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Sixty-One Nuggets
On How MSPs Should Build, Prepare and Exit

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Sixty-One Nuggets on How MSPs Should Build, Prepare and Exit

Over the years we have spoken with many industry participants for advice and suggestions for MSPs – buyers, sellers, vendors, industry visionaries, you name it. The support we have received through this process is overwhelming. It has been so heartening to see so many people wanting you to succeed. I think each one of the speakers has a piece of you in them and they want you to win. Much of this content is available on our podcast – M&A Insights. We are sharing with you a list of sixty-one nuggets, the good, the bad the ugly on how MSP founders should run their business and sell when that time comes.

We have organized these nuggets into three broad sections.

Build: Nuggets 1-29
Prepare: Nuggets 30-51
Sell: Nuggets 52-60

We hope you find these nuggets useful as you look to grow and eventually sell your firm. We advise you to pick out a few nuggets each quarter and knock them off.

But first, here is our take: there are 50K MSPs in the US and we believe 50% of these MSPs, i.e., 25K are looking to exit, over the next 5-10 years. That means in 5 years, the market will be looking at 5K MSPs each year looking to sell themselves. That is about four hundred MSPs per month or 20 MSPs per day! We expect the exit process to get drawn out with MSP founders looking to find buyers. That does not auger well for exit multiples. So here is our most important piece of advice:

Nugget 61: We advise MSPs to get ahead of the game. Either have an aggressive growth plan where you know what you're doing this month and can measure success or failure at every step or exit to a business growing faster than you. Don't play the middle game.

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BUILD PHASE – "Start where you are, use what you have, do what you can." – Arthur Ashe

1. Know the size of your market and what fair share looks like.

There are 55 SMBs with more than ten seats per MSP in this country on average. We went through 250 towns and cities in the US to count this up. It is true. It varies across regions. But that is the average. Also, the average seat size in these SMBs is twenty. Now let us do some math. At $150 per seat per month, 55 SMBs with twenty seats will produce $2MN in revenue per year in Managed Services. If Managed Services form 50% of an IT firm's business, then the average MSP should be able to get to $4MN in annual revenues. Growing past that will take above average effort on a consistent basis. What does your addressable market share look like? You need to know. Because if you are trying to grow to $10MN in a $4MN market, that is going to be hard.

Podcast: Consolidation Trends in the IT MSP Space, Five Emerging Risks in IT We Are Not Thinking Enough About

2. Break free from owner-dependency by building a self-sufficient management team.

Free up time to grow by delegating. By the time you are doing more than $4MN in revenue you should have a point person other than you making decisions in areas like Sales, Marketing, Hiring, Client Relationship Management, Technology Support, Finance, Legal, Vendor Management. Start delegating key responsibilities today to capable leaders, train them well, and document their roles. Do this in stages.

Podcast: What Does a Best In Class MSP Look Like

3. Story board your unique value in your outreach.

Most IT service websites do a great job of listing the services they offer but fail to tail their story. But we are living in a world where personal brand really matters. If you have been running your firm for over 20 years, you absolutely have a brand. It's what sets you apart - personal background, niche expertise, local community roots or something else that is not related to IT. If you are a local MSP with deep roots in your township, own it, shout it from the rooftop, website, LinkedIn, and Facebook page. Make sure Google knows, Facebook knows, LinkedIn knows, your local Centers of Influence know who you are and why you rock.

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Podcast: The Power of Specialization, How MSPs Can Thrive in Healthcare, Cyber Insurance Uncovered: Learn how Doug Kreitzberg at SeedPod is Working with MSPs to Protect Small Businesses

4. Boost customer loyalty by knowing their pain points and becoming their advisors.

I am an M&A advisor but am drafting this article to help you grow your business because I know that's a pain point for you. What are you doing for your clients to help them grow? The best MSPs are irreplaceable advisors to their customers, not just providing IT services. Remember, your customer does not understand IT. They understand what is bothering them. They like people to understand that as well. SMBs have two key pain points, liquidity, and growth. Are you serving your community bank? Can you make an introduction to the bank for your client? Are any of your clients in one vertical potential clients for clients in another vertical?

Podcast: What Makes an MSP Irresistible, Common Mistakes MSPs Make When Growing Their Business and How to Avoid Them, Grow or Go: Mastering the MSP Sales and Marketing Game, Bolt-On Acquisitions and what MSPs need to Watch Out For

5. Scale by developing standardizing workflow and documenting everything

If operations live only in your head, your business cannot grow or survive without you. Document workflows for service delivery, sales, onboarding, hiring, and billing. Pick an area, like hiring and build out workflows around recruiting, interviewing, making the offer, onboarding, and training. Make videos your employees can listen to for each of these sub workflows. Document everything for that buyer down the road to show you got all this under control. Then use that workflow as an example and assign this task to a delegate in each functional area. Tell them to get it done within the week. You will be amazed at what comes back. You should be. If you are not, you need to look at your staff.

Podcast: From Bullfighter to COO, Achieving Operational Maturity as an MSP

6. Stay on top of your finances by cleaning up the books.

Messy or unclear financial records turn buyers away. Use GAAP-compliant, accrual-based accounting, separate business from personal expenses, reconcile your cash. Unclear books often lower valuations and often kill deals. Hire a bookkeeper if you have not already. Then hire a fractional CFO down the road. Contact us if you need a recommendation.

Podcast: What Every MSP Should Know About Financial Due Diligence Before Going to Market

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7. Don't sweat customer concentration. Get creative with it.

Having a large customer is never a bad thing. But you cannot stop there. When a single client accounts for 20,30% of revenue, buyers see significant risk. Proactively seek out new clients to spread the load. That is obvious, but not easy. If it were easy, you would have done it already. Make things better by moving large clients to longer-dated contracts with termination fees. If they push back, consider offering a small discount. If a large customer becomes a deal blocker down the road, sell the contract to another MSP and get paid that way. If you cannot get a good price, work out an earnout with the buyer. There are ways! In the meantime, tell your large customer about your referral program. Wait, do you have one?

Podcast: Scaling Success: Inside VC3's M&A Playbook

8. Grow your business with a strong referral program.

I do not know a successful IT service firm that does not have a successful referral program. Find all the Centers of Influence in your community. These are your schools, libraries, churches, synagogues, community banks, municipal offices. Do what you need to make them your clients. Serve them well. They are special! They know everyone. Ask them for referrals every time you sit down with them for the Quarterly Business Review. Do a seminar on cybersecurity with your community bank. Ask them to invite their small business clients. Tell them, you will make their clients more secure.

Article - How to Build An Effective Referral Program

9. Inorganic growth after Organic growth

Inorganic growth is a core competency that should be mastered after you have mastered organic growth and know how to transfer those learnings to the target. Integrating a small number of contracts into an organization that is underutilizing its staff is one thing, but acquiring or merging with a firm your size can be complex. There is a reason why buyers have teams dedicated ot this task. Can it be done? Absolutely. But it needs to be done the right way. Write t me at madhur@excendio.com to find out how we are helping $2-5MN MSPs "merge".

Podcast: Bolt-on Acquisitions and What MSPs Need to Watch Out For

10. Stay on top by building out a Data Room.

Build out your Data Room today to lower your stress level. It will help you track everything - your financials, tax records, client, employee and vendor contracts, articles of

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incorporation, client satisfaction surveys, insurance policies etc. It will one day turn into your Due Diligence center. In the meantime, by tracking it, you will immediately improve how well you track your business. Do it monthly so your reports get used to getting asked for all this information. Write to us to get our list.

Podcast: Sealing the Deal: Legal Must-Haves for a Successful MSP Sale

11. Future-proof your contracts with strong MSAs.

Contracts without assignment provisions can stall or kill a deal. Update your MSAs with clear transfer rights, termination fees, finder fees, non-solicitation clauses, confidentiality, and intellectual property protections, declination of services, price accelerators. An MSA is not a sales contract. Avoid committing to things you can never deliver. You are not the "perfect solution," you are not offering" complete compliance," and you are not "proactively" solving a client's issues. Listen to this great podcast by Bradley Gross, Attorney, "Puffery Kills Your Contract."

Podcast: Key Legal Considerations for MSPs When Structuring An MSA

12. Get rid of employees who are energy suckers.

If you want to build your business you want to avoid employees that are energy suckers like the plague. They will ruin morale. Doesn't matter their technical expertise. They won't function well in a team and that will undo any good. Look for attitude over technical skills all day long. Check for technical skills but make sure your interview process filters for cheerful people others like to have around. Then, have a great onboarding training program to help employees fill gaps. Use offshoring as an interim solution while you look for replacements.

Podcast: Offshoring: Learn How Techno Global is Enabling Businesses to Dramatically Improve Productivity Through Offshoring

13. Get control over outcomes by tracking KPIs.

You cannot improve what you don't measure. Monitor KPIs like Gross Margin by Line of Business, EBITDA margin, revenue per dollar of service cost, client gross and net client attrition rates, hours per endpoint per month, ticket resolution time, lead generation rate, cost of client acquisition, customer lifetime value. Get it all on a dashboard. Track the dashboard. Discuss it with your core team and clients.

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14. Remind your clients of what you are not doing for them through a Declination of Services appendix in the MSA.

Have a Declination of Services section in your MSA that states all the services you are not providing. Not only is that good risk management, but it is also a great way to keep reminding yourself and your clients of all the great services they need, you have suggested but are not providing. Go over that list in every Quarterly Business Review with them. Are you doing those?

Podcast: Key Legal Considerations for MSPs When Structuring An MSA

15. Know our best customers by running Client Satisfaction Surveys then ask them for referrals

Client satisfaction surveys are great for you to spot your best and worst clients. Ask your best clients for recommendations and referrals by going to your referral landing page or sending you back a scripted email. Thank them for it!

Podcast: Steps to Take Before You Sell Your Business

16. Know our worst customers by running Client Satisfaction Surveys then sit down with your team to do a post-mortem.

Your client is not happy. What happened? You need to know. Is it a single incident? Is it an ongoing issue? Find out from your team. don't wait for your client to come out and tell you finally one day. Proactively, reach out to them to address the issue. Do it in person. Keep all your facts at your fingertips. But don't bring them out unless they do and after they have had a chance to calm down. Bring a team person with you to be a calming influence. If the client is justified, tell them you will fix it and how. If the client is wrong, gently but firmly share with them the facts.

Podcast: Steps to Take Before You Sell Your Business

17. Build out your networks, get advice and accountability by joining a peer group.

Every MSP I have spoken to who is part of a peer group has spoken to how valuable it was to them. Not a single MSP was able to bring it back to dollars and cents and ROI. It doesn't matter. Networks are intangible assets. They are tough to value but incredibly useful. Join a peer group.

Podcast: IT Nation Unplugged: Arlin Sorensen on Navigating Growth, Exit and Legacy as an MSP Owner

18. Get your legal entity structure right by deciding now whether you want an S-Corp or C-Corp.

This is not the place to get into a serious tax discussion. At a high level, C-Corps allow owners to sell equity in the firms on a tax-free basis up to an upper limit. To get the full benefits of a C-Corp you need to wait 5 years although recent changes will allow C-Corp owners to get substantial benefits within 3 years. An S-Corp avoids the double taxation of your business but capital gains from the sale are not fully tax deductible. Which is better? You know the answer, It depends on your situation. You need to get a rough idea for this in the beginning because if C-Corp is the answer, then you may want to set that up today. This leads me to my next tip.

Podcast: Preparing to Sell: Legal Strategies to Maximize Your MSP's Value

19. Find yourself a Financial Advisor, an "MSP" Attorney, and an "MSP" M&A Advisor.

You absolutely need these three people with you, and they need to be part of your core team from the beginning because there are many decisions you need to take early for which you need advice from them. Besides, building trust takes time. Find people in the industry who specialize in your vertical. The Financial Advisor is the guy who is focused on your financial goals for retirement and can help you understand what role your business can play in getting you there. The "MSP" attorney knows the legal stuff and how it applies to the MSP world. You want not just an attorney, but someone who works with MSPs. Ask your peers for recommendations. I recommend you speak with Thomas Fafinski and Bradley Gross. They are highly respected. Write to me if you need introductions. The M&A Advisor is the guy who knows all the other guys, knows where deals are trading, who are the established and newest buyers. When the time is right he will put together your marketing deck, find buyers, assess bids, and help you exit. You will need to trust them. That takes time. Look for someone who is focused on IT services, if not specially around MSPs. I am going to shamelessly raise my hand here for Excendio Advisors. IT M&A is what we do. We have been doing it for 20 years and we are good at it, at least that is what our clients say. Go to our website and check out our referrals and deals. I focus on the MSP and IT Consulting space.

Podcast: Choosing the Advisor

20. Have your employees sign non-solicitation agreements if your state allows that

If your state allows it, your counsel should know, include non-solicitation clauses in your employee agreements to prevent them from soliciting your clients. Limit the term to less

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than a year and the scope to clients the employer has interacted with. Have your employee agreements periodically reviewed by counsel because laws keep changing.

Podcast: [Wisdom & Witticisms from an MSP Attorney]

21. Include non-poaching clauses and placement fee in our MSA

If your state allows it, your counsel should know include non-poaching clauses in your MSAs to prevent your clients from "poaching" your employees. Restrict scope to employees your client has interacted with for business purposes. Importantly, add a placement fee payable upon breach of the clause. You are handing over a well-trained employee your client likes. Finding good talent is a top pain-point for most small businesses. Recruiting firms will typically charge 33% of the hire's annual salary, so your client should have no issues making that payment. You will need that money to find a replacement and then you will need to train the resource.

Podcast: [Key Legal Considerations for MSPs When Structuring An MSA]

22. Cut out late payments by detailing out payment terms in your MSA

Late payments make it difficult to manage cash flows and will be severely discounted by buyers when you sell. Most buyers will not give much credit to payments that are more than 120 days late. MSAs should specify due dates, acceptable payment methods, penalties for late payment, and circumstances under which payment terms can be renegotiated.

Podcast: [Key Legal Considerations for MSPs When Structuring An MSA]

23. Move to automatic billing by adding a processing fee for clients who don't agree

Automatic billing is the key to reducing late payment issues and making your cash flow predictable. Move to automatic billing by letting your clients know you will start charging a processing fee for those who don't agree. Give them a 3-month grace period to comply and then bill them the processing fee. An MSP owner we worked with was able to convert over 90% of his clients to automatic billing by following this approach.

Podcast: [From Bullfighter to COO]

24. Integrate your CRM with your Accounting software to help with reconciling cash flows

Most MSPs struggle to reconcile cash flows because invoices generated in their CRM (e.g., ConnectWise Manage) often aren't manually entered into their accounting software (e.g., QuickBooks). Imagine having these sorts of issues over a long period of time in a business that is growing. Now imagine a buyer who comes along makes a great offer and wishes to

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dig through your books and records only to find that cash balances at your bank are not reconciling with your financial statements. Eventually, it all gets sorted out, but the diligence saps energy from the owner and distracts him with tactical issues when he needs to be focused on strategy. Kill this in the bud by connecting your accounting software with your CRM.

Podcast: From Bullfighter to COO

25. Assignability of client contracts is critical for your MSP in an asset sale, have that language in your MSA

You do not want the sale of your MSP to be held up or delayed because a key client or clients are not prepared to assign their contract to a buyer they do not look on favorably. Avoid the stress during due diligence by including language in your MSA that allows you to assign your client contracts without consent in the event of a sale of your business.

Podcast: Key Legal Considerations for MSPs When Structuring An MSA

26. Protect yourself from client consolidation by including termination fees in your managed service contracts

To protect against financial losses if a client terminates their managed service contract prematurely, include termination fees in your MSA that are tied to the percentage of remaining projected revenue for the contract term. Buyers will treat annual contracts without termination fees as month-to-month contracts.

Podcast: Key Legal Considerations for MSPs When Structuring An MSA

27. Protect your profitability by building Price Acceleration options in your MSA

Inflation in the post-COVID world has severely reduced margins for MSPs. Many MSPs have gone without increasing prices for 5-10 years. It is difficult to increase prices if you must get client approval. It is much easier if it is already built into your MSA contract. Justify the accelerator by anchoring to increases in vendor costs, increased security costs, increases in the number of seats or endpoints being served.

Podcast: Key Legal Considerations for MSPs When Structuring An MSA

28. Assignability of leases is critical for your MSP in an asset sale, have that language in your MSA

If your business operates out of a leased office space, the terms of your lease may also have an impact on the sale. Make sure that the lease agreements are assignable or can be renegotiated with the buyer.

Podcast: Steps to Take Before Selling Your Business, Twelve Tips For Selling Your Business

29. Make an inventory of contracts that need recasting and renegotiate them as they expire or come up for renewal

Since contracts will typically only get negotiated when they come up for renewal, it is important for sellers to make an inventory of contracts that may need recasting and begin to renegotiate them as they expire. Depending on the lengths of such contracts, this can take time. By ensuring that these contracts are in place and favorable, you reduce the potential roadblocks during negotiations and improve the attractiveness of your business to buyers.

Podcast: Steps to Take Before Selling Your Business, Twelve Tips For Selling Your Business

PREPARE PHASE – “Hope is not a strategy.” – Vince Lombardi

30. Know what you want to do after selling your firm and be doing it before you have sold it.

Selling a company, you've built is emotionalâ”” your identity, routine, and wealth are often tied to it. When it's gone, a vacuum can set in, causing anxiety if not filled with purpose. To avoid this, start exploring life after the sale early. Spend time on activities you may pursue post-exit to assess what fits and to reduce your firm's dependence on you. Many successful founders transition into community roles, consulting, or new careers. The key is to define what you want from your next chapter before you sell.

Podcast: IT Nation Unplugged: Arlin Sorensen on Navigating Growth, Exit and Legacy as an MSP Owner

31. Get a handle on your valuation by tracking Adjusted EBITDA.

Buyers will value your firm by applying a multiple on your Adjusted EBITDA. Not your actual EBITDA. Have a report that builds out that calculation. Adjusted EBITDA gives the best picture of your firm'ss sustainable EBITDA. Eliminate non-business line items, one-

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time business expenses and revenues and "right-size," your salary to what an employee with your role would be expected to draw. To do all this, start carving out your accounts into sub-accounts to separate out business and non-business items and recurring and one-time revenues and expenses.

Podcast: [How Should MSPs Be Valued]

32. Get a handle on your valuation by tracking Net Working Capital line items.

Buyers will typically require a seller to leave behind a certain amount of working capital at closing. How much working capital is required and how that working capital is calculated is subject to negotiation although there are industry norms. In the IT space it is typical for WC to be calculated on a no cash no debt basis using the twelve-month trailing average. Knowing what line items are typically included and being able to track these items going forward is key. You should be able to track what share of your Accounts Receivable tends to turn into bad debt and be able to track AR by maturity bucket. Set up your accounting ledgers to track this. It is also important to track Deferred Revenues on a running basis. This is revenue that has been prepaid by a client for which services have yet to be provided. Deferred Revenues will be treated like a Current Liability almost always be subtracted from WC.

Article: [What Role Does Working Capital Play in M&A Transactions]

33. Use a listing process to sell your firm if you wish to get the highest valuation.

I've always been comfortable with real estate as it runs in my family. For my first seven unit sales, I used the top agent in town. She was great and always delivered. But for the eighth unit, I went solo. I knew the market, the comps, and how to list. So, I priced it fairly and hosted one open house with no private showings. Over fifty people showed up to see the unit. More importantly, they saw each other. By weekend's end, I had two strong offers. By the end of the week, two more. The winning bid came from a buyer flying in from London. He upped his offer twice and closed at $50K over ask. Had I not listed the unit publicly, I'd never have found him. The takeaway? To get the best price and terms, you must list. Many owners resist because of the agent's fee. But the seller of a well listed unit never has to pay the fee! Read the next tip to find out.

Podcast: [Twelve Tips For Selling Your Business]

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34. The market determines who pays the transaction fee, the listing agreement just determines whose checking out the fee comes out of.

Let's continue our previous example. The closing price was $50K over listing and would have easily covered an agent's fee had I chosen to go with one. Competition bid up the price of the unit well over the agent's fee and it would have been the buyer who really paid for it. Now in real estate, I was able to post my house on Zillow without an agent. Zillow carried all the details of the unit. You cannot do that with your firm. Your clients and employees would find out and that would be a disaster. So, you need an agent to run a confidential listing process. If he is good, he has worked with you to prepare your firm well for a sale and has created a process that is competitive enough for you to get buyers to implicitly pay his fee. It will just come out of your checking account.

Podcast: Demystifying the Listing Agreement: What Every Seller Should Know Before Signing

35. Get clarity on a deal by asking a lot of questions before signing the LOI.

Before you sign the LOI, ask all the questions you need to ask, and there is a lot to ask about , definition of exclusive period, valuation, deal structure, source of financing, working capital calculations, indemnity escrow, non-compete and non-solicitation clauses, your role post-closing, pay packages for key employees, breakage fees, Reps & Warranties Insurance (RWI), list of due diligence items that must be in the Data Room, cyber-security insurance and posture. Once an LOI is signed, you will enter an exclusive period, typically 60 days, during which you will not be allowed to entertain any other offers. The buyer will do his due diligence on you during that period. You do not want to come out of the exclusive period without a signed purchase agreement and firm closing date. If you do, other buyers will ask questions when you reach out to them.

Podcast: Reverse Due Diligence, Questions Sellers Should Be Asking Buyers, Cyber Insurance Best Practices for MSPs: Five Things You Must Get Right

36. Make sure the post-LOI Exclusive period has a clear termination date

Once an LOI is signed, you will enter an exclusive period, typically 60 days, during which you will not be allowed to entertain any other offers. Make sure the exclusive period is not open ended. It needs to have a clear end date before which it terminates, and which can be renegotiated in writing with mutual consent if needed. For most deals, experienced and serious buyers should not take more than 60 days.

Podcast: Reverse Due Diligence, Questions Sellers Should Be Asking Buyers

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37. Get as much detail as possible on Net Working Capital in your LOI.

Your LOI says you will be expected to leave trailing twelve months of WC at close and that details on how WC is to be calculated will be laid out in the purchase agreement. Get the Buyer to give you more details about your AR in the LOI before you sign it. If they are a repeat buyer, they probably have standard language around WC they can share. Let them share it at the LOI stage so you can review and negotiate it. How much have they haircut Accounts Receivable that is more than 120 days due? How are they suggesting you calculate reserves for bad debt?

Podcast: [What Role Does Working Capital Play in M&A Transactions]

38. No Due Diligence before LOI.

Never allow a buyer to start their due diligence before sending across an LOI. You will be opening your books and records to someone who may never make an offer. Besides, due diligence takes time and energy which you do not want to commit unless there is a real offer to look at.

Podcast: [Reverse Due Diligence, Questions Sellers Should Be Asking Buyers]

39. Have your LOI reviewed by your attorney before you sign it

If you have been following my tips you already have an "MSP" attorney with M&A experience and an M&A advisor. Make sure both people review your LOI and give you feedback.

Podcast: [Reverse Due Diligence, Questions Sellers Should Be Asking Buyers]

40. Your LOI should include broad details on non-compete and non-solicitation expectations

A LOI contract should specify the nature and length of the non-compete and non-solicitation agreements the owner can be expected to sign. These are especially important to understand if the founder plans to continue working in the industry or returning to it after some time. Will they be allowed to offer their consulting services to fellow MSPs that are in the same state as their major clients? What are they expected to do with clients who reach out to them post-sale? Are they required to refer the client to the buyer? How long does the non-compete last? Not all of this will be paid out in the LOI. But you should be able to get on a call with the buyer to get them to discuss this with you.

Podcast: [Sealing the Deal: Legal Must-Haves for a Successful MSP Sale]

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41. Know how your deal will be financed and whether that financing is committed

Serious buyers already have their financing locked-in, be it stock or equity. LOIs that are predicated on a buyersâ ability to find financing are obviously worth less to a seller. Those LOIs may come in at a higher offer but you must ask yourself how meaningful that offer is if someone else gets to veto it. You should find out before signing the LOI what a buyerâs source of funds is, how long it will take them to make a capital call, are there hard lines for capital calls to be approved such as growth rate floors, client concentration ceilings.

Podcast: Reverse Due Diligence, Questions Sellers Should Be Asking Buyers

42. Make sure your LOI includes details on how earnouts are to be calculated and paid for

My advice, avoid earnouts as much as possible. They tend not to work out well for the seller. Negotiate a lower price if needed and if reasonable. In those cases where an earnout is unavoidable, make sure you understand exactly how they will be calculated, down to the actual calculation and the system used to generate it. I will go so far as to make the buyer do a dry run of that calculation using historical figures. You do not want to leave any room for ambiguity. You prefer earnouts that are calculated based on revenue targets rather than gross or operating profit because revenue is easier to pin down than the latter two metrics. You also need to understand how much control you have in running the operations that earn that revenue. No point projecting revenues on an operation that you don't have any control over.

Podcast: Reverse Due Diligence, Questions Sellers Should Be Asking Buyers

43. Your LOI should include details on your post-close role and period

Tied to my advice on understanding non-compete and non-solicitation clauses in your agreement is understanding what role you can be expected to play post-sale and for how long. Most founders I speak with do not relish the idea of taking orders from others. If you are like most founders, you want to negotiate a role that gives you more freedom and fewer reporting responsibilities. Try to choose roles that are market facing or which allow you to build out a new skill set you may be interested in pursuing.

Podcast: Reverse Due Diligence, Questions Sellers Should Be Asking Buyers

44. Understand what comprises the indemnity escrow

Find out which items buyers plan on asking an escrow for, to what extent and by when they plan on releasing that escrow. Buyers should give guidance on what they want in an

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indemnity escrow. Standard items include escrows for reps and warranties, unforeseen issues with customer contracts that may be close to their contract renewal dates, undisclosed liabilities pertaining to data breaches and cybersecurity lapses, unpaid state and local taxes and working capital shortages. Negotiate separate caps and release triggers for each of these items to make sure funds are released as uncertainties are resolved. Speak with your advisor and attorney and what caps and triggers are standard market practice.

Podcast: [Sealing the Deal: Legal Must-Haves for a Successful MSP Sale]

45. Proactively renew contracts that have renewal dates within a quarter of the LOI sign date

Avoid last minute surprises by proactively renewing contracts that expire on or shortly after the LOI sign date.

Podcast: [Sealing the Deal: Legal Must-Haves for a Successful MSP Sale]

46. Don't run a "hot" operation to boost EBITDA margins

Don't run an artificially lean team just to boost margins. That is not sustainable, and seasoned buyers will see through it. Besides, the sale process can take a while and working your staff extra hard can wear them down and cause attrition. Customer service can also suffer leading to lower client satisfactions scores when the buyer surveys your customers. Most buyers expect IT service firms to operate within an EBITDA margin band of 10%-20%. Lower margins can be a healthy sign if the owner can show that they have been able to divert current profitability to generate future growth. Higher EBITDA margins are welcome only if buyers can trace their source back to higher gross margins.

Podcast: [What Makes an MSP Irresistible]

47. Cost of Goods Sold should include not just the cost of the hardware or software but also the cost of labor required to support the revenues

It is critical to include all costs related to delivering services. This includes not only the tools needed to manage and deliver services and wages of front-line technicians, but also service managers and engineers, project managers and engineers and post-sale client account managers (such as VCIOs) needed to support services. These roles are all fundamental to service execution and should be treated as part of the cost of goods sold (COGS), not general and administrative expenses.

Podcast: [What Does a Best In Class MSP Look Like]

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48. Put together a list of questions to ask buyers in your reverse due diligence of them

Put together a list of questions to ask buyers in your due diligence of them. Not only do you want to find out the answers to these questions, but you are also using these questions to establish your status in the negotiations. You want to come across as someone who is a leader, in control of your business and with clarity about what you want out of a sale. We have a great podcast on this, which I highly recommend you listen to. Try not to ask narrow questions outside of what we have already laid out above. Instead, focus on big picture topics to get a sense for whether they are the right cultural fit for you, how they plan on growing their firm; especially if you plan on rolling over equity, what are their plans for employee development, and whether they can refer you to previous founders they have bought companies from.

Podcast: Reverse Due Diligence, Questions Sellers Should Be Asking Buyers

49. Rehearse

Rehearse your interactions before getting in front of your buyer. Your conversation with the buyer should be polite but firm, friendly but professional. Prepare answers to anticipated their questions to avoid surprises. Review your marketing materials and data room materials thoroughly with your advisor and identifying weak spots that need to be explained. No one is expecting to buy a perfect firm, but they are expecting answers to questions that make sense.

Podcast: Reverse Due Diligence, Questions Sellers Should Be Asking Buyers

50. Choose Between Wealth and Ego

Most founder-led businesses find it difficult to grow their business once they have reached local market saturation. That would be the right time to consider an exit. But most founders stay on for longer and in many cases the business shrinks after peaking because of competition and client attrition. At which point, they choose to exit a smaller firm that has shown stagnant growth for some time. They alow ego to get the better of them.

The first step in selling your business is to level set with yourself. What are your personal and financial goals? What role can your firm play in meeting those goals and over what period? Is the time you spending in running your firm stopping you from reaching other goals? If you were to exit your firm and rollover some of your proceeds into another firm, would that wealth grow faster? Are you the best person to run your firm going forward?

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Knowing the answers to these questions will help you narrow down a path of action and give it purpose.

Podcast: Cash or King, How Can Scaling into a Larger Platform Unlock Value for a Smaller MSP

51. Build credibility by documenting and justifying one-time expenses.

Buyers scrutinize EBITDA add-backs carefully. Clearly explain one-time costs like office moves, lawsuits, or owner perks and provide supporting invoices or memos. Well-supported add-backs are more likely to be accepted.

Podcast: Steps to Take Before Selling Your Business, Twelve Tips For Selling Your Business, : What Every MSP Should Know About Financial Due Diligence Before Going to Market

SALE PHASE – "If you can't explain it, you don't understand it well enough" – Albert Einstein

52. Own your narrative by commissioning a sell-side QOE before going to market.

If you have a large MSP (>$10MN), it is worthwhile to run one's own sell-side QOE. A sell-side QOE helps you spot and fix issues, support your valuation, and negotiate from strength. It helps you build out your own narrative and justify your financial adjustments.

Podcast: What Every MSP Should Know About Financial Due Diligence Before Going to Market

53. Maintain strict confidentiality about the sale.

Premature news of a sale will scare employees, clients, and competitors. Only share on a need-to-know basis and use NDAs liberally.

54. Strengthen your story by documenting your cybersecurity posture.

Buyers care about how you protect your own and client data. Create a formal security plan, record past breaches and fixes, and ensure policies align with compliance requirements.

Podcast: Sealing the Deal: Legal Must-Haves for a Successful MSP Sale

55. Showcase stability by tracking and presenting churn metrics.

High churn scares buyers. Document both gross and net revenue retention so buyers see that your customer base is loyal and predictable.

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Podcast: What Makes an MSP Irresistible, Scaling Success: Inside VC3's M&A Playbook,

56. Strengthen valuation by documenting recurring vs. reoccurring revenue clearly.
Recurring (contractual) is more valuable than re-occurring (informal or ad hoc). Track and present this breakdown accurately.

Podcast: What Does a Best In Class MSP Look Like

57. Ensure a seamless transition by creating a 100-day integration plan.
Post-closing chaos is one of the top reasons acquisitions fail to deliver value. Work with the buyer before closing to define leadership responsibilities, integration milestones, and timelines for combining systems and processes.

Podcast: Steps to Take Before Selling Your Business, Twelve Tips For Selling Your Business

58. Clarify leadership roles by defining a post-close organizational structure.
Without clear reporting lines, employees don't know who to follow, and priorities slip. Collaborate with the buyer to map out the new org chart and communicate it to the team during the initial announcement. One seller shared how publishing the structure early kept morale high and minimized turnover.

Podcast: Steps to Take Before Selling Your Business, Twelve Tips For Selling Your Business

59. Calm employee fears by delivering clear and timely announcements.
The rumor mill can quickly destroy trust if you don't get ahead of it. Plan to announce the deal to employees all at once, followed by Q&A sessions and individual meetings as needed.

Podcast: Steps to Take Before Selling Your Business, Twelve Tips For Selling Your Business

60. Retain your clients by proactively engaging major accounts during the transition.
Clients fear disruption just as much as employees. Schedule leadership-level meetings with key customers immediately after announcing the deal to reassure them about continuity and even pitch new benefits.

Podcast: Steps to Take Before Selling Your Business, Twelve Tips For Selling Your Business

Conclusion

Embarking on your MSP's Build-Prepare-Exit journey needs planning from inception to exit. Too many MSP founders are getting to their exit gates and finding they don't have all the pieces they need for a successful sale and then having to backtrack. If you are navigating through the challenges of growing your business and planning for an eventual exit, **we invite you to connect with Madhur Duggar, Senior Advisor at Excendio Advisors.**

Madhur guides founders through a proven consultative process designed to attract the highest valuations by finding the right partners who can best leverage their unique strengths—including employees, clients, and IT.

Founder-led businesses are deeply personal, often representing a lifetime of passion and effort. That's why he focuses not only on the transaction itself but also on how it aligns with the founder's life goals and career transition needs.

With his support, founders can confidently exit knowing they've maximized their business's value, gaining the clarity, confidence, and peace of mind they deserve.

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