

Aventis Advisors

Understanding MSP Valuations & Consolidation Trends

Webinar materials

Agenda

1. MSPs vs. VARs vs. distributors
2. MSP valuations – public and private
3. Factors influencing MSP valuations
4. MSP Roll-up case study
5. How to prepare your MSP business for sale



Let's begin by making sense of MSPs, VARs, and the rest of the alphabet soup

How are MSPs, VARs, Distributors, and Cloud Consultancies different from one another?



MSPs, VARs, Distributors... Who Does What in IT Services?

Each IT Services segment delivers value differently, from resale margins (Distributors & VARs) to recurring revenue (MSPs & Cloud Consultancies)

Distributors

What do they do?

- Bulk intermediaries between manufacturers and VARs

Characteristics:

- Carry own inventory
- High-volume product flow
- Very thin margins (3-10%)



VARs

- Resell hardware / software and add integration or support services

- Supply the hardware
- Low margins on resale (<10%)
- Higher margins on add-on services (10-15%)



MSPs

- Ongoing IT monitoring, back-up, security, and infrastructure services

- Recurring contracts and revenue streams
- Stable, high margins (15-25%)



Cloud Consultancies

- Advise and implement cloud migrations, architecture, and security

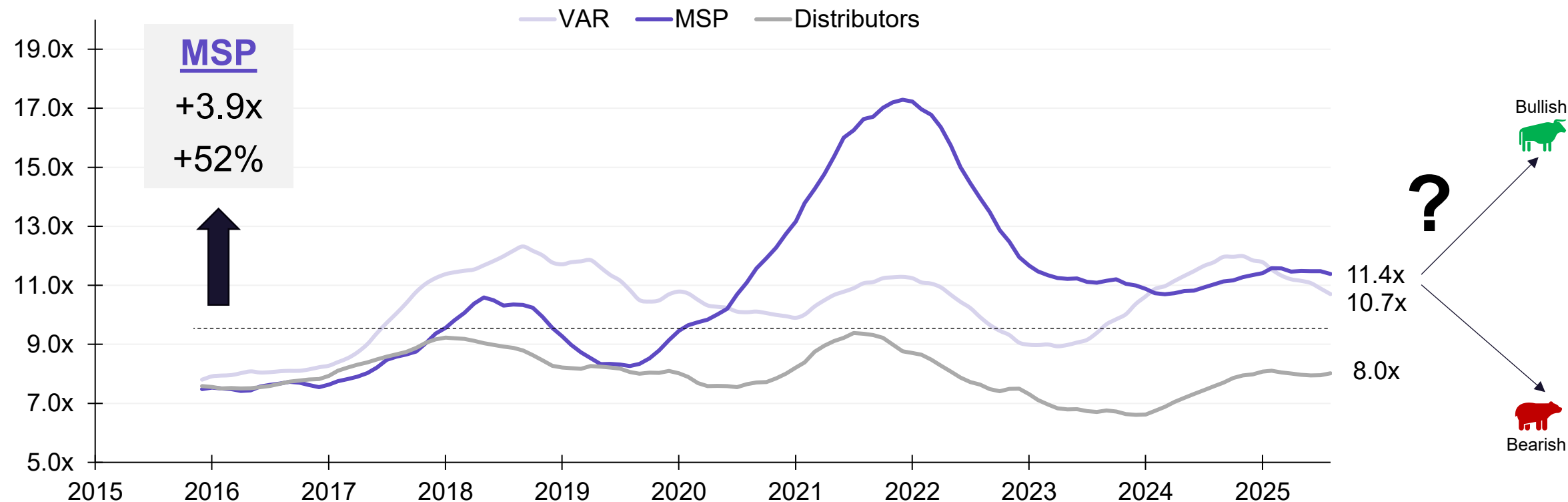
- Both project based and retainer contracts
- Typically, higher margins than the rest due to specialization (20-40%)



MSPs command a valuation premium in public markets.

The shift to remote work and accelerated digital transformation after 2020 drove a lasting valuation premium for MSPs

Median EV/EBITDA multiple, 12m rolling



Full sample

MSP: Softchoice Corp., Data#3 Limited, Sonata Software Limited, SoftwareOne Holding AG, SeSa S.p.A., Rackspace Technology, Inc., Proact IT Group AB (publ), Wiit S.p.A., Neurones S.A., Redcentric plc,
VAR: CDW Corporation, Climb Global Solutions, Inc., PC Connection, Inc., ePlus inc., Insight Enterprises, Inc., Softcat plc, Datatec Limited, Bechtle AG, Computacenter plc, Cancom SE,
Distributors: TD SYNnex Corporation, ALSO Holding AG, Redington Limited, Ingram Micro Holding Corporation, Dicker Data Limited, Avnet, Inc., Arrow Electronics, Inc.

Median MSP transaction: 8.9x EBITDA in a \$32M deal

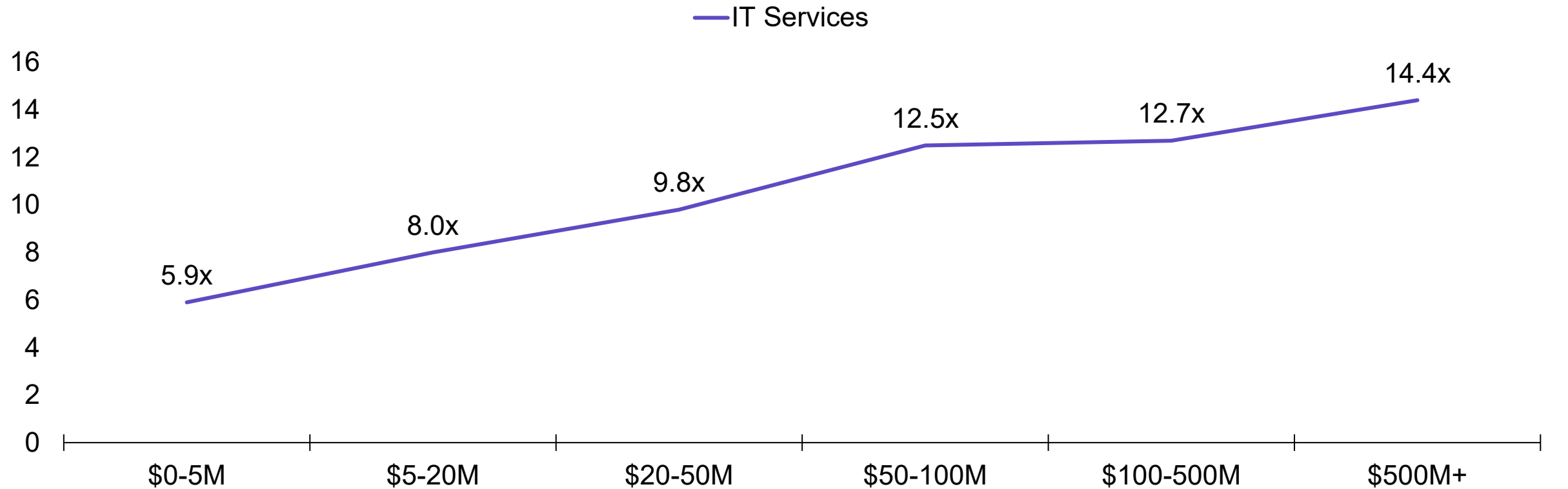
Over the past 10 years, Managed IT Services Providers have been valued at around 8.9x EBITDA or 1.0x Revenue

Multiple	Median deal value, \$M	Sample (n)	1st quartile	Median	3rd quartile
EV/Revenue	\$36M	117	0.5x	1.0x	1.8x
EV/EBITDA	\$32M	80	6.7x	8.9x	12.6x
EV/EBIT	\$48M	53	10.1x	15.6x	24.6x

Scale is the #1 driver of valuation premiums for IT services businesses.

We see a large increase in multiples as IT services businesses grow

Median implied EV/EBITDA multiple by deal size, 2015-2025









Search criteria:

Industry: Data processing or Hardware maintenance or IT consulting or IT training, Minority-stake deals excluded

Period: 01.01.2015 – 31.07.2025

What drives MSP valuations?

Factors such as scale, growth, profitability, and recurring revenues are the key levers separating average MSPs from best-in-class performers

Valuation driver	Needs improvement	OK	Good	Best in class
 Revenue size	< \$3M	\$3-5M	\$5-10M	\$10M+
 Revenue growth	< -10%	5%	10%	20%+
 EBITDA margin	< 5%	10%	15%	20%+
 Recurring revenue	<50%	60%+	70%+	80%+
 Customer concentration	>30%	<20%	<10%	<5%
 Churn rate	>10%	<7%	5%	<3%
Valuation	Tough sell	4-6x EBITDA	6-8x EBITDA	8-10x EBITDA

MSP roll-up strategies are plentiful!

PE funds are fuelling the MSP consolidation and the roll-up wave through platform investments across North America and Europe



Example North American roll-ups

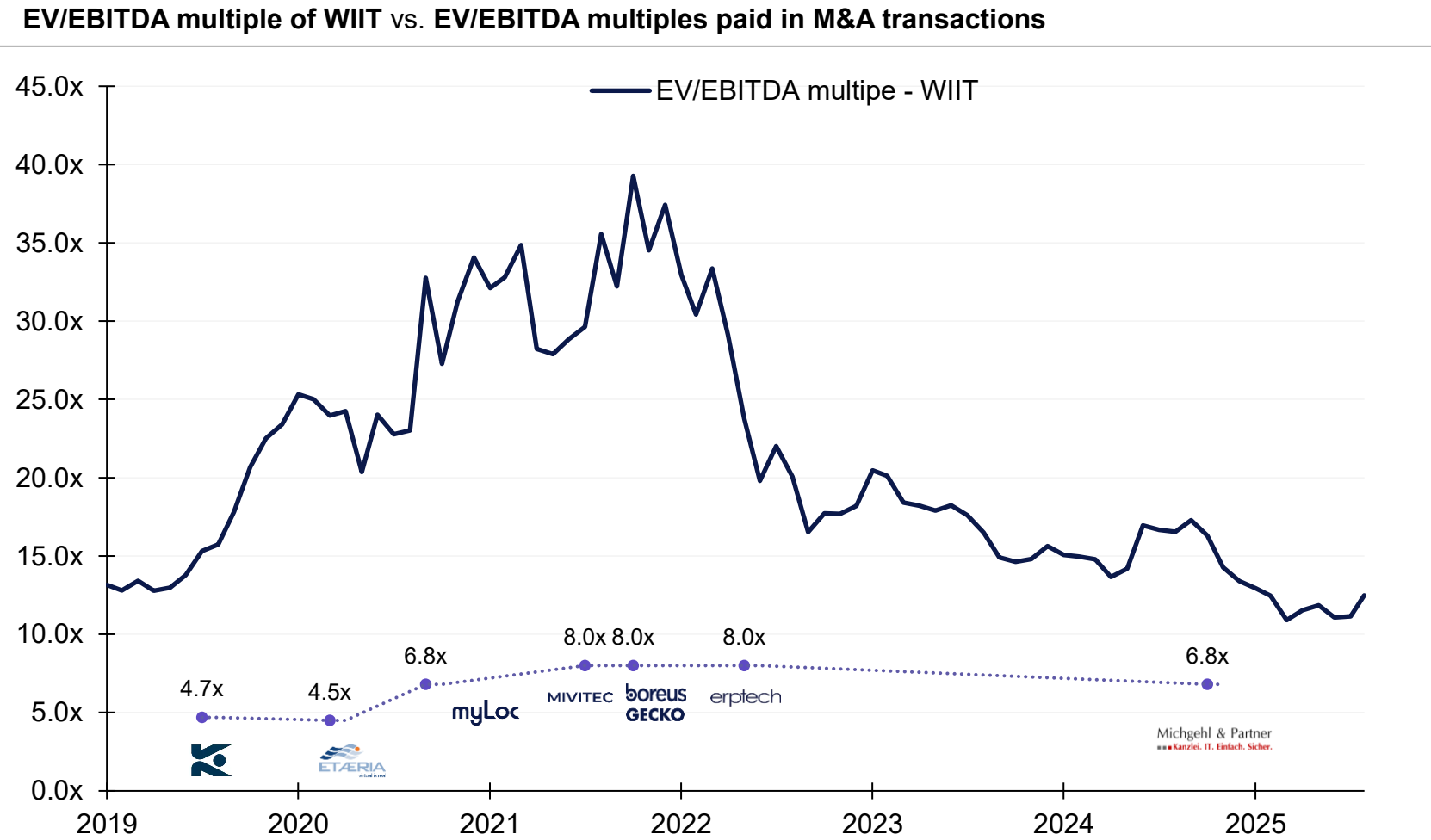


Example European roll-ups



WIIT's case shows how MSP roll-ups can unlock multiple expansion.

WIIT, an Italian company, has consistently rolled up MSPs and cloud services providers, ultimately resulting in a greater scale and valuation uplift



Preparation = Premium Valuations.

Clarity, proactivity, and financial discipline are your biggest value drivers in the eyes of strategic and financial buyers

✓ Financial checklist

- ☐ Prepare historical financials
- ☐ Prepare 12-month forecast
- ☐ Analyze revenue breakdowns
- ☐ Eliminate personal expenses from company accounts
- ☐ Remove personal assets from the balance sheet
- ☐ Raise prices, if there is room

✓ Organizational checklist

- ☐ Choose the potential successor(s)
- ☐ Start training the successors
- ☐ Hand over key client relationships
- ☐ Resign formally

✓ Process checklist

- ☐ Prepare “equity story”
- ☐ Build relationships with buyers

Summary



One-time
equipment
sale (VAR)

Ongoing
managed
service
contract (MSP)

1. MSPs stand out in IT services.

Predictable revenues and high-margin MSPs prime targets for investors.



2. Roll-ups drive consolidation.

There are more MSP buyers than MSP sellers. PE funds are driving M&A momentum.



3. Scale drives valuation but fundamentals are pivotal.

4-5x EBITDA for small MSPs below \$5M revenue, going up from there

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