EXCENDIO ADVISORS
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Why 2025 Could be the Best Time for MSPs to Sell, Especially in the $2MN-$5MN Range

This article delves into the four key reasons why 2025 moment might be a prime opportunity for MSPs in the $2 million to $5 million revenue range to exit.

1. Markets Are at a Peak

Public market performance often influences private market valuations. Over the past five years, major indices have experienced extraordinary growth: the S&P 500 is up 80%, and the NASDAQ has risen 115%. However, much of the positive momentum has already been priced in, and market behavior now signals potential volatility.

For instance, despite strong job creation numbers released on Feb 10th, 2025, by the Bureau of Labor Statistics—265,000 jobs added versus an expected 155,000—both the S&P 500 and the Dow Jones Industrial Average experienced a 1.5% decline on the same day. Markets read this piece of particularly good news as a sign the Fed would slow down its pace of rate cuts. This reaction underscores concerns about future interest rate hikes, higher discount rates, and the resulting downward pressure on valuations. Market volatility will also drive a wedge between buyers and sellers slowing down the pace of M&A.

2. Post-COVID Growth Tailwinds Are Slowing

The post-pandemic period ushered in rapid IT adoption, driven by trends such as remote work, cloud migration, and digital transformation. This led to high growth rates for MSPs, with some achieving top-line growth in the 15-20% range. However, this explosive growth is beginning to normalize. Recent data from Service Leadership suggests growth rates are likely to stabilize around 10% going forward. Slower growth will imply lower multiples.

The number of small and medium-sized businesses (SMBs) per MSP is also expected to decline as MSPs are growing faster than SMBs. Currently, 30% of MSPs are growing headcount at 10% or more annually, compared to only 15% of SMBs. As more MSPs compete for a limited pool of SMB clients, pricing pressures and competitive intensity will only increase, making it harder for smaller MSPs to sustain their growth.

3. The AI Revolution Will Favor Larger MSPs

Artificial intelligence is transforming the MSP landscape, shifting client expectations from technical support to strategic advisory services. Clients now seek MSPs that can guide them on incorporating AI into their operations—from improving customer experiences to automating back-office functions. However, acquiring the expertise required to meet these demands poses significant challenges for smaller MSPs.

Nelson Gomes of The Portalia Group noted that only about 100 MSPs nationwide possess the scale and expertise to provide AI-driven strategic advice in the healthcare sector. This equates to just two qualified MSPs per state! Smaller MSPs face significant hurdles in attracting and retaining the talent necessary to compete in this advisory-driven market, further disadvantaging them compared to their larger counterparts.

4. Too Many Sellers, Too Few Buyers for Smaller MSPs

The sheer volume of MSPs in the market underscores the urgency for smaller players to act now. There are approximately 60,000 MSPs in the U.S., with only 10% employing more than ten people. Seventy-five percent of these, i.e., 4,500 MSPs have revenues in the $2 million to $5 million revenue range.

Assume there are fifty serious serial buyers actively pursuing acquisitions in this segment. If each buyer were to acquire 10 MSPs annually—a brisk pace—it would take nine years to process the existing pool of potential sellers! This timeline does not account for the thousands of smaller MSPs that will grow into this revenue range over the next five years, further saturating the market. As the supply of sellers continues to outpace demand, buyers will adopt programmatic approaches with standardized multiples, leaving little room for premium valuations.

Final Thoughts

For MSP founders considering an exit, the arguments are clear. Market conditions are favorable, growth tailwinds are diminishing, AI-driven transformation demands scale, and the supply-demand imbalance in the M&A market will only worsen. By acting now, smaller MSPs can capitalize on peak valuations and secure a strategic exit before market dynamics shift further against them.

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