

# IT Managed Services – M&A and due diligence insights

**COOPER PARRY**

July 2024

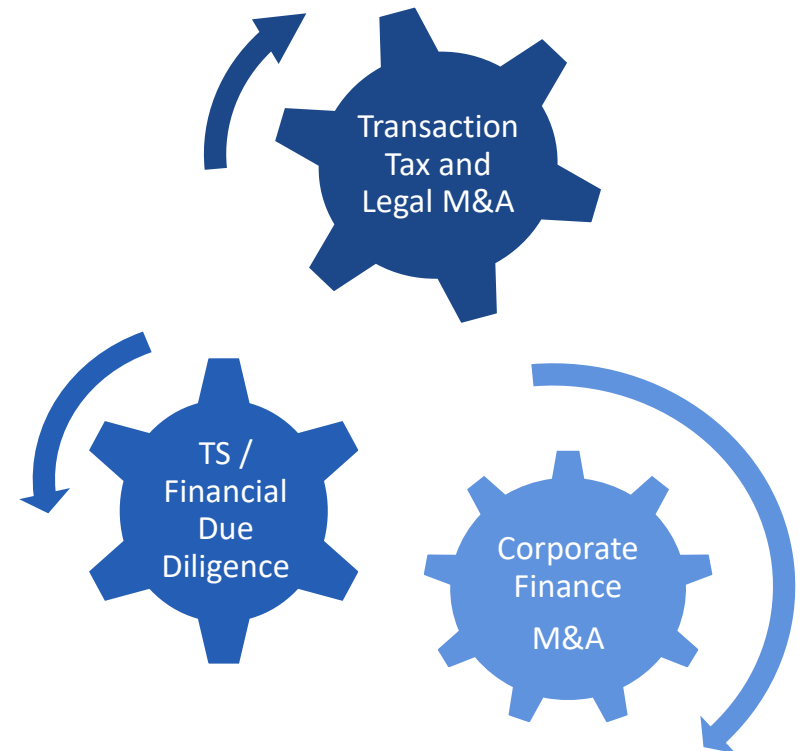
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**COOPER PARRY**  
**DEALS**

# INTRODUCTION TO COOPER PARRY DEALS

CP Deals combines market-leading expertise across Corporate Finance, Transaction Services, Transaction Tax and Legal M&A. We deliver one comprehensive solution to all your Deal needs

- **One integrated national Deals team of over 60 people** – lead advisory M&A, transaction services ('TS'), Transaction Tax and Legal
- 4<sup>th</sup> most active financial advisers in the Midlands and 6<sup>th</sup> in the South East (*Source: Experian*)
- Our typical deals fall into the range of **£3m-£100m EV**, and we have significant experience of both buy and sell-side
- **Award-winning M&A advisers** to mid-market business owners, corporates & Private Equity investors
- Our TS team **completed 52 deals** over the last 18 months, c.**60%** involving private equity; c.**70%** deals with recurring clients. We specialise in tailored due diligence for **bolt-on deals** for PE-backed businesses
- Our Deals team boasts significant experience and credentials in **IT services**. Since Technology is one of our three key focus areas for Deals, we can provide comprehensive M&A solutions to meet your transaction needs.



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# MARKET OVERVIEW

M&A activity dipped in 2022/23 due to economic headwinds. Now, it's on the rise again with private equity and trade investors returning to the market

## GENERAL MARKET OVERVIEW (2023 to H124)

2022/3 saw a reduction in M&A activity following the highs of 2021, driven by macroeconomic conditions and inflationary pressures caused by geopolitical instability and recovery from the Covid-19 pandemic. Increased interest rates suppressed deal activity and had removed a significant number of trade investors from the M&A markets, whilst private equity have continued to build a record level of dry powder in their search for high quality, profitable and resilient businesses to partner with.

Deployment has largely been through consolidation efforts, with bolt-ons accounting for 70% of PE activity globally in 2023. However, market activity in H124 is tracking upwards as investors normalise interest rates with a stabilising economic outlook. CP continue to witness an uptick in M&A through H124. Importantly, trade acquirers are returning, too, as seen in the IT services outlook.

## IT SERVICES 2023 to H124 RECAP

- Despite the economic turbulence marked by inflation and escalating interest rates in 2023, the IT services sector has shown remarkable tenacity.
- Valuations have remained strong, underscoring continued investor conviction in the sector's potential.
- Industry leaders such as Accenture, Deloitte Cognizant, and NTT Data, along with private equity firms, have been actively seeking M&A opportunities, with focus on high-growth areas such as cloud computing and data analytics.
- One of the defining trends of the year was the rise in cloud-related acquisitions, with hyperscale providers like AWS, Azure, and Google Cloud Platform catalysing a 20% increase in deal volume.
- In parallel, the escalating concerns around cybersecurity is driving M&A activity as industry leaders aim to enhance their capabilities by integrating smaller, specialised firms with advanced security solutions.

Source: Pitchbook research centre 2024; Meridian Capital 2024

## 2024 FOCUS

### Partner ecosystem



Tech providers refining programs and partner ecosystems implementing emerging tech

### Vendor base



Acknowledging the need for cross-vendor collaboration, improving CX for DevOps / cybersecurity

### Cloud



Emphasis on cloud computing cost management programmes

### Artificial Intelligence



Rapidly moving market delivering new capabilities in shorter timeframes

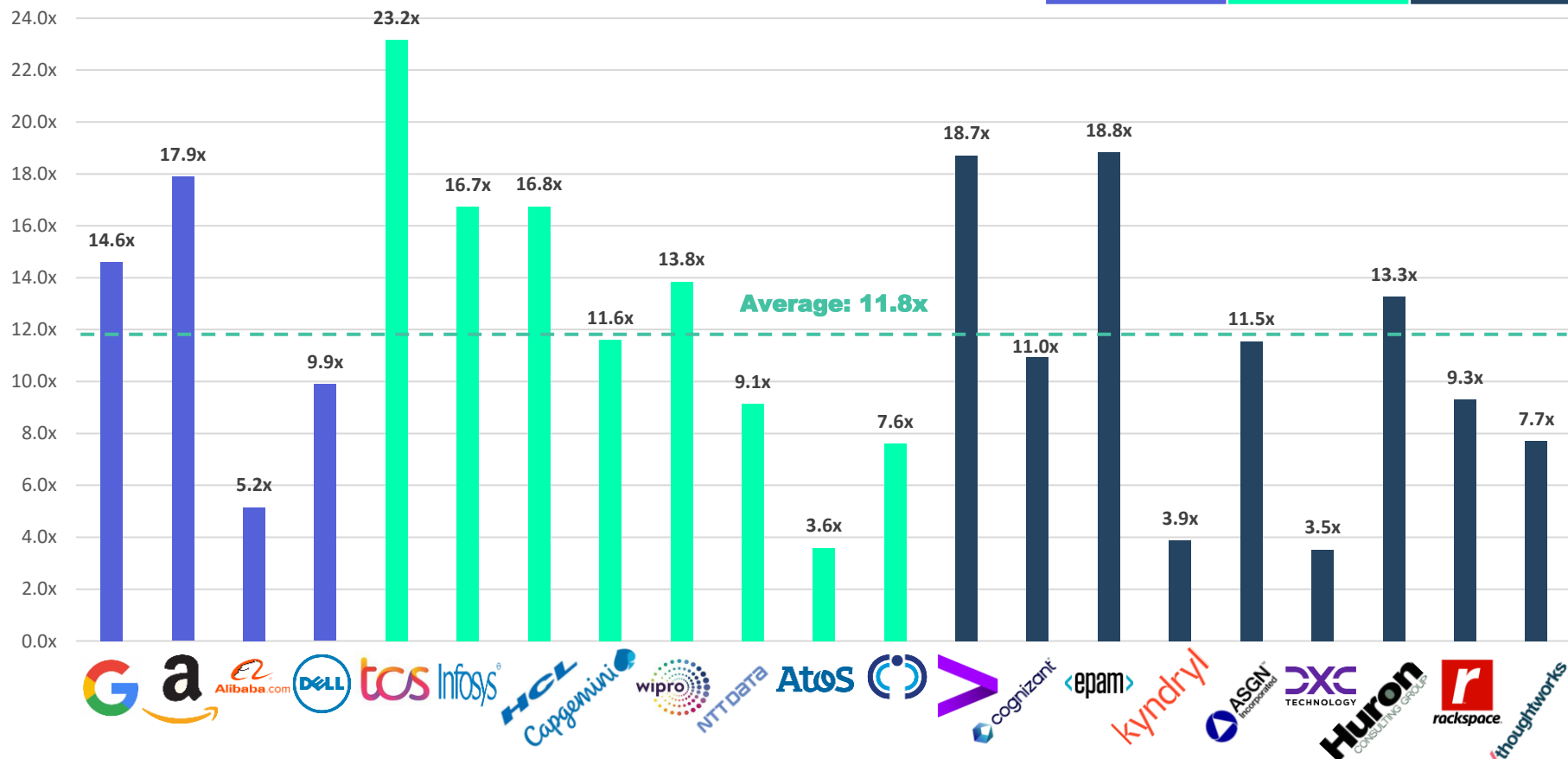


# LISTED COMPARABLES (EV / EBITDA) – IT SERVICES

Current listed valuations

We have benchmarked listed valuations within the wider IT consulting & services market. Listed companies trade at a premium, often around 25% to comparable private businesses.

Cloud hosting & computing	IT consulting (International)	IT consulting (US based)
11.9x	12.8x	10.9x



Revenue \$'bn	306	571	126	88	28	18	13	24	11	26	12	7	64	19	5	17	4	15	1.5	3	1
EBITDA \$'bn	122	106	24	10	7	5	3	4	2	4	1	0.5	13	3	0.8	2	0.5	2	0.2	0.4	0.1

# WHAT TO CONSIDER WHEN ACQUIRING

Our significant due diligence experience in the IT services space has highlighted a number of key financial and tax due diligence considerations

The level of recurring revenue (managed services) vs. non-recurring revenue (project, hardware sales)

Repeatability of non-managed services revenue (such as project revenue, hardware sales, etc)

Diversification of customer base / customer concentration

Proven track record of winning new customers (new logos) and expanding the existing customer base (via up-sell or cross-sell)

Levels of customer retention and churn rates

ARR - Visibility of the current year outturn from (a) contracted revenue/backlog; (b) recently signed contracts yet to go live; and (c) short term pipeline

The ability to identify, recruit and retain talent in a cost-effective manner

Management's track record of scaling and adding capabilities through successful M&A. Organic vs. inorganic growth. Realised level of M&A synergies

Strong control environment with robust revenue recognition (percentage of completion, time & material, point of sales) for different revenue types

Increased recent HMRC scrutiny on R&D tax relief claims

Employment tax risks associated with engaging off payroll workers including IR35

Application of VAT "use and enjoyment" rules on electronically supplied services and creation of US sales tax presence post Wayfair

# NOTABLE RECENT DEALS

We are actively tracking recent market activities in the IT services sector.



## APR-24 HG Partners with Focus group

- Focus group are a leading UK IT MSP servicing 30,000+ SME customers and completed 12+ acquisitions during their partnership with Bowmark, who achieved a successful exit through the transaction with Hg.
- Hg's investment will support Focus Group's organic growth plan, M&A ambitions and product development initiatives, enhancing its ability to deliver innovative solutions for the UK SME sector.



## MAR-24 Air IT acquire SCS Technology Solutions

- Air IT completed their twelfth acquisition since receiving backing from August Equity in 2020. The UK-focused MSP continues to expand through regional acquisitions, with SCS providing a foothold in the Lincolnshire IT MSP market.
- Air IT have made similar acquisitions, such as Vital Technology Group in Yorkshire, allowing the extension of central products and services into a wider client base.



## JUN-24 Livingbridge aim to bring FluidOne to market in H24

- Livingbridge intends to bring FluidOne to market in the latter part of 2024. This comes after a strong financial performance in the year ending March 2023, with revenue up 71% to £71.6 million and underlying EBITDA surging 136% to £9.9 million, according to filings with Companies House.



## JAN-24 BCN acquire Prestige Logic

- BCN, backed by ECI in 2022, acquired Prestige Logic to strengthen the existing suite of Microsoft services and technical expertise within the group.
- BCN have specifically targeted Microsoft solutions providers in the past, acquiring MSP and Microsoft Solutions partner NewCMI in Apr-23 and Dynamics 365 specialist Evo-soft in Sep-22.

Source: Pitchbook, Mergermarket

# A SELECTION OF OUR RECENT CREDENTIALS

We're IT Services and Technology specialists, with the track record to prove it

## IT SERVICES



### IT SERVICES

Financial and Tax due diligence in relation to CP's acquisition of Cloud Orca, an IT services, Salesforce CRM consultancy business



Financial Due Diligence of Version 1, a leading technology and digital transformation provider for Partners Group



### IT SERVICES

Financial Due Diligence of Content+Cloud, a leading M365, Azure, Dynamics 365 Partner and MSP based in London



### IT SERVICES SOLUTIONS

Buy side financial due diligence of Inetum, a digital services and IT solutions company



### DIGITAL TRANSFORMATION

Buyside financial due diligence of Infinity Works, cloud and digital transformation

## VDD / SELL-SIDE ASSISTANCE



### IDENTITY VERIFICATION TECHNOLOGY

Sell-side assistance to Credas in its sale to Dye & Durham



### IT SERVICES

Sell-side assistance to Jigsaw24 in its sale to Alcuin



### FRAUD PREVENTION SOFTWARE

Vendor Due Diligence for a Fraud prevention software developer



### DICTIONATION AND SPEECH RECOGNITION SOFTWARE

Financial vendor due diligence report to BigHand on their sale



### SIMULATION TECHNOLOGY

Financial and tax sell-side assistance to the shareholders of Lanner Group on sale to Royal HaskoningDHV

## TECHNOLOGY



### TECH-ENABLED HEALTH SERVICES

Sell-side assistance to Antser Group in its MBO backed by YFM Equity Partners



### COMPLIANCE SOFTWARE

Sell-side assistance to William Martin Compliance in its sale to Marlowe Plc



### PROPERTY SERVICES SOFTWARE

Sell-side assistance to eTech Solutions in its sale to CoreLogic



### IT SERVICES & SOFTWARE

Sell-side advice to Centiq on its investment by LDC



### HEALTHCARE SOFTWARE

Sell-side advice to Nourish Care Systems on its investment by Livingbridge



## CORPORATE FINANCE

### NIALL CHANTRILL PARTNER

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Niall joined Cooper Parry in 2011 and has spent the last 10 years working with entrepreneurial businesses and private equity clients operating across the mid-market.

Niall has a strong focus on working with businesses and entrepreneurs in the Technology & B2B software spaces.

Notable deals include:

- Advised the shareholders of Nourish on the MBO backed by Livingbridge
- Sale of Tri.x to August Equity
- Sales of Credas (identity verification technology) to Dye & Durham



### OLLIE MACILDOWIE ASSOCIATE DIRECTOR

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Ollie joined the Cooper Parry Corporate Finance team in 2019 having spent four years in PwC's London Audit team.

Ollie is a Chartered Accountant and holds a BSc in Business Administration and Management from the University of Birmingham.

Notable deals include:

- Sales of Credas (identity verification technology) to Dye & Durham
- Sale of subscription-based healthcare compliance provider Tri.x to August Equity
- Sale of tech-enabled social care services provider Antser Group to YFM
- Sale of Nourish Care Systems to Livingbridge



## TRANSACTION SERVICES

### SIMON NICHOLS PARTNER

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Simon leads the Cooper Parry Transaction Services team in London. He has 25 years of experience in leading multi-disciplinary teams on global and domestic acquisitions, demergers, disposals and capital markets transactions.

Simon leads our financial due diligence work and leverages his significant deal experience to provide a 'hands on' Partner led approach to our work.

Notable deals include:

- Vendor Assist for a live confidential project relating to an IT Managed Services business
- Vendor Due Diligence on the \$205m disposal of the WiMax operations of Alem Communications to TeliaSonera

flightstory

ALEM  
COMUNICACIÓN

### HIEN VO DIRECTOR

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Hien joined Cooper Parry in January 2024 with over 14 years of Deals experience in practice, including at EY, A&M and KPMG.

He has led buy-side and sell-side due with his sector experience covering Technology, Software and IT managed services.

Notable deals include:

- Financial Due Diligence of Cloud Orca (IT services, Salesforce CRM consultancy)
- Financial Due Diligence of Content & Cloud (a leading Microsoft 365, Azure, Dynamics 365 Partner and MSP based in London)
- Financial Due Diligence of Infinity Works (Cloud and digital transformation consultancy)

cloud orca + Content Cloud INFINITY WORKS

# COOPER PARRY DEALS



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