the risk of one customer leaving and materially impacting business
Qualitative Factors			
Process Efficiencies	Does the company have efficient customer onboarding and strategy for managing their SLAs? Make onboarding and managing customers extremely efficient		
Data Integrity	Quality and quantity of non-financial data tracked, including pipeline, backlog, sales & marketing efficiency, delivery and operational metrics		
True Managed Solution	Extending services beyond a base-level reseller of solutions. Investors place premium on expertise such as an internally managed SOC or NOC, industry knowledge that enables customer success within a sector, and other sticky managed service capabilities		
Geography Considerations	Room to run in primary and secondary geographies served; ability to remotely serve customers		
Other Considerations	Quality of team, seller trustworthiness, pricing, operations metrics, predictability of MRR, ability to do M&A, end markets served, EBITDA to free cash flow conversion; quality of internal records and financial statements		

Revenue Stream Impact on Valuation for Managed IT Services

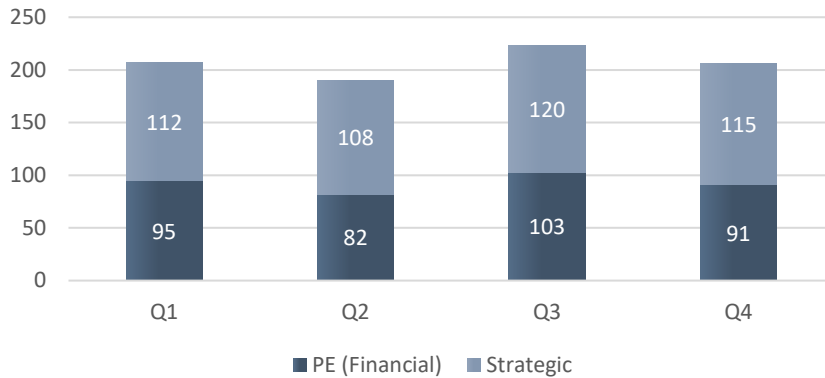
Revenue composition remains a critical driver of valuation for managed IT service providers; the below visual displays how the investor community views varying streams of revenue in terms of value and considerations influencing ultimate viewpoints



KEY BUYER ACTIVITY

Private Equity Activity Driving Growth

2022 MSP & IT Services M&A Activity



Rollup Strategy Proliferation

- Private equity has zeroed in on the MSP landscape, with a proliferation of “rollup” strategies
- Rollup strategies entail acquiring a “platform” investment to plant their flag, followed by a series of acquisitions billed “add-ons”
- Through acquiring additional entities, MSPs can expand the breadth of services provided to customers while leveraging operational efficiencies and best practices from their new partners

Select MSP Rollups Driving Add-On Activity in the last 24 Months

Platform (Sponsor)

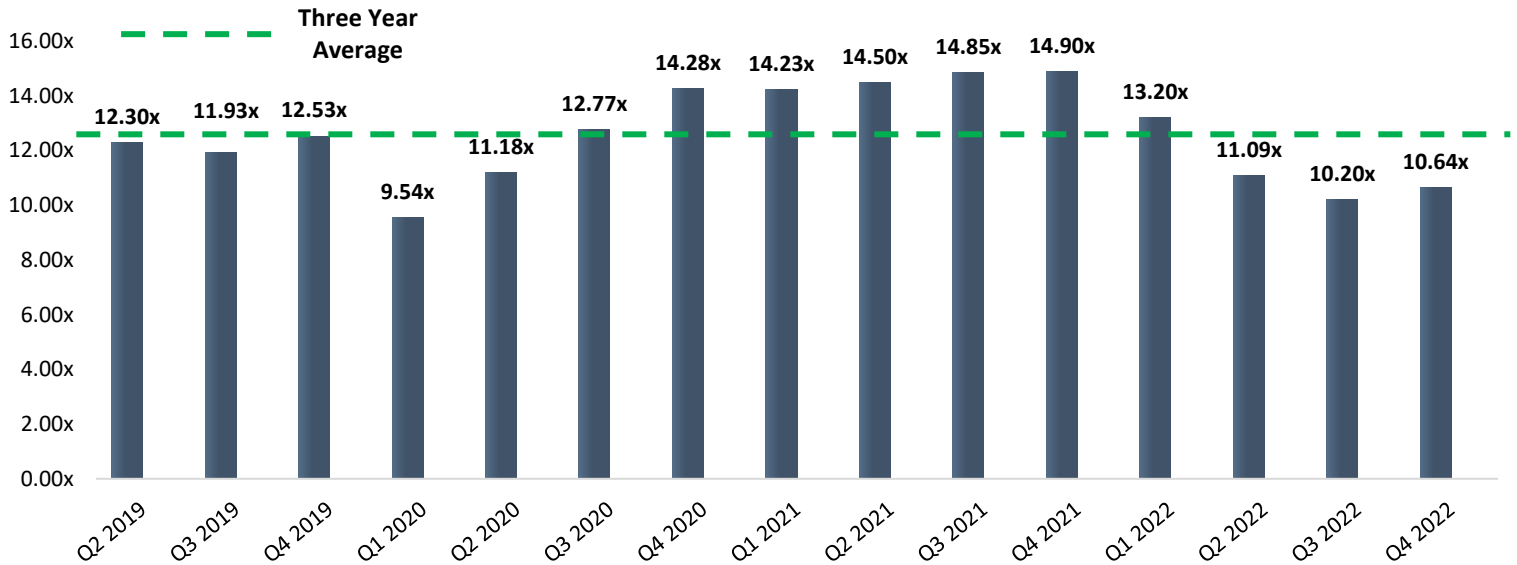


(Nautic Partners)

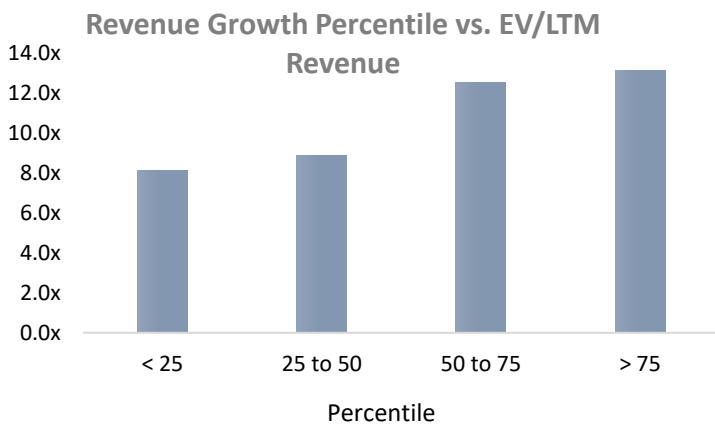


2022 PUBLIC METRICS OVERVIEW

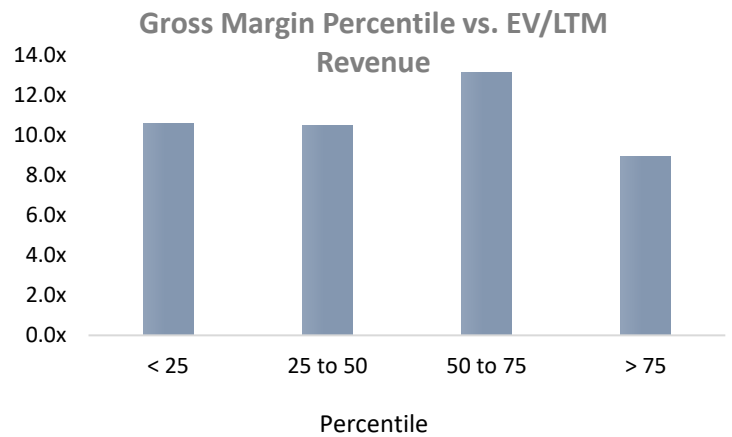
Public EV/LTM EBITDA Multiples



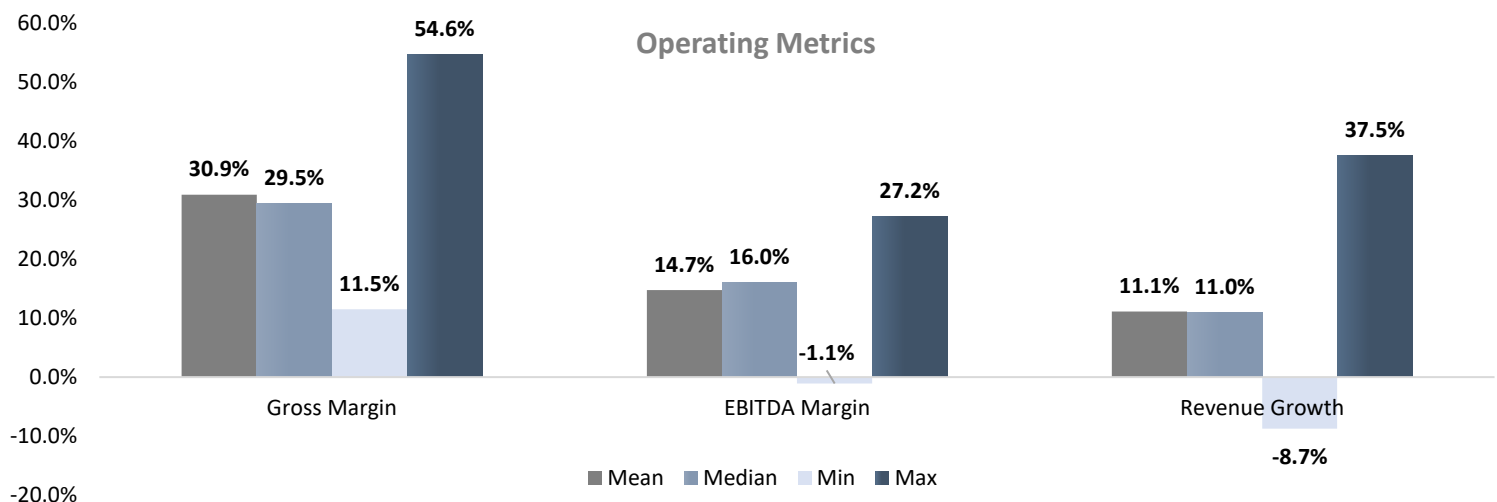
Revenue Growth



Margins



Operating Metrics



PUBLIC VALUATION & GROWTH METRICS

Name	% of 52 Week High	EV	LTM Financials					Enterprise Value Multiples	
			Revenue	EBITDA	Revenue Growth	Gross Margin	EBITDA Margin	LTM Revenue	LTM EBITDA
Accenture	62%	166,127	62,377	10,558	16%	32%	17%	2.7x	15.7x
Avaya	7%	2,885	2,921	581	-1%	53%	20%	1.0x	4.6x
Capgemini	62%	33,396	22,677	3,133	19%	26%	14%	1.5x	9.2x
CGI Group	81%	22,685	10,067	1,929	6%	22%	19%	2.3x	11.4x
Cognizant Technology Solutions	63%	28,180	19,366	3,585	8%	36%	19%	1.5x	7.9x
Consolidated Communications	44%	2,413	1,214	319	-6%	55%	26%	2.0x	5.9x
DXC Technology	62%	9,672	15,370	2,875	-9%	22%	19%	0.6x	3.9x
ePlus	59%	1,333	1,898	166	15%	25%	9%	0.7x	7.4x
Fujitsu General	79%	2,513	2,674	156	22%	21%	6%	0.9x	13.9x
Gamma Communication	44%	1,192	618	134	7%	51%	22%	1.9x	7.8x
Genpact	82%	9,717	4,341	637	11%	35%	15%	2.2x	12.3x
HCL Technologies	62%	34,047	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Infosys	65%	73,840	17,529	N/A	18%	31%	N/A	4.2x	17.1x
Insight Enterprises	75%	4,140	10,495	449	15%	15%	4%	0.4x	8.9x
Leidos	79%	19,217	14,190	1,414	5%	15%	10%	1.4x	13.2x
Nomura Research Institute	56%	14,556	5,294	1,214	14%	35%	23%	2.7x	12.1x
NTT Data	58%	24,123	21,790	3,478	11%	26%	16%	1.1x	6.9x
Rackspace Technology	24%	4,282	3,113	(35)	6%	29%	-1%	1.4x	6.5x
Science Applications Int.	91%	8,545	7,518	620	3%	11%	8%	1.1x	12.9x
Softcat	42%	2,735	1,416	185	37%	30%	13%	1.9x	14.5x
Softchoice	64%	954	957	42	9%	33%	4%	1.0x	12.6x
Tata Consultancy Services	68%	138,470	27,030	7,357	17%	47%	27%	5.1x	18.5x
Wipro	49%	24,089	11,102	2,202	22%	28%	20%	2.2x	10.7x



Statistics

Min	954	618	(35)	-9%	11%	-1%	0.4x	3.9x
Median	9,717	8,793	637	11%	29%	16%	1.5x	11.1x
Mean	27,353	11,998	1,952	11%	31%	15%	1.8x	10.6x
Max	166,127	62,377	10,558	37%	55%	27%	5.1x	18.5x

SELECT MSP & IT SERVICES Q3 & Q4 TRANSACTIONS

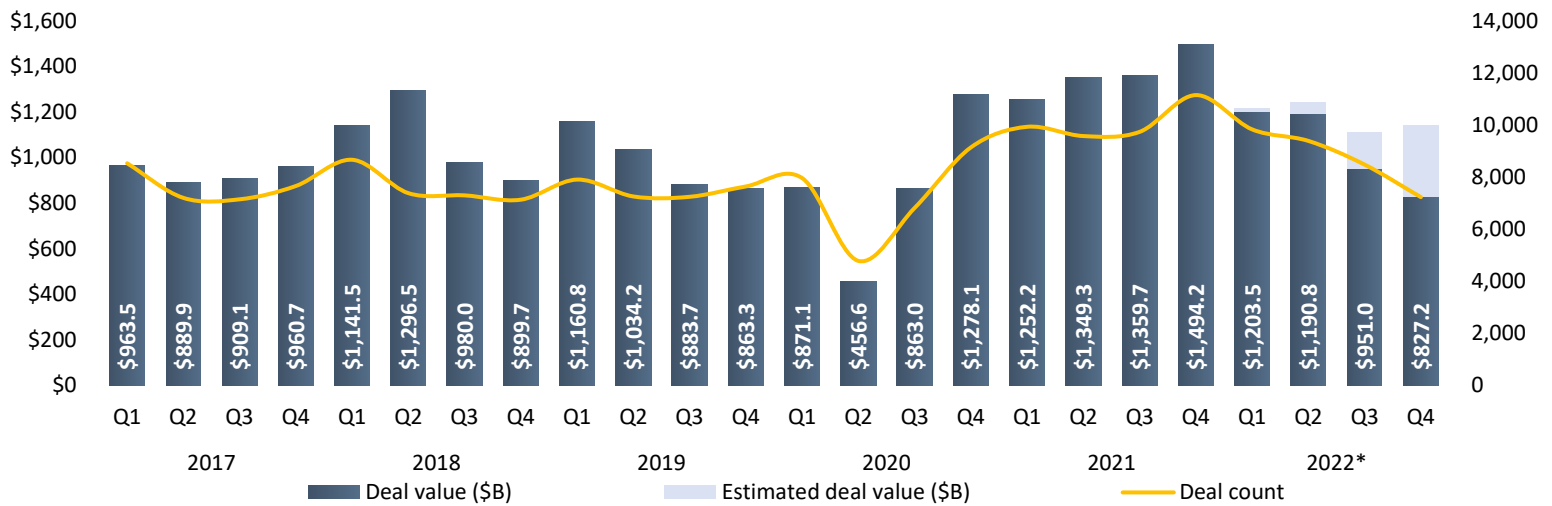
Notable Transactions

<p>NEORIS</p> <p><i>Advent International</i> GLOBAL PRIVATE EQUITY</p> <p>Neoris was acquired by Advent International on October 25, 2022, for an undisclosed amount. Neoris is a global provider of tech IT consulting and digital transformation services. With Advent's support, NEORIS will deepen its focus on artificial intelligence, data science, cloud solutions, and automation, etc.</p>	<p>MILESTONE</p> <p>TWO SIGMA THE HALIFAX GROUP maranon</p> <p>Milestone Technologies was acquired by The Halifax Group, Maranon Capital, and Two Sigma Impact on December 7, 2022, for an undisclosed amount. The new investment will enable the company to execute on its strategic vision to support organizations through forward-looking digital transformation and scaling of IT capabilities.</p>	<p>Reboot Networks A DATAPRISE COMPANY</p> <p>DATAPRISE</p> <p>Dataprise, via its financial sponsor Trinity Hunt Partners, acquired Reboot Networks on November 2, 2022. Reboot provides managed IT services to SMBs. The acquisition will give Reboot access to Dataprise's broad portfolio of services including cybersecurity, disaster recovery, and cloud and expand its geographic footprint.</p>	<p>chips TECHNOLOGY GROUP</p> <p>ITSolutions™</p> <p>IT Solutions Consulting, via its financial sponsor Nautic Partners, acquired CHIPS Technology Group on October 10, 2022. The acquisition brings ITS's managed IT and security services to the New York region, combining two best-in-class organizations that will allow more businesses to benefit from their process-driven, customer-centric approaches.</p>
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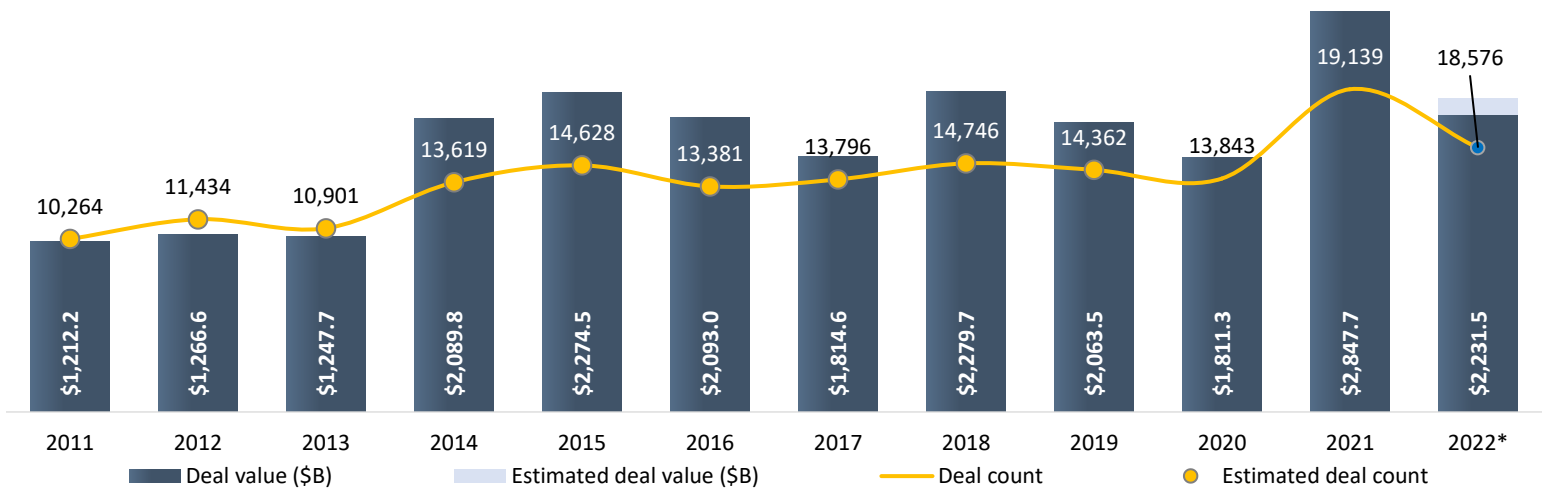
Date	Target	Buyer	Purchase Price	Revenue	EBITDA	EV / Revenue	EV / EBITDA
Dec-22	 OCTO		N/A	\$500M	N/A	N/A	N/A
Dec-22	 PROMEDICAL IT		N/A	N/A	N/A	N/A	N/A
Dec-22			N/A	N/A	N/A	N/A	N/A
Nov-22	 SENSATO		N/A	N/A	N/A	N/A	N/A
Nov-22 (Announced)			\$644M	\$188M	\$26M	3.6x	26.0x
Nov-22	 cloudflight	 Partners Group REALIZING POTENTIAL IN PRIVATE MARKETS	\$395M	N/A	N/A	N/A	N/A
Sep-22			\$3B	\$2.5B	\$230M	1.2x	13.0x
Aug-22	 swatsystems Technology Solutions		N/A	N/A	N/A	N/A	N/A
Jul-22			N/A	N/A	N/A	N/A	N/A
Jul-22	 RELIABLE IT		N/A	N/A	N/A	N/A	N/A

GLOBAL & NORTH AMERICAN M&A ACTIVITY

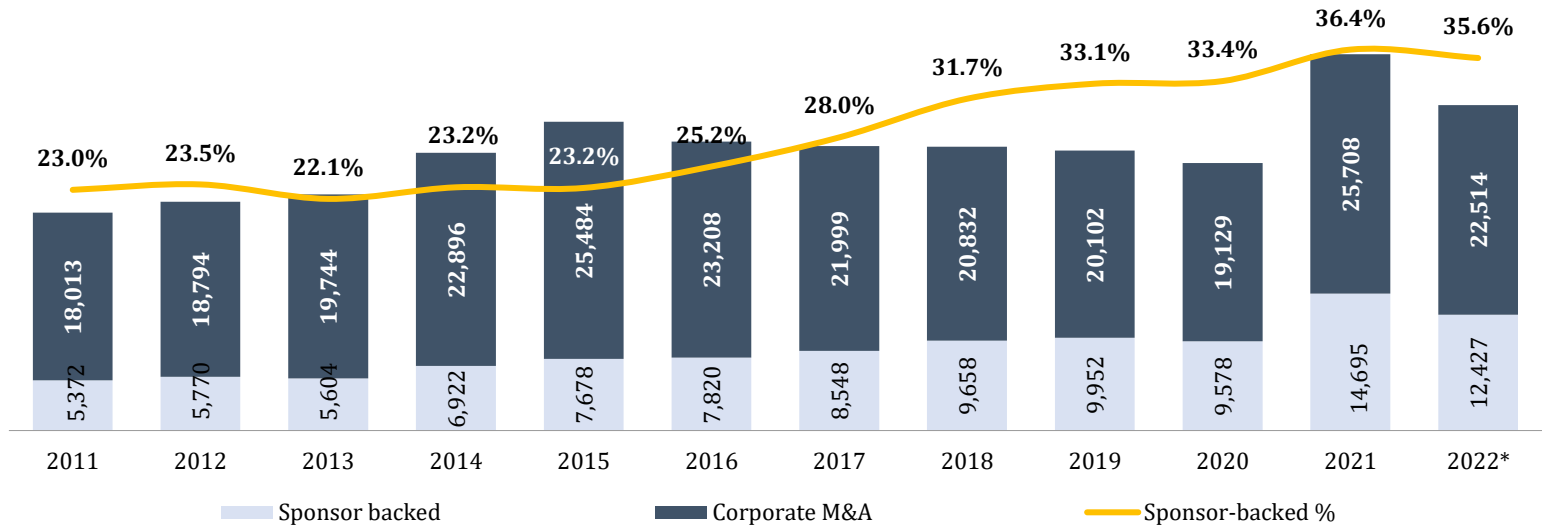
Global M&A Activity By Quarter



North American M&A Activity By Year



Global M&A By Type



 Has been acquired by  Sell-Side Advisor	 Has been acquired by  Sell-Side Advisor	 Has been acquired by  Sell-Side Advisor	 Has been acquired by  Sell-Side Advisor	 Has been acquired by  Sell-Side Advisor	 Has been recapitalized by  Sell-Side Advisor	 Has been acquired by  Sell-Side Advisor
 Has been recapitalized by  Sell-Side Advisor	 Has been recapitalized by An undisclosed financial buyer Sell-Side Advisor	 Has been acquired by  Sell-Side Advisor	 Has been acquired by  Sell-Side Advisor	 Has been recapitalized by  Sell-Side Advisor	 Has been acquired by  Sell-Side Advisor	 Has been recapitalized by  Sell-Side Advisor
 Has been acquired by  Sell-Side Advisor	 Has been recapitalized by  Sell-Side Advisor	 Has been recapitalized by  Financial Advisor	 Has been acquired by  Sell-Side Advisor	 Has been acquired by  Sell-Side Advisor	 Has been acquired by  Sell-Side Advisor	 Has been recapitalized by  Financial Advisor
 Has been recapitalized by  Financial Advisor	 Has been recapitalized by  Financial Advisor	 Has been acquired by  Sell-Side Advisor	 Has been recapitalized by  Financial Advisor	 Has been acquired by  Sell-Side Advisor	 Has been acquired by  Sell-Side Advisor	 Has been acquired by  Sell-Side Advisor
 Has been recapitalized by  Financial Advisor	 Have been acquired by  Sell-Side Advisor	 Has been acquired by  Sell-Side Advisor	 Has been acquired by  Financial Advisor	 Has been acquired by  Sell-Side Advisor	 Has been acquired by  Sell-Side Advisor	 Has been acquired by  Sell-Side Advisor
 Has been acquired by  Sell-Side Advisor	 Has been recapitalized by  Financial Advisor	 Has been acquired by  Sell-Side Advisor	 Has been recapitalized by  Financial Advisor	 Has been recapitalized by  Financial Advisor	 Has been acquired by  Sell-Side Advisor	 Has been acquired by  Sell-Side Advisor
 Has been recapitalized by  Financial Advisor	 Has been acquired by  Sell-Side Advisor	 Has been acquired by  Sell-Side Advisor	 Has been acquired by  Sell-Side Advisor	 Has been acquired by  Sell-Side Advisor	 Has been acquired by  Sell-Side Advisor	 Has been recapitalized by  Sell-Side Advisor
 Has been acquired by  Sell-Side Advisor	 Has secured growth funding from  Financial Advisor	 Has been acquired by  Sell-Side Advisor	 Has secured growth capital from  Strategic Advisor	 Has been acquired by  Sell-Side Advisor	 Has been acquired by  Sell-Side Advisor	 Has been acquired by  Sell-Side Advisor

FOUNDERS ADVISORS OVERVIEW

ORDER

SERVICE

GROWTH

EXCELLENCE

HEALTH

COMMUNITY

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