



CONSILIUM PARTNERS

MANAGED IT SERVICES - SECTOR UPDATE

July 2021

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INDUSTRY OVERVIEW

Over the past decade, businesses have been under pressure from investors, regulators and competitors to enhance their safety, compliance, and efficiency standards. With the majority of small and mid-sized businesses (SMBs) still using legacy systems beset with under-investment, partnering with a Managed Services Provider (MSP) is among the most effective ways for owners/operators to address these concerns, freeing up the human and capital resources otherwise allocated to inefficient, manual processes.

The advent of digital transformation and modernization continues to represent a robust tailwind for the industry. According to the latest Gartner Worldwide IT Services Forecast, the total addressable market for cloud and managed services is growing at a CAGR of 8% and is expected to exceed \$520 billion by 2023. As of 2019, ConnectWise estimated that there are about 40,000 MSPs in the U.S.

MSPs generally offer a comprehensive suite of integrated technology solutions, usually involving some combination of network management, system administration, application management, and server hardware. Due to increasingly complicated IT environments and rigorous competition, some MSPs have specialized in specific vertical markets which has afforded them a significant competitive advantage.



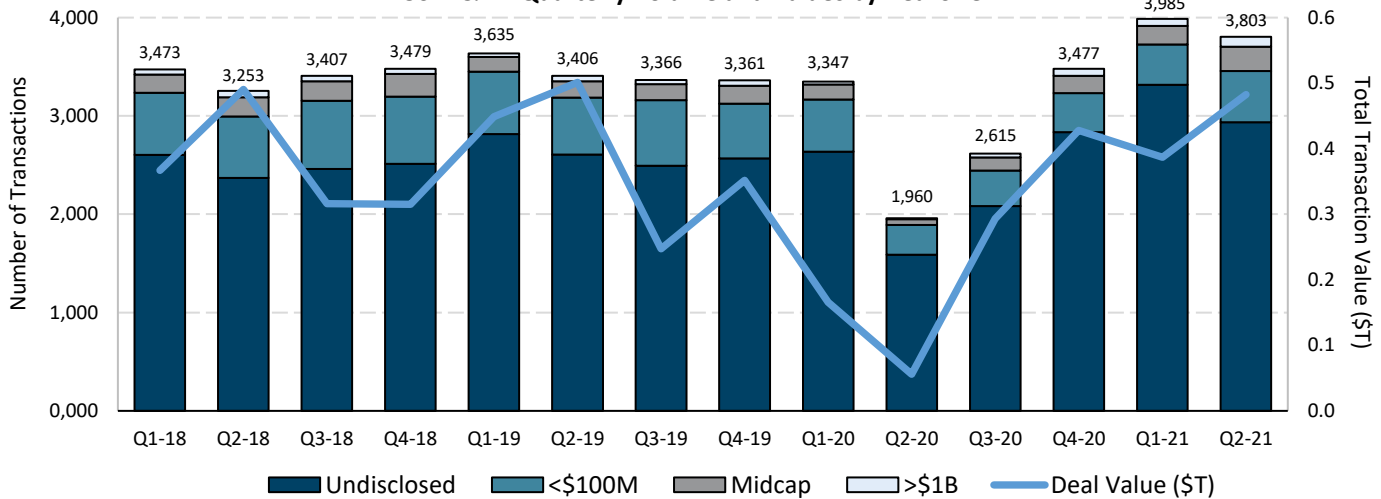
U.S. M&A Overview

As the U.S. economy’s recovery presses onward, M&A activity has surged among both businesses and private equity firms. Amid an era of historically high levels of cash waiting to be deployed, many MSPs have concluded that the pursuit of strategic acquisitions is the most viable approach for remaining relevant and weathering the storm of disruptive technological innovation.

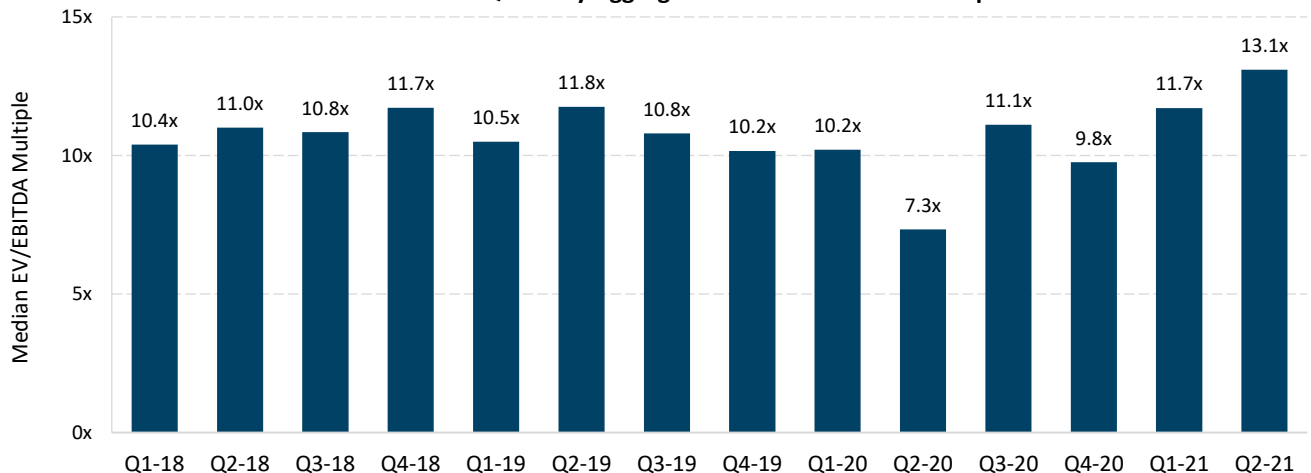
During 2Q20, M&A activity experienced a steep decline both in terms of volume and aggregate value as widespread pandemic-related lockdowns brought much of the global economy to an abrupt halt. However, there has been a sharp reversal in this trend throughout the latter half of 2020 and into 2021, largely supported by improved visibility into the impact and the timeline of Covid-19.

While valuations declined during the onset of the pandemic, they quickly reversed course as potential buyers began to recognize the transitory nature of the virus. However, still cautious in the near term, buyers have increased their focus on high-quality assets (ie. targets with above-average TTM EBITDA margins and sales growth)

US M&A – Quarterly Volume and Values by Deal Size



US M&A – Quarterly Aggregate Median Valuation Multiples



Source: S&P Capital IQ



Private Equity Rollups

Private Equity firms have been very active in the MSP space for several reasons:



Tech Sector Exposure – MSPs represent a low-risk option for obtaining exposure to the rapidly growing Technology sector



Highly Fragmented Industry – ~40,000 MSPs in the U.S, with the majority being entrepreneur-owned; creates opportunities for roll-ups, which create value through economies of scale and professionalizing management



Large Addressable Market – approximately 30% of small and medium sized businesses (SMBs) have not yet outsourced the management of their IT systems, presenting ample opportunities for continuous organic growth



Contracted, Recurring Revenue – high revenue visibility that facilitates budgeting, planning and financing



Tangible Benefits of Scale – merged entities allow for the realization of cost synergies by spreading fixed expenses and improved pricing/mindshare from key vendors

PRIVATE EQUITY ROLLUP ACTIVITY

Private Equity Firm(s)	Platform MSP	Relevant Acquisitions



MSP Valuation Drivers

When assessing the value of an MSP, acquirers take numerous factors into consideration. Generally, potential buyers look for well-managed, profitable companies that are demonstrating strong organic growth. Valuation multiples will vary among buyers depending upon their growth strategy and expected synergies through integration of acquired businesses within their current platforms. Therefore, a specific company may be worth significantly more to certain buyers than others. It is therefore useful to set valuation expectations based on a range of values.

Experienced advisory firms aid business owners in assessing strengths and opportunities in their businesses, providing accurate valuations, and developing a marketing approach which best positions a business in the M&A marketplace. M&A advisors manage the entire transaction process, minimizing disruptions to the business while organizing a competitive bidding process among qualified buyers. The MSP Valuation Scorecard below provides more specific guidance on which metrics buyers frequently analyze when evaluating potential target companies.

MSP VALUATION SCORECARD

<i>Criteria</i>	<i>Ideal Characteristics</i>
➔ Revenue Growth	Principal metrics used for assessing MSP growth include growth rates for total revenue and for recurring revenue. Double digit year-over-year growth is particularly compelling.
➔ Revenue Quality	Acquirers seek a high proportion (50%+) of overall recurring revenue, as well as 80%+ of total revenue derived from managed services customers. In addition, acquirers look more favorably upon MSPs that have a low proportion (i.e <15%) of total revenue derived from lower margin hardware resales.
➔ Size	Larger companies tend to earn higher valuations in the market (>\$10mm revenue is good; >\$15mm is better). Top performers generate >\$150,000 in sales per employee annually.
➔ Customer Metrics	High customer retention rates (85-90%+) and low customer concentration enhance enterprise value. The largest customer should ideally make up less than 10%-20% of total sales, with the top five customers comprising <50% of total sales. For non-recurring project revenue, the top customer should account for less than one third of total sales.
➔ Profitability	Profitability has a direct impact on valuation multiples. EBITDA margins of 15% reflect strong profitability, while margins among top performers often exceed 20%.
➔ Target Market	Acquirers tend to apply a premium to MSPs that specialize in a specific geography or vertical market. For example, some firms focus exclusively on providing managed services to healthcare practices or specialized in cyber security solutions.
➔ Accounting	Financial statements should be reviewed by a professional accounting firm and comply with GAAP accounting regulations. Having financials organized early saves time and potentially value later in the sales process during a buyer's due diligence process.
➔ Internal Systems	Strong internal systems with constant KPI monitoring helps to increase a firm's operational efficiency and visibility, which frequently translates into higher valuations.
➔ Contract Terms	Potential buyers are interested in the length and renewal nature of customer contracts. Generally, evergreen contracts or those with durations of 3+ years are strongly preferred.



Comparable Public Companies

As of June 30, 2021 (\$ in millions)

Company	Market Data				LTM Financial and Performance Data				Valuation Multiples	
	Price 5/26/21	% 52-Week High	Market Cap	Enterprise Value ⁽¹⁾	LTM Revenue	LTM EBITDA	Gross Margin	EBITDA Margin	EV / Revenue	EV / EBITDA
CGI Inc.	\$90.72	98.7%	\$22,279	\$24,592	\$9,601	\$1,678	31.9%	17.5%	2.6x	14.7x
Rackspace Technology, Inc.	19.61	74.2%	4,013	8,052	2,780	618	35.9%	22.2%	2.9x	13.0x
Neurones S.A.	34.62	91.8%	842	606	642	73	43.5%	11.4%	0.9x	8.3x
iomart Group plc	3.70	70.3%	389	481	154	46	60.5%	29.5%	3.1x	10.6x
AdEPT Technology Group plc	3.94	87.3%	99	142	80	10	47.8%	12.3%	1.8x	14.5x
Harmonic Mean		41.8%	16.4%	1.9x	11.7x					
Median		43.5%	17.5%	2.6x	13.0x					

(1) Enterprise value refers to market capitalization plus net debt.

MANAGED SERVICES PROVIDERS: PUBLIC MARKET VALUATIONS

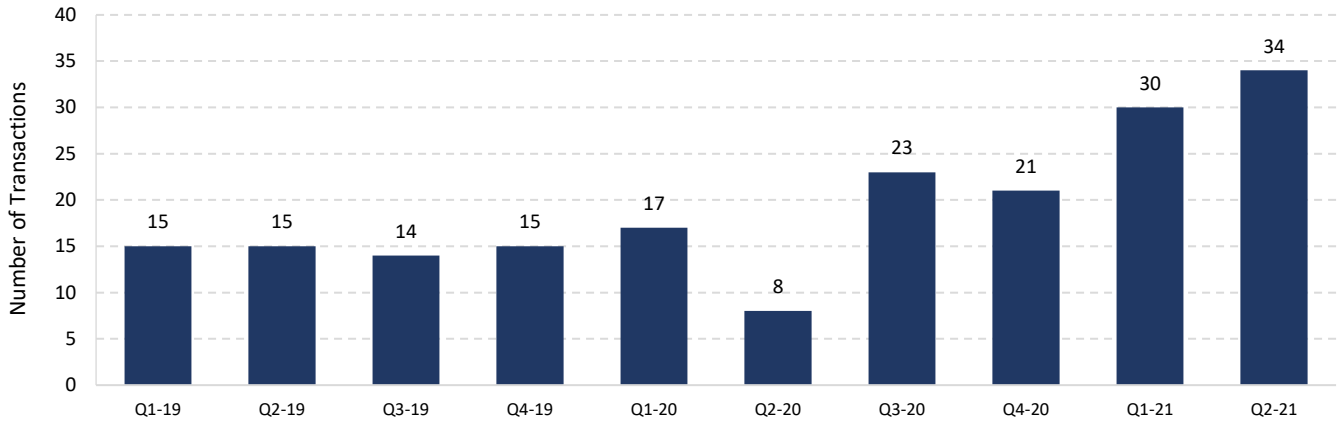


Note: Index weighted by market cap. Index constituents include publicly traded companies whose managed services segments comprise 50%+ of total revenues: CGI Inc., Rackspace Technology, Neurones, iomart Group, and AdEPT Technology Group.



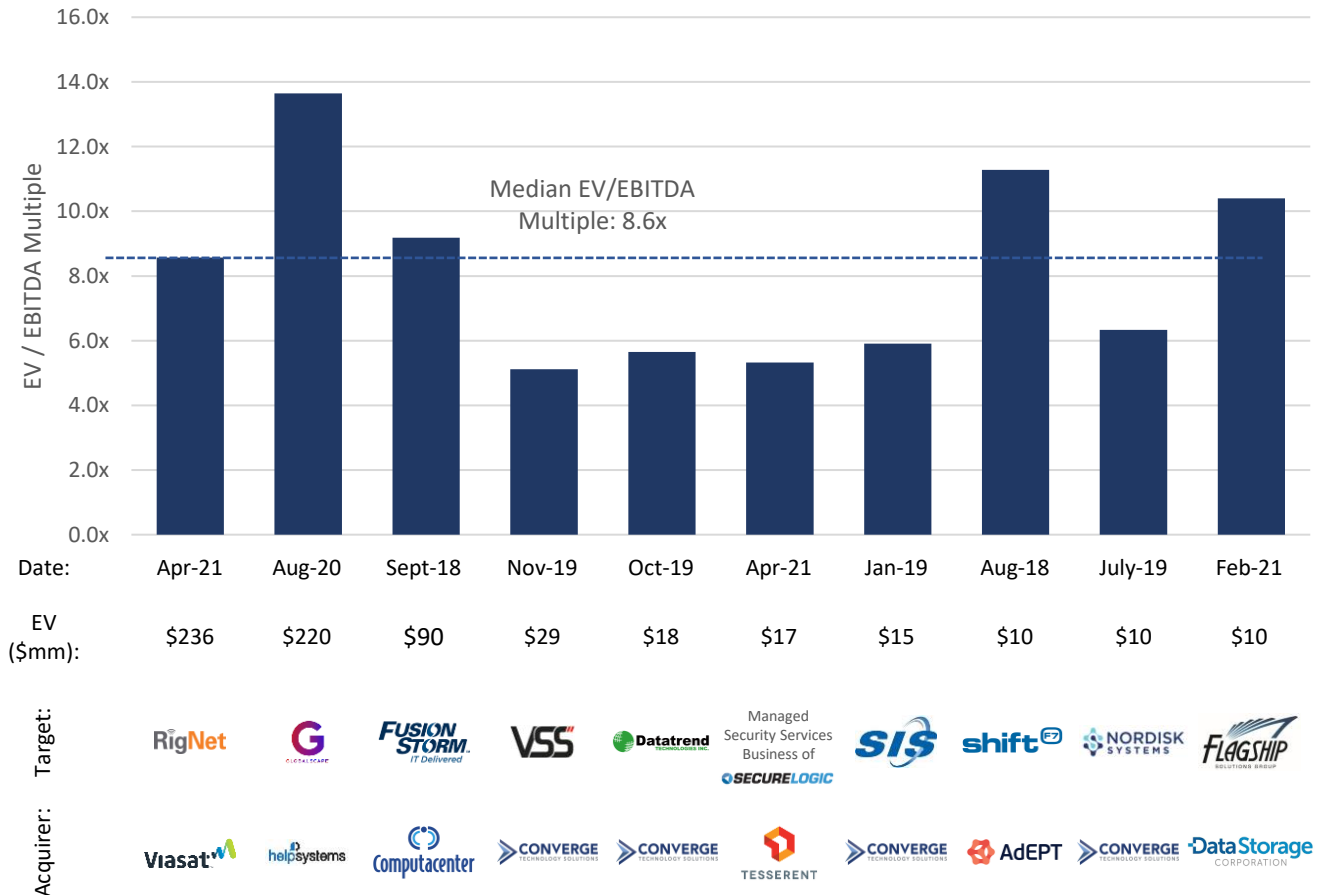
Recent Transactions

MSP M&A Transaction Volumes by Quarter



Source: S&P Capital IQ, public press releases, Consilium analysis. Only includes transactions where managed IT services comprise a considerable portion of the target company's service offerings.

Enterprise Values and EV / EBITDA Multiples





1H 2021 Managed Services Transactions

Date	Target	Acquirer	Target Business Description	Value (\$MM)
Jun-21	Substantially all the Assets of VirtualArmour International Inc.	Evergreen Services Group LLC	Comprises all the operating assets of a company that provides networking and cybersecurity products and solutions to enterprise and service provider markets worldwide.	14
Jun-21	Integreon, Inc.	EagleTree Capital, LP	Global managed services provider of litigation, contract lifecycle management, regulatory compliance, and business enablement solutions to professionals.	-
Jun-21	ExactlyIT, Inc.	Converge Technology Solutions Corp.	ExactlyIT, Inc. provides managed information technology services.	-
Jun-21	WheelHouse Solutions, Inc.	Telecom Decision Makers, Inc.	WheelHouse Solutions, Inc. provides managed IT and support services, cloud services, VoIP and telecom services, and network security solutions.	-
Jun-21	Sykes Enterprises, Incorporated	Sitel Worldwide Corporation	Sykes Enterprises, Incorporated, together with its subsidiaries, provides customer experience management, multichannel demand generation, and digital transformation services.	2,327
Jun-21	Ground Control IT LLC	Cerberus Cyber Sentinel Corporation	Ground Control IT LLC provides managed security services, including remote access, data restoration and transfer, system support, cloud backup, hosting, disaster recovery, and server maintenance services.	-
Jun-21	SKWeston & Company LLC	Davies Group Limited	SKWeston & Company LLC, a BPO consulting and professional services company, offers implementation, optimization, outsourcing, blockchain, and managed services to SMBs.	-
Jun-21	Network Technologies, Inc.	My IT, LLC	Network Technologies, Inc. engages in offering managed IT services to the businesses that includes co-managed IT, cyber security, strategy, compliance, and cloud services.	-
Jun-21	Unify Square Inc.	Unisys Corporation	Unify Square Inc. provides software solutions, and consulting and managed services for Microsoft Skype for businesses worldwide.	153
Jun-21	Logical Maintenance Solutions, Inc.	FlexEquity LLC	Logical Maintenance Solutions, Inc. offers managed services, on-site and remote IT, and print related services and support.	-
Jun-21	Red River Technology LLC	Cerberus Capital Management, L.P.	Red River Technology LLC provides security, network, and cloud solutions to commercial, civilian, defense, intelligence, and healthcare markets.	-
Jun-21	Managed Services assets of Matrix	Spectrotel, Inc.	Managed Services assets of Matrix comprises IT managed services business.	-
May-21	Stuzo, LLC	Longshore Capital Management, LLC	Stuzo, LLC provides managed services and technology solutions for brands and agencies in the U.S. and internationally.	-
May-21	Exegy, Inc.	Vela Trading Systems LLC	Exegy, Inc. provides technology and managed services for the normalization and distribution of real-time market data to elite firms in the financial services industry.	-
May-21	Carousel Industries of North America, Inc.	NWN Corporation	Carousel Industries of North America, Inc. designs, delivers, manages, and supports enterprise and mid-market level technology solutions.	-
May-21	Health Information Technology Care, LLC	Medicus Solutions, Inc.	Health Information Technology Care, LLC provides professional managed IT services, clinical EMR support, and consulting services to non-profit human services organizations and community health	-
May-21	TrustComm, Inc.	OneWeb Limited	TrustComm, Inc. provides managed satellite communications and professional services to commercial organizations and governments in the U.S. and internationally.	-
May-21	ITEGRIA, LLC	RIA in a Box LLC	ITEGRIA, LLC provides managed network infrastructure services to registered investment advisors.	-
May-21	Switchfast Technologies, LLC	Ascend Technologies, LLC	Switchfast Technologies, LLC operates as an IT managed services provider.	-
May-21	TruMethods, LLC	ITG Software Inc.	TruMethods, LLC provides managed services for other IT service providers.	-
May-21	Substantially All of the assets of PC Sales and Managed Services Division of EMCO	General Informatics LLC	Substantially All of the assets of PC Sales and Managed Services Division of EMCO comprises IT managed services, consulting, network support, hardware/software sales, and other services providing	-
May-21	Agile Frameworks, LLC	Long Arc Capital LP	Agile Frameworks, LLC provides management and IT consulting services, software-as-a-service solutions, and managed services for architecture, engineering, and construction markets.	-



1H 2021 Managed Services Transactions (cont.)

Date	Target	Acquirer	Target Business Description	Value (\$MM)
May-21	SpinnerTech	Magna5 LLC	SpinnerTech provides managed IT, cloud hosting, disaster recovery, and network security and management services.	-
May-21	Enhanced Technologies Group, Inc.	Meriplex Communications Ltd.	Enhanced Technologies Group, Inc. provides IT solutions and managed services.	-
Apr-21	Eventus Solutions Group, LLC	Tech Mahindra (Americas), Inc.	Eventus Solutions Group, LLC provides fully managed solutions, strategy and consulting, and a software-as-a-service platform for bringing data and insight.	-
Apr-21	Cyber City Inc.	Netsurit, Inc.	Cyber City Inc. offers cloud services and cybersecurity managed services.	-
Apr-21	Versent Group LLC (dba: The Purple Guys)	My IT, LLC	Versent Group LLC, doing business as The Purple Guys, provides IT consulting, business managed IT services, computer support services, and network services to SMBs.	-
Apr-21	Ensono, LP	KKR & Co. Inc.	Ensono, LP provides managed IT advisory and infrastructure services.	-
Apr-21	TNS Inc.	Koch Equity Development, LLC	TNS, Inc. a data communications company, provides networking, managed connectivity, data communications, and value added services in the U.S. and internationally.	-
Apr-21	Application Specialist Kompany, LLC	Grade A; Convergence Networks, Inc.	Application Specialist Kompany, LLC provides IT consulting, managed security, and managed IT services.	-
Apr-21	ENTRUST Technology Consulting Services	The David L. Aldridge Company, Inc.	ENTRUST Technology Consulting Services provides managed IT services.	-
Apr-21	IT 4 the Planet, LLC (dba: Integrated Solutions)	Dynamic Quest, Inc.	IT 4 the Planet, LLC, doing business as Integrated Solutions, offers managed information technology, disaster recovery, cybersecurity, and IT consulting and auditing services.	-
Apr-21	American Virtual Cloud Technologies, Inc.	Unknown Buyer	American Virtual Cloud Technologies, Inc. provides IT solutions and managed services.	557
Apr-21	SolutionWorx, Inc.	WingSwept, LLC	SolutionWorx, Inc. provides IT outsourcing services.	-
Mar-21	Ariatek, LLC	LinkPoint Technology Group, LLC	Ariatek, LLC, a full-service IT firm, provides B2B IT consulting and managed services to businesses and organizations.	-
Mar-21	BoxMeta LLC	Dynamic Quest, Inc.	BoxMeta LLC offers managed IT solutions, disaster recovery, and hosting services for businesses and enterprises.	-
Mar-21	Immedion, LLC	DartPoints, LLC	Immedion, LLC provides cloud, colocation, and managed services.	-
Mar-21	Omega Systems Consultants, Inc.	Pfingsten Partners, LLC	Omega Systems Consultants, Inc., an IT consulting company, provides managed IT, cybersecurity, and cloud hosting services.	-
Mar-21	VC3 Inc.	Nautic Partners, LLC	VC3 Inc. provides managed IT services, private cloud services, custom web applications, sharepoint consulting, and website design and hosting.	-
Mar-21	Wintellect, LLC	Atmosera, Inc.	Wintellect, LLC offers cloud managed services, including software development, IT training, and Azure cloud platform and services.	-
Mar-21	HBR Computer Stores, Inc.	Meriplex Communications Ltd.	HBR Computer Stores, Inc., doing business as HBR Technologies, offers IT consulting and managed services.	-
Feb-21	Managed services, network integration and device practice of Tek-Hut, Inc.	Ednetics Inc.	Comprises technology services and solutions and business.	-
Feb-21	Engaged Therapeutics LLC	SinglePoint Solutions, Inc.	Engaged Therapeutics LLC offers IT and telecom solutions, including cloud service, cyber security, managed services, procurement consulting, and project and product management.	-
Feb-21	Bradford Scott Data Corporation	Evergreen Services Group LLC	Bradford Scott Data Corporation offers IT managed services specifically for credit unions.	-



1H 2021 Managed Services Transactions (cont.)

Date	Target	Acquirer	Target Business Description	Value (\$MM)
Feb-21	Flagship Solutions, LLC	Data Storage Corporation	Flagship Solutions, LLC provides IBM solutions, managed services, and cloud solutions, both in the U.S. and internationally.	10
Feb-21	Cascade Defense, LLC	Green Cloud Technologies, LLC (nka: Green Cloud Defense, LLC)	Cascade Defense, LLC provides managed security services solutions.	-
Feb-21	Substantially all of the assets of Momentum Solutionz, LLC	BG Staffing, LLC	Comprises IT consulting and managed services for organizations utilizing enterprise resource planning (ERP) systems.	6
Feb-21	IT Direct, LLC	CompassMSP, LLC	IT Direct, LLC provides managed IT solutions and network services to small and mid-size organizations in Connecticut.	-
Feb-21	Digital Defense, Inc.	HelpSystems, LLC	Digital Defense, Inc. provides managed cloud-based IT security governance, risk management, and compliance solutions.	-
Feb-21	Cloudnexa, Inc.	NHN Global, Inc.	Cloudnexa, Inc. offers cloud services and managed IT solutions.	-
Jan-21	Network Support Company, LLC	Logically, Inc.	Network Support Company, LLC provides managed IT services.	-
Jan-21	BPI Information Systems of Ohio, Inc.	WD Capital Holdings	BPI Information Systems of Ohio, Inc. provides professional, managed, and IT repair services.	-
Jan-21	HGS Digital LLC, USA	Hinduja Global Solutions UK limited	Element Solutions LLC offers digital consulting, data-driven marketing, and cloud managed services.	-
Jan-21	ClearSky Technologies, Inc.	Communication Technology Services, LLC	ClearSky Technologies, Inc. provides hosted mobile data infrastructure and managed services to wireless operators.	-
Jan-21	Apex IT Group, Inc.	Thrive Operations, LLC	Apex IT Group, Inc. provides managed IT services to small and mid-size businesses in the Greater Philadelphia region.	-
Jan-21	K-Tech Solutions, LLC	NuMSP LLC	K-Tech Solutions, LLC offers managed services and IT consulting services.	-
Jan-21	Rise IT Group Corp	Tridius Technologies, LLC	Rise IT Group Corp operates as a managed services and consulting company that specializes in Microsoft Technology, such as Azure deployments, migrations, and Office 365 conversions.	-
Jan-21	Center for Computer Resources	Business Communications Systems, Inc. (nka: Antares Technology Solutions, LLC)	Center for Computer Resources provides managed and IT support services to small and mid-size businesses.	-
Jan-21	Optimum Consulting LLC	SoftwareONE Holding AG	Optimum Consulting LLC provides technology consulting, cloud migration, infrastructure, hosting, and managed services.	-
Jan-21	AKUITY Technologies, Inc.	ICS	AKUITY Technologies, Inc. provides managed IT and related services to small and mid-size organizations throughout New England.	-
Jan-21	Unico Solution, Inc.	Huron Consulting Group Inc.	Unico Solution, Inc. offers data integration, data quality, governance, cloud integration, managed services, connector development, master data management, and API management services.	-
Jan-21	Velocity Technology Solutions, Inc.	Navisite, LLC	Velocity Technology Solutions, Inc. provides cloud managed services to mid-market businesses.	-
Jan-21	Business Network Solutions, Inc.	NuMSP LLC	Business Network Solutions, Inc. provides computer and network services that includes cloud computing, managed IT services, backup and disaster recovery services.	-
Jan-21	Vicom Computer Services, Inc.	Converge Technology Solutions Corp.	Vicom Computer Services, Inc. provides information technology (IT) consulting services for Fortune 1000 companies, state and local governments, and emerging mid-market organizations.	25



Notable Transactions



MEDICUS IT
We do IT Right!

a portfolio company of



has acquired



Plexus Capital portfolio company Medicus IT has acquired HITCare (May 2021, financial terms not disclosed)

Based in Alpharetta, Georgia, healthcare-focused managed services provider Medicus IT has acquired Health Information Technology Care (HITCare), a managed IT services provider based in California. The acquisition bolsters Medicus IT's position as one of the largest healthcare-focused MSPs in the country and is the company's fifth acquisition in two years, after having received a growth equity investment from Plexus Capital in 2017.

Executive leadership from both companies have expressed excitement regarding the merger, citing the new entity's greater operational efficiencies and ability to deliver superior service to their community health and non-profit clients.

Pythian
love your data®

a portfolio company of

MILL POINT CAPITAL

has acquired



Mill Point Capital portfolio company Pythian has acquired ManageServe (April 2021, financial terms not disclosed)

Pythian Services, Inc. ("Pythian"), a data, analytics, and cloud services company, has acquired ManageServe, an SAP PartnerEdge program member and certified hosting partner providing big data analytics and end-to-end managed services. Pythian Services was established after private equity firm Mill Point Capital carved out the services division of The Pythian Group in September 2019. The acquisition of ManageServe bolsters Pythian's existing enterprise resource planning (ERP) practice while enhancing the company's ability to deliver SAP HANA solutions on multiple prominent cloud platforms, including Google Cloud, AWS, Microsoft Azure, and SAP cloud platforms.

The transaction reflects a continuing trend toward digital transformation as enterprises look to optimize their systems and extract value from their ERP data through integration with cloud-based analytics stacks.



a portfolio company of



Riverside

has acquired



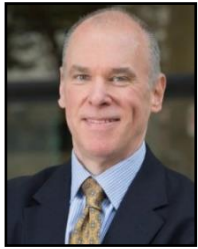
Riverside Company portfolio company Logically has acquired Cerdant (March 2021, financial terms not disclosed)

Leading managed IT services provider Logically has acquired Cerdant, a managed security services provider (MSSP) based in Dublin, Ohio. The acquisition enhances Logically's recently announced security business unit while also affording the company geographic expansion into the Midwest. This also marks Logically's third acquisition for 2021 and ninth since its purchase by private equity firm The Riverside Company.

"We're passionate about staying on the cutting edge of security at Logically and offering our customers the confidence that comes with having the very best of it," added Mike Cowles, CEO of Logically. "Logically's customers will benefit from the institutional knowledge and experience that come along with the name."



Consilium Overview



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About Consilium

Established in 2000, Consilium Partners is a Boston-based investment bank providing M&A Advisory, Growth Capital and Strategic Advisory Services to middle market growth companies. Each of our Managing Directors has more than two decades of transaction experience and have collectively completed more than 250 transactions representing over \$15 billion in aggregate value. Every transaction is personally managed from start to finish by experienced senior bankers with specific sector experience and a deep commitment to the success of our clients.

Tech-Enabled Services Sector Experience

 acquired by A portfolio company of 	 has been acquired by 	 has been recapitalized by the following 	 has acquired 	 acquired by 	 has been acquired by
 has been recapitalized by the following 	 The leader in medical translations. acquired by 	 recapitalized through an investment from 	 acquired by 	 acquired by 	 acquired by
 has been acquired by 	 acquired by 	 acquired by 	 acquired by 	 has divested certain imaging analysis assets to 	 has been acquired by