

MANAGED IT SERVICES M&A UPDATE | 2024 Q1 Review



SLOW START FOR MSP M&A IN 2024 Q1

The first quarter of 2024 witnessed a sluggish start for mergers and acquisitions (M&A) within the Managed Service Provider (MSP) and IT Services sector. Buyout / LBOs were down in 2024 Q1 as private equity groups accounted for 71 transactions while strategics aggressively pursued rollups / bolt-ons with 104 transactions in the first quarter.

While MSP / IT Services deal activity was down in the first quarter of 2024, sector constituents are seeing heightened deal activity in Q2 2024. A number of factors are thought to be contributing to the increase in deal activity including: a nearing presidential election, significant amounts of private equity dry powder, a backlog of 2023 transactions and a convergence of buyer/seller valuation expectations. Many active buyers are seeking and executing on deals that offer strong fundamentals and clear, near-term pathways to growth.

Despite the slow start, private equity groups and strategic buyers remain keen on acquiring MSPs. The allure lies in the stable, recurring revenue models and the strong client relationships that MSPs typically maintain. Additionally, the increasing demand for IT services, particularly in areas like cloud computing, cybersecurity, and digital transformation, makes MSPs highly attractive targets. Investors continue to be motivated by the opportunity to consolidate smaller MSPs to create larger, more efficient entities that can achieve economies of scale and better serve a growing market.

SILICON Y'ALL – TECHNOLOGY SUMMIT 2024

Founders is preparing to host its tenth annual Technology Summit, Silicon Y'all, October 21st – 23rd at the Renaissance Ross Bridge Resort and Spa in Birmingham, AL. Silicon Y'all is an invitation-only event of technology CEOs and leading private equity companies. Over three days, participants engage in meaningful discussions about growth, value, and current industry trends while enjoying delicious food, scenic views, and true Southern charm and hospitality Birmingham has to offer.

We recently launched registration and are currently curating invitations. We invite you to join the 2024 waitlist and learn more about Silicon Y'all [here](#).



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VMWARE ACQUISITION: CHALLENGES & OPPORTUNITIES FOR MSPS

By: [Chris Weingartner](#), Managing Director

While the MSP industry is no stranger to seismic shifts, Broadcom's \$69 BILLION acquisition of VMware in November 2023 has left managed service providers reeling from price increases and from a transition away from the historical perpetual licensing model to a subscription model with many standalone options no longer being offered. MSPs can be confident that Broadcom will look to justify the price paid for VMware and has implemented significant changes that are shaking up the cloud ecosystem in several ways. For owners and C-Suite executives of IT Managed Services Companies (MSPs), understanding the implications of this acquisition is critical. Additionally, navigating the challenges and opportunities presented by this transaction, particularly in terms of potential price hikes, alternative solutions, and the customer support they can expect to receive, is imperative for an owner/operator of an MSP.

THE BROADCOM-VMWARE ACQUISITION: AN OVERVIEW

Broadcom's acquisition of VMware, valued around \$69 billion, has been a headline-grabber in the tech world and is a move by Broadcom to expand its footprint in the enterprise software market. VMware, known for its leading virtualization and cloud infrastructure solutions, complements Broadcom's portfolio but has raised concerns for existing VMware customers, especially MSPs who rely heavily on VMware's products and services.

POTENTIAL PRICE HIKES: A MAJOR CONCERN

One of the most immediate concerns for MSPs is the burden caused by price increases. Broadcom has a reputation for aggressively optimizing costs and increasing prices post-acquisition. This was evident in its previous acquisitions, such as CA Technologies (2018) and Symantec's enterprise security business (2019), where customers saw significant price increases ranging from 82% up to 450%. Our intel suggests that groups can expect to see anywhere between a 200 – 600% increase in the cost of their VMware solution when their perpetual license comes up from renewal and only have the ability to adopt a subscription or as term license.

For MSPs, such price hikes can have a cascading effect:

1. **Increased Operational Costs:** Higher licensing and subscription fees for VMware products will directly increase operational costs for MSPs. Given that many MSPs operate on tight margins, this could significantly impact profitability.
2. **Pricing Pressure on Clients:** To maintain margins, MSPs might need to pass on these increased costs to their clients. This could strain relationships and potentially lead to loss of business if clients seek more cost-effective solutions.
3. **Budget Reallocation:** MSPs may need to reallocate their budgets to accommodate higher VMware costs, possibly at the expense of other critical areas such as innovation, marketing, or expansion.

EXPLORING ALTERNATIVE SOLUTIONS

Given the likelihood of increased costs, it's prudent for MSPs to explore alternative solutions. Diversifying the technology stack can mitigate risks associated with vendor dependency and provide leverage in negotiations. Understanding the viability of other virtualization options is essential, particularly for MSPs looking to protect their margins and/or not just pass on cost increases to their customer base. Many of VMware's competitors are already benefiting as a result of VMware's users seeking out alternative providers.

Continued on the following page

VMWARE ACQUISITION: CHALLENGES & OPPORTUNITIES FOR MSPS

By: [Chris Weingartner](#), Managing Director

CUSTOMER SUPPORT: FURTHER CHANGES ON THE HORIZON?

Another critical aspect to consider is the potential changes in customer support. Broadcom's acquisition strategy often involves restructuring and streamlining operations to improve efficiency, which can sometimes lead to changes in customer support dynamics.

- **Support Model Adjustments:** Broadcom is expected to continue integrating VMware's support with its existing frameworks, altering response times and support processes. MSPs should prepare for possible adjustments in how support requests are handled. Broadcom is already starting to trim the number of Cloud Service Partners they utilize, and push more customer support/success to those teams from any corporate driven CS roles.
- **Quality and Availability:** Issues ranging from small concerns to outright horror stories are starting to trickle out tied to Broadcom's support services post-acquisition. MSPs should monitor the quality and availability of support to ensure it meets their operational needs and those of their clients, and if not, consider migrating to one of the alternative solutions above.
- **Transition Period:** During the initial transition period, support services may experience disruptions. MSPs should establish contingency plans to mitigate any negative impacts on their service delivery. User groups and peer networks can be helpful to triage issues that others have seen in as rapid a manner as possible.

To manage these potential changes, MSPs should maintain open communication with VMware representatives to stay informed about any support changes and ensure they have a clear understanding of the new support structure.

GOING FORWARD

The Broadcom-VMware acquisition presents both challenges and opportunities for MSPs. While the specter of price hikes looms large, proactive planning, exploring alternative solutions, and strategic adjustments can help MSPs navigate this transition effectively. Additionally, the broader M&A trends suggest a dynamic and evolving landscape where agility and foresight will be key to staying competitive. By staying informed and prepared, MSPs can not only mitigate risks but also seize new opportunities for growth and innovation in this shifting ecosystem, as within the MSP landscape nothing is certain but death, taxes and continued vendor consolidation.

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: ITS2024NL

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

MSP / IT SERVICES INSIGHTS

Insights

[Navigating the Broadcom-VMware Acquisition: Challenges and Opportunities for MSPs](#)

The Broadcom-VMware acquisition is creating several challenges & opportunities for IT Services companies. How does this acquisition affect your MSP and how should you navigate the effects of the transaction.



[What Is and Why Does Working Capital Matter in MSP Transactions?](#)

Working capital becomes an essential consideration in MSP transactions. What are the reasons for its importance when selling your business?



[Platform or Add-On – Which is My MSP?](#)

Buyers consider a handful of factors when viewing an MSP as either an add-on or platform investment. What criteria make your company qualified to be an appealing standalone platform?



[Private Equity is Emailing & Calling My MSP Non-Stop – What Do I Do?](#)

You and your business are constantly getting inbound interest from private equity groups. What are the best ways to handle the inquiries received?



[The Pros and Cons of Selling Your MSP to a Peer Group Member](#)

Peer groups members can often be of great value to one another. If considering a merger or acquisition with a fellow peer group member, what are the benefits and drawbacks to consider as an owner?



[Strong Year & Outlook for MSP M&A](#)

Timing is a significant factor when considering a sell of your business. What is the outlook for MSP M&A for 2023?



[The Entrepreneur's Dilemma – Selling When Things are Going Well](#)

The best time to sell your business is when it is healthy and growing, but many owners aren't interested in pursuing an exit when things are going well. As an owner, how should you think about this paradox?



[Preparing Your MSP for a Transaction](#)

When considering a sell of our business, there are several critical areas to consider ahead of a transaction. What are the preparations you can take to ensure you get competitive bids for your MSP?



[The Customer Isn't Always Right – When to Fire a Challenging Client](#)

What are the situations where it might be better to fire or not sign up a client? Doing so can sometimes be necessary to protect your company's profitability and culture.



[Questions Every MSP Owner Should Ask Their M&A Advisor](#)

Ahead of hiring representation, owners should do their research on the M&A advisors in consideration. What are the questions you should ask these groups before selection?

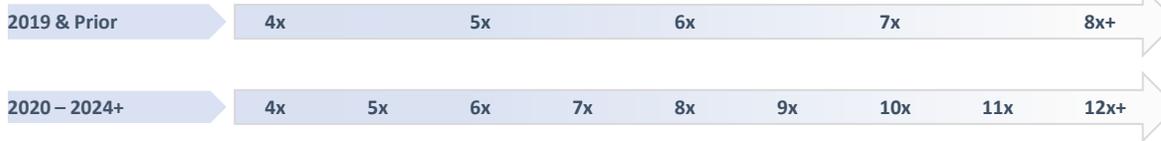


VALUATION DRIVERS IN MANAGED IT SERVICES

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

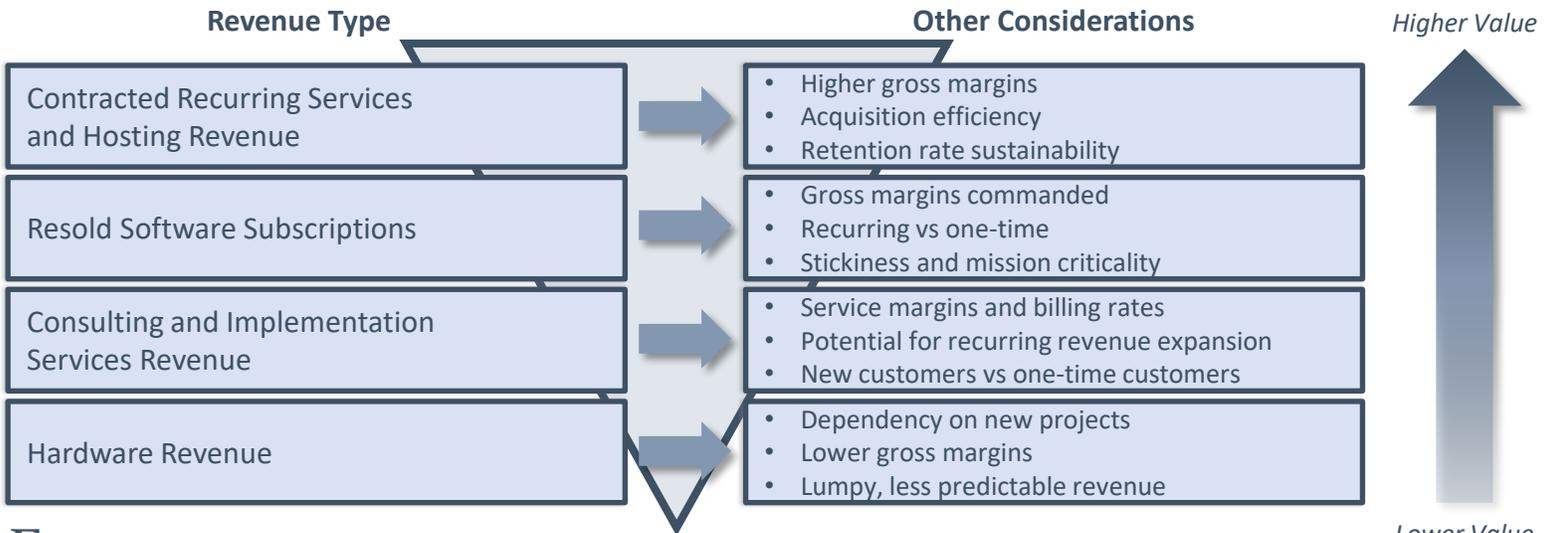


Elevated M&A activity has driven valuation multiples to show considerable expansion over the last 36 months for MSPs exhibiting strong metrics

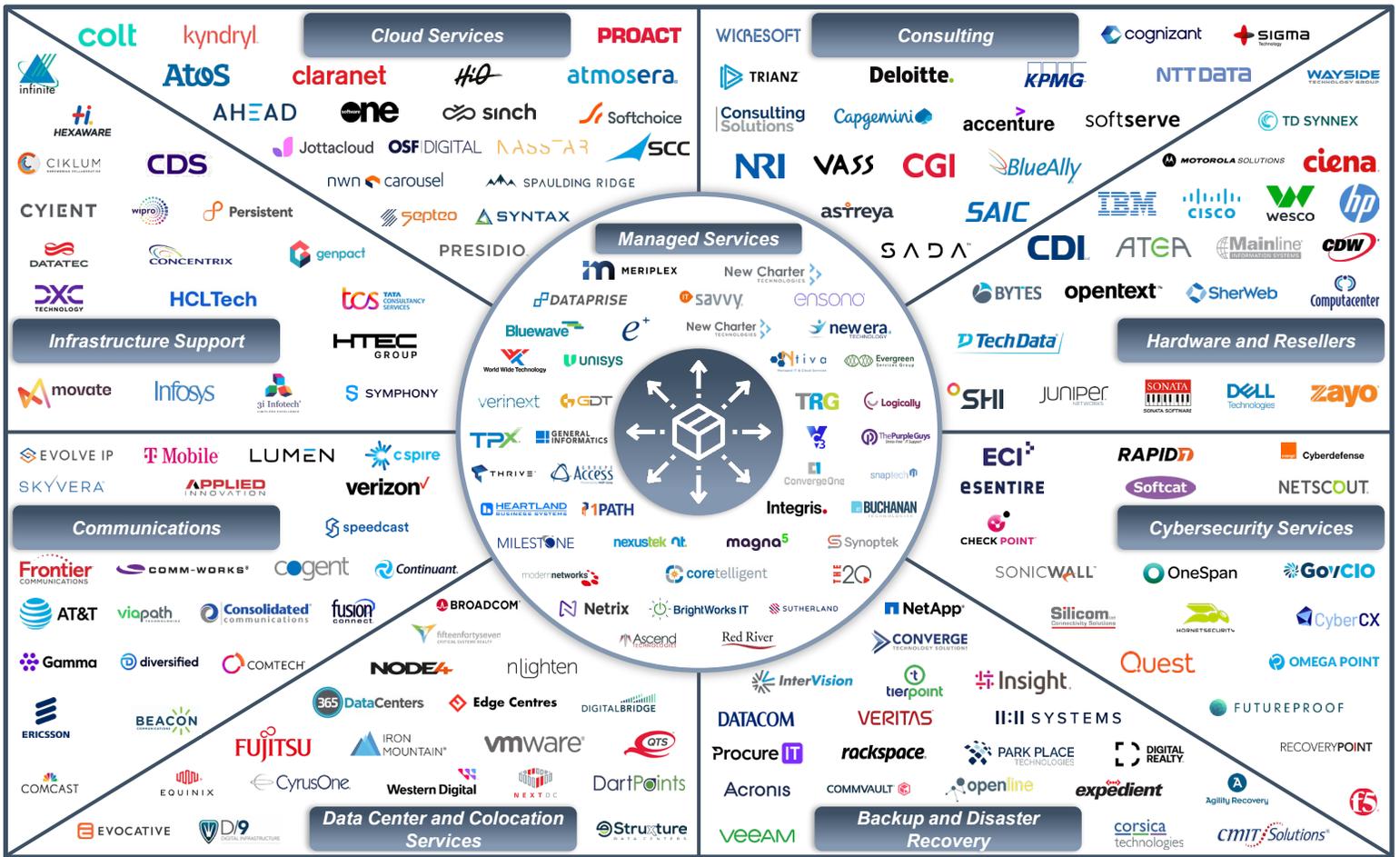
Quantitative Factors			
Financial Preparedness	Consistent reporting; ability to analyze at the customer level; GAAP; proof of cash → quality of earnings + full audit is likely with investors		
Growth	< 10%	> 30%	It is important to monitor recurring growth separately from total revenue growth
Size (Total 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



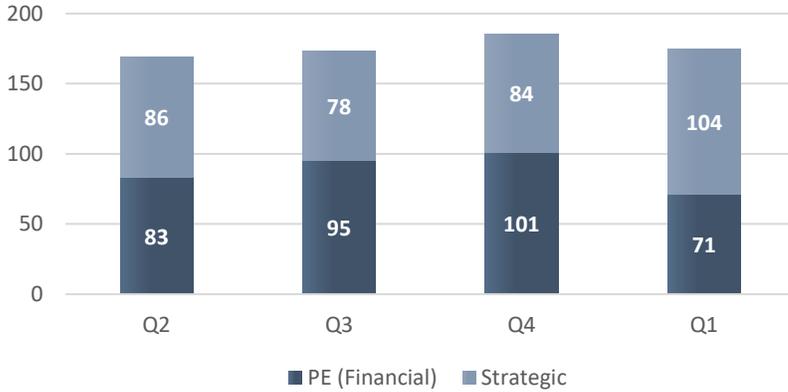
IT SERVICES BUYER LANDSCAPE



KEY BUYER ACTIVITY

Steadiness in MSP & IT Services M&A with Balance Between Financial and Strategic Transactions

MSP & IT Services LTM M&A Activity (United States)



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 & IT Services Rollups Driving Add-On Activity in the Last 24 Months

Platform (PE Sponsor)

Recent Add-ons



(The Riverside Company)



(Goldner Hawn)



INNOVATIVE TECHNOLOGY PARTNERS



WHITE OAK SECURITY



(Periscope Equity)



(Tecum Capital & Columbia River Partners)



(3i Group)



(H.I.G. Capital and Marlin Equity Partners)

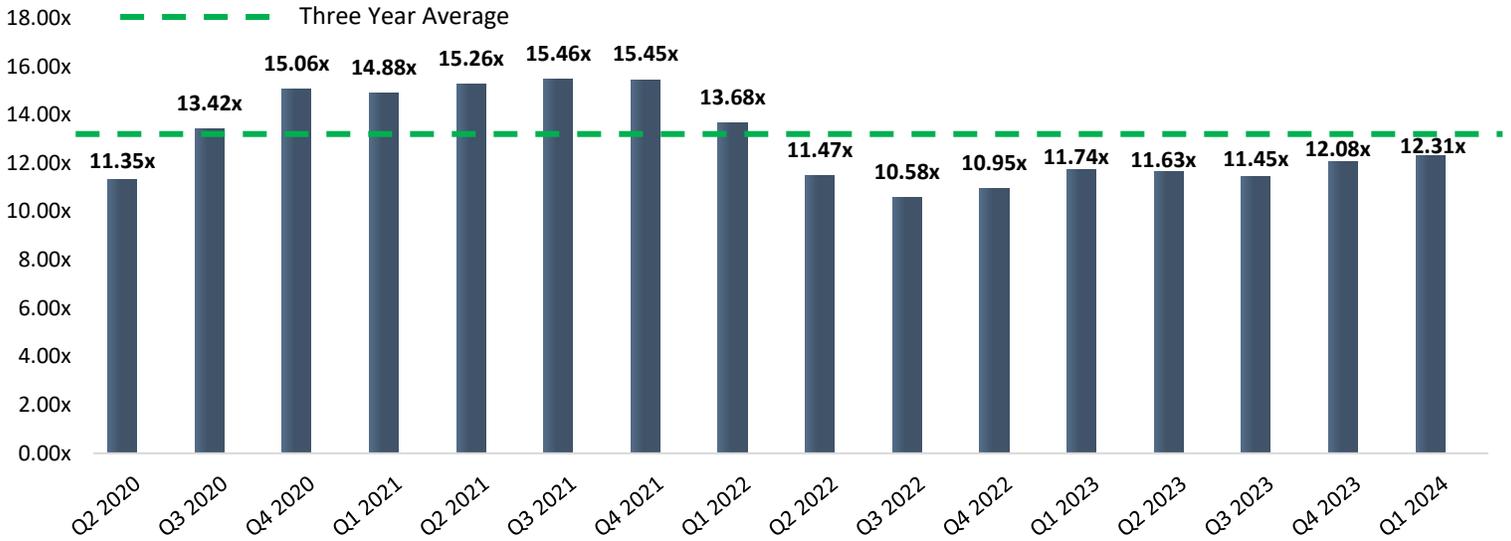


(Brighton Park Capital)



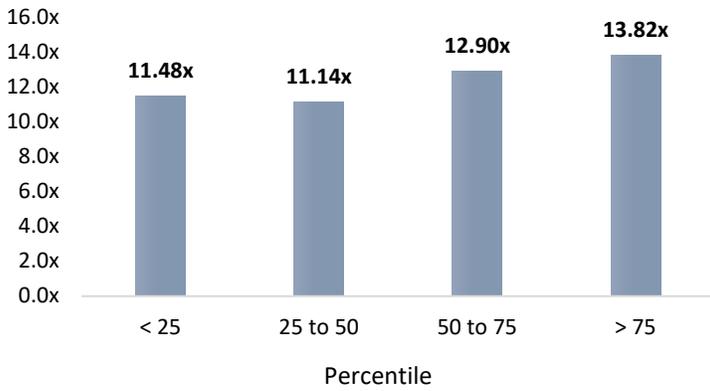
2024 Q1 PUBLIC METRICS OVERVIEW

Public EV/LTM EBITDA Multiples



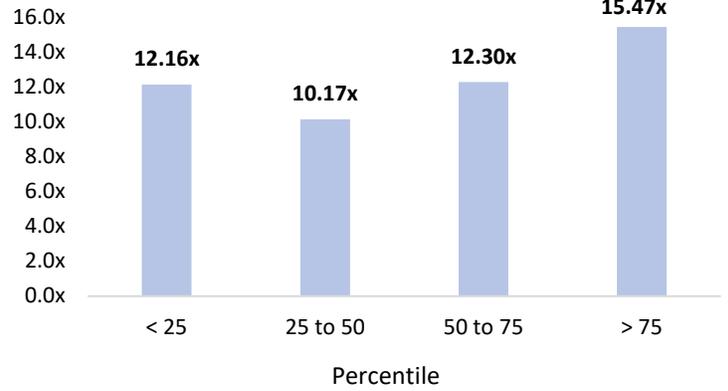
Revenue Growth

Revenue Growth Percentile vs. EV/LTM Revenue

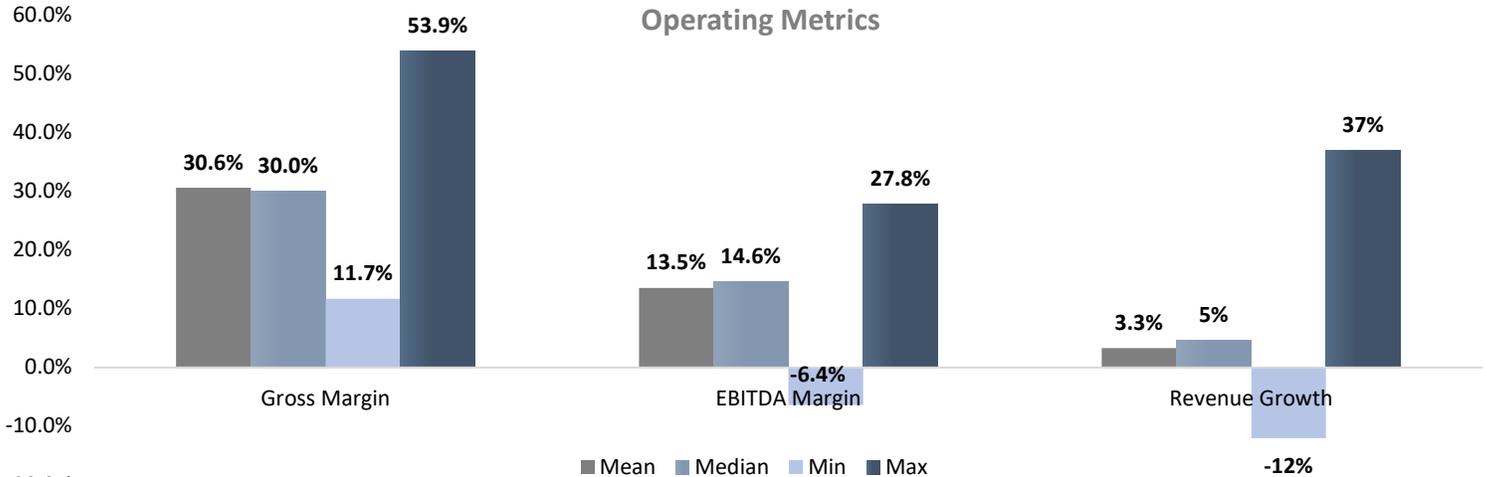


Margins

Gross Margin Percentile vs. EV/LTM Revenue



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 (An. Norm.)
Accenture	89%	216,790	64,574	10,245	2%	33%	16%	3.4x	19.6x
Capgemini	93%	42,864	23,787	3,289	13%	27%	14%	1.8x	11.3x
CGI Group	92%	27,096	10,699	2,052	9%	16%	19%	2.5x	12.5x
Cognizant Technology Solutions	92%	35,167	19,353	3,257	0%	35%	17%	1.8x	10.1x
Consolidated Communications	93%	3,030	1,110	165	-7%	54%	15%	2.7x	10.5x
DXC Technology	73%	7,825	13,872	794	-7%	23%	6%	0.6x	3.6x
ePlus	94%	2,116	2,163	200	7%	26%	9%	1.0x	10.1x
Fujitsu General	41%	1,421	2,340	177	-4%	23%	8%	0.6x	7.9x
Gamma Communication	97%	1,524	609	116	9%	51%	19%	2.3x	11.2x
Genpact	71%	6,861	4,477	743	2%	35%	17%	1.5x	8.3x
HCL Technologies	90%	47,907	13,082	3,085	11%	42%	24%	3.7x	15.2x
Infosys	86%	72,618	18,550	N/A	9%	30%	N/A	3.9x	15.9x
Insight Enterprises	95%	6,950	9,176	481	-12%	18%	5%	0.8x	14.0x
Leidos	100%	22,179	15,438	946	7%	15%	6%	1.4x	13.3x
Nomura Research Institute	89%	17,106	5,168	1,187	7%	35%	23%	3.3x	14.4x
NTT Data	95%	42,245	30,320	4,314	37%	27%	14%	1.4x	9.8x
Rackspace Technology	51%	3,584	2,957	(190)	-5%	21%	-6%	1.2x	7.5x
Science Applications Int.	90%	8,886	7,444	882	-3%	12%	12%	1.2x	13.4x
Softcat	97%	3,873	1,172	188	-7%	42%	16%	3.3x	20.1x
Softchoice	80%	824	816	88	-12%	40%	11%	1.0x	9.1x
Tata Consultancy Services	91%	162,585	28,922	8,040	10%	41%	28%	5.6x	20.4x
Wipro	88%	28,143	11,153	N/A	8%	30%	N/A	2.5x	12.6x

Statistics

Min	824	609	(190)	-12%	12%	-6%	0.6x	3.6x
Median	12,996	9,937	838	5%	30%	15%	1.8x	11.9x
Mean	34,618	13,054	2,003	3%	31%	14%	2.2x	12.3x
Max	216,790	64,574	10,245	37%	54%	28%	5.6x	20.4x

SELECT MSP & IT SERVICES Q1 TRANSACTIONS

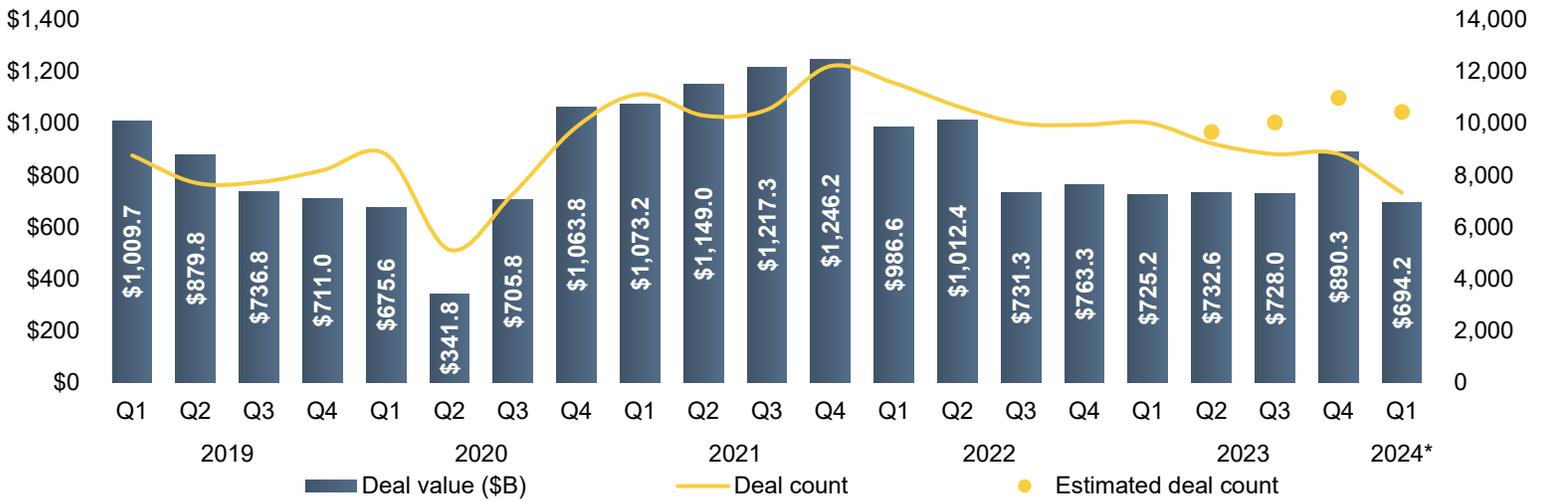
Notable Transactions

  <p>The company was acquired by Endava (NYS: DAVA), a subsidiary of Concise, for \$405 million on February 29, 2024. The acquisition significantly expands Endava’s footprint in North America with deep domain expertise in the U.S. Healthcare market, establishes Endava’s delivery operations in India, & adds platform capabilities focused on enterprise digital transformation.</p>	  <p>The company was acquired by Edge Centres for an undisclosed amount on March 8, 2024. The acquisition expands Edge Centres’ geographical footprint across the United States with ten new facilities across various key locations, including Los Angeles, Atlanta, Chicago, Dallas, Miami, New Jersey, Reston, St. Louis, and Seattle.</p>	  <p>The company was acquired by Wipro (BOM: 507685) for \$66 million on February 13, 2024. The combined capabilities of Wipro and the company will help deliver enhanced value, faster speed-to-market and differentiated services to clients in the P&C sector.</p>	  <p>The company was acquired by Nitel, via its financial sponsor Cinven, through an LBO on March 25, 2024 for an undisclosed amount. The move represents another step in Nitel’s growth strategy that was put in place a little over two years ago when international private equity firm Cinven made a significant investment in Nitel.</p>
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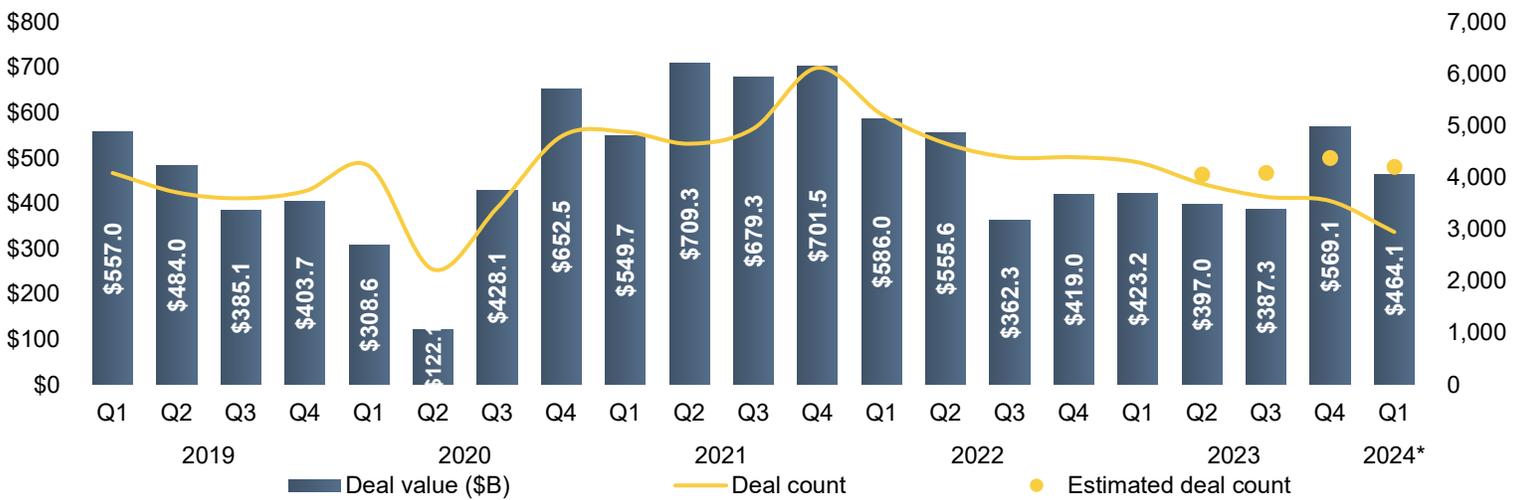
Date	Target	Buyer	EV	Revenue	EBITDA	EV / Revenue	EV / EBITDA
27-Mar-24			N/A	N/A	N/A	N/A	N/A
20-Mar-24			N/A	N/A	N/A	N/A	N/A
12-Mar-24			\$120.6	N/A	N/A	N/A	N/A
04-Mar-24			N/A	N/A	N/A	N/A	N/A
28-Feb-24			N/A	N/A	N/A	N/A	N/A
27-Feb-24			N/A	N/A	N/A	N/A	N/A
01-Feb-24			\$705.0	N/A	N/A	N/A	N/A
23-Jan-24			\$75.0	\$75.0	N/A	N/A	1.0x
12-Jan-24			\$775.0	N/A	N/A	N/A	N/A
04-Jan-24			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 Quarter



Global M&A By Type



SELECT FOUNDERS TECHNOLOGY TRANSACTIONS



Advanced Workflow Packaging Software & Managed Services

[Press Release](#)



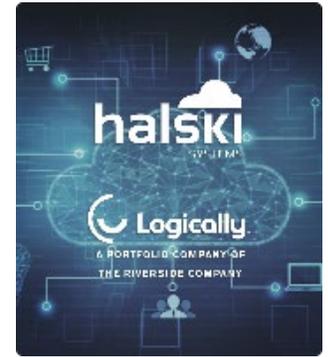
IT Consulting and Software Development

[Press Release](#)



Microsoft Dynamics System Integrator

[Press Release](#)



Managed Security and IT Services

[Case Study](#)



Cybersecurity and Technology Risk Management

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Managed IT Services and Cloud Security



API Platform as a Service

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Data and Software to Law Enforcement Agencies

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Business Process Management and Workflow Platform

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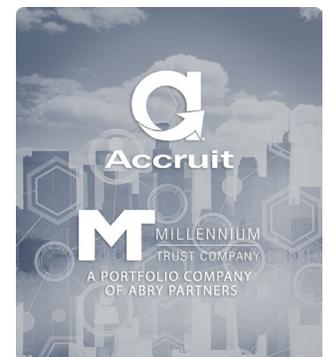
Workflow and Management Platform

[Press Release](#)



Tech-Enabled Digital Marketing and Lead Generation Services

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Financial Workflow Platform

[Press Release](#)

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Technology Vertical Focus

• IT/ Managed Services	• FinTech	• HCIT
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• GIS Mapping	• Payments	• Fleet Management
• Internet & Digital Media	• Big Data	• Internet of Things
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