

# MSP Valuation and Other Short Stories



Madhur Duggar  
Senior M&A Advisor  
Excendio Advisors  
[Madhur@excendio.com](mailto:Madhur@excendio.com)  
[podcastwithmadhur@gmail.com](mailto:podcastwithmadhur@gmail.com)  
212.731.4230



Madhur's LinkedIn

**Start where you are, use what you have, do what you can**

# A Bit About Myself: Community of Entrepreneurs



- Senior Advisor at Excendio Advisors
- M&A Advisor, Teacher, Tennis Enthusiast
- Hail from a desert community of business owners in India – Marwaris (Google us!)
- Born into a family that owned a small business
- First person in my family to draw a salary
- Immigrated to the US in 1993 for College
- 24 years in the finance space
- Love doing what I do!



# Key Financial Value Drivers for an MSP

## Key Financial Value Drivers

Customer Profile	Business Mix and Organic Growth	MSA Enablers	Transaction Details	Market & External Factors
Churn Risk	Revenue Line Margin	Contract Frequency	Buyer Type	Public Valuations
Concentration Risk	Recurring Share	Termination Fees	Seller Goals	State of Economy
Consolidation Risk	New Logo Acquisition	Price Flex Ability	Sale Process	Investor Liquidity
Transfer Risk	Specialization	Upselling Ability	Deal Structure	Tax Regime
	MRR per Client	Placement Fees		

# Key Question: What is my MSP Worth?

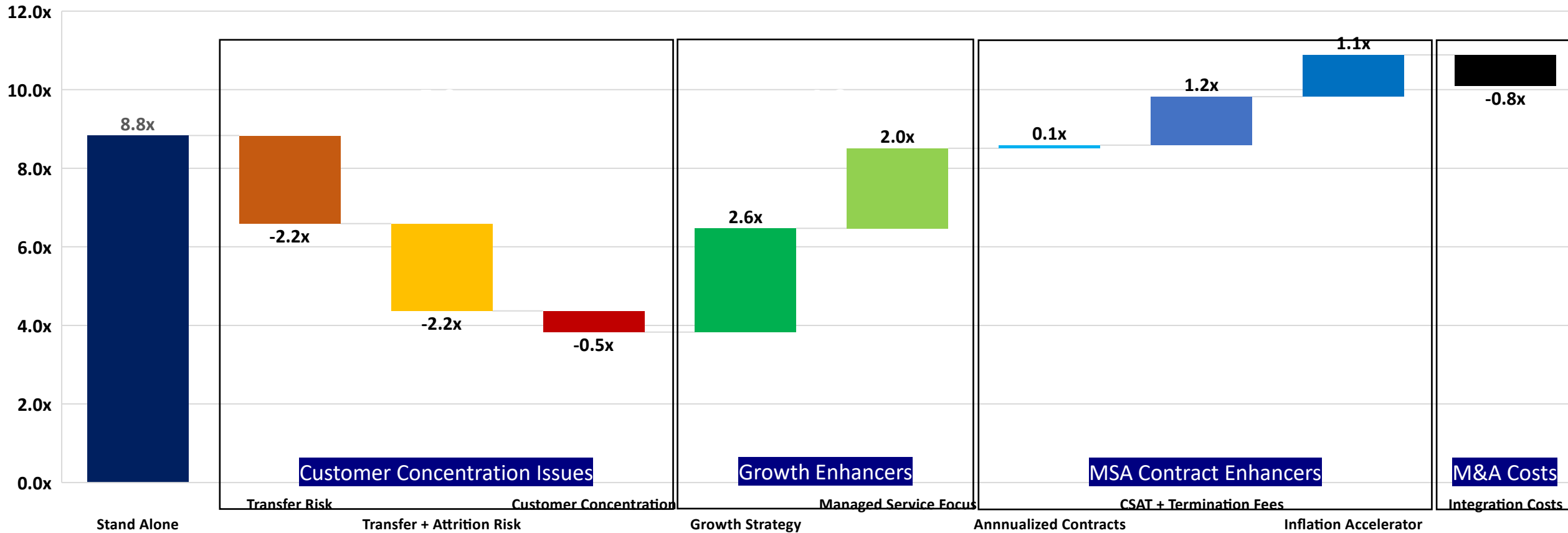


Our approach to valuation:

- ✓ Based on feedback and conversations with buyers and sellers
- ✓ Simulation approach to capture income volatility
- ✓ Bottoms-up analysis of a portfolio of 50 clients
- ✓ Assumptions reflect industry standards
- ✓ Your MSPs valuation would depend on its specific situation

# Anatomy of a Purchase Multiple

Anatomy of a Hypothetical Transaction



# Customer Concentration Adds Uncertainty Around Cash Flows

Sample chart

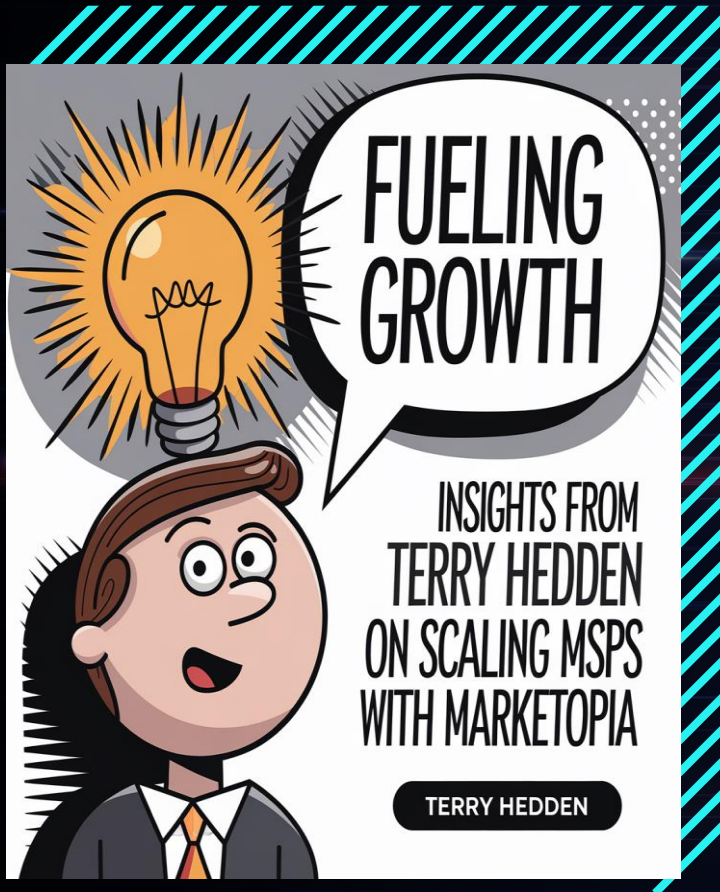
Factors	Diversified	Moderately Concentrated*	Difference
Stand Alone	8.8x	7.6x	1.2x
+Customer Transfer Risk	6.6x	5.7x	0.9x
+Customer Attrition Risk	4.4x	3.8x	0.5x
+Organic Growth Competency	7.0x	6.1x	0.9x
+Managed Service Focus	7.1x	8.2x	0.9x
+MSA Value Enhancers	8.3x	10.1x	1.3x
+M&A Integration Costs	11.4x	9.7x	0.9x

\* Top client = 20%, Top 5 clients = 50%, Total clients = 50



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# Why do Exit Multiples Expand With Scale?



## Four Reasons

- ✓ Fixed costs of M&A integration
- ✓ Scarcity of Supply Relative to Demand for Scaled MSPs
- ✓ Size correlated with key competencies like organic growth ability



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# Should I Merge With Another MSP to Scale Up?



**Bolt-on acquisitions - what MSPs need to watch out for**

Requires work and planning. Think about these things

- ? **This will take time and energy. Do you have dedicated resources?**
- ? **Do you have great rapport with the other founder?**
- ? **Do you have financing?**
- ? **Have you thought through risks like client attrition?**
- ? **What is the quality of acquired clients. Clients with low monthly MRRs can subtract value?**
- ? **Are you willing to wait? Integrations can take 1-2 years**











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# How Should I Prepare for a Sale?

PREPARING TO SELL: LEGAL STRATEGIES  
TO MAXIMIZE YOUR MSPS VALUE



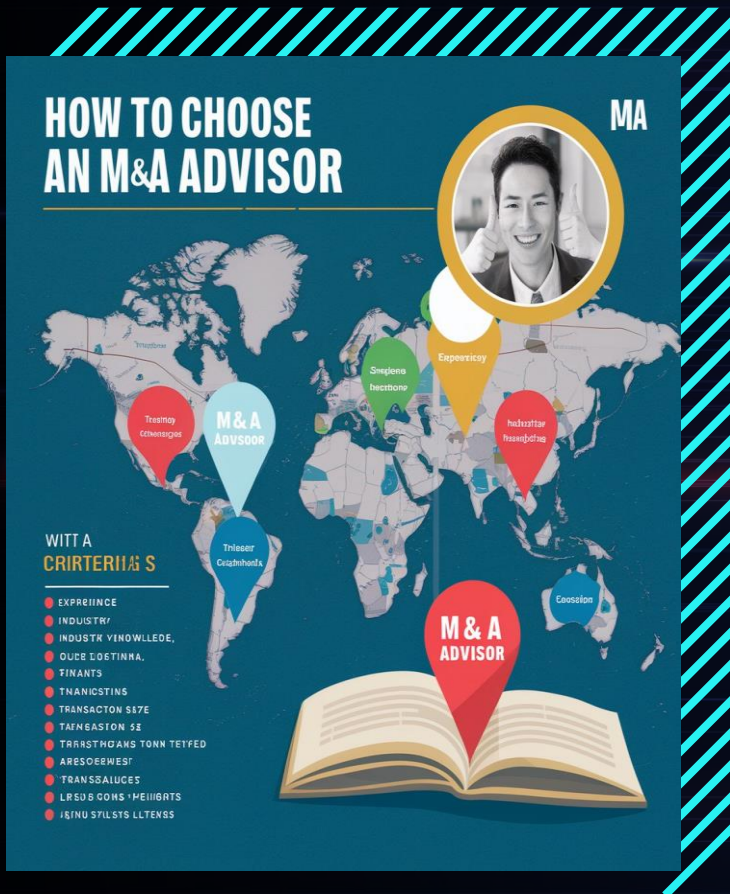
**Start now. This takes time to implement**

-  **Start With Strategic Goals: Valuation, Post-Sale Career**
-  **Prepare Financial and Operational Data**
-  **Assess strength of client relationships and concentration**
-  **Ensure assignability in contracts with clients, vendors, leases**
-  **Consider timing and long-term preparation**
-  **Leverage advisors and mentors**
-  **Get Legal Advice**
-  **Find an established transaction advisor right for your MSP**

# How can I Ensure I Find the Highest Bidder for my Business?



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It takes ~20 Indications of Interest from Buyers to get to within 90% of the highest value for your assets

- ? The average MSP owner speaks to 5-10 buyers before selling
- ? The vast majority of buyers are not attending conferences
- ? A good advisor will know active buyers and what their model is
- ? A good advisor will know where deals are trading
- ? They will help with preparing materials, running the sale process, connecting you with their network of lawyers, vendors, peers etc.



# Questions

# THANK YOU!



**Madhur Duggar**

Senior Advisor

Excendio Advisors

183 Washington Ave, Chatham NJ

(M) 212-731-4230

madhur@excendio.com



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