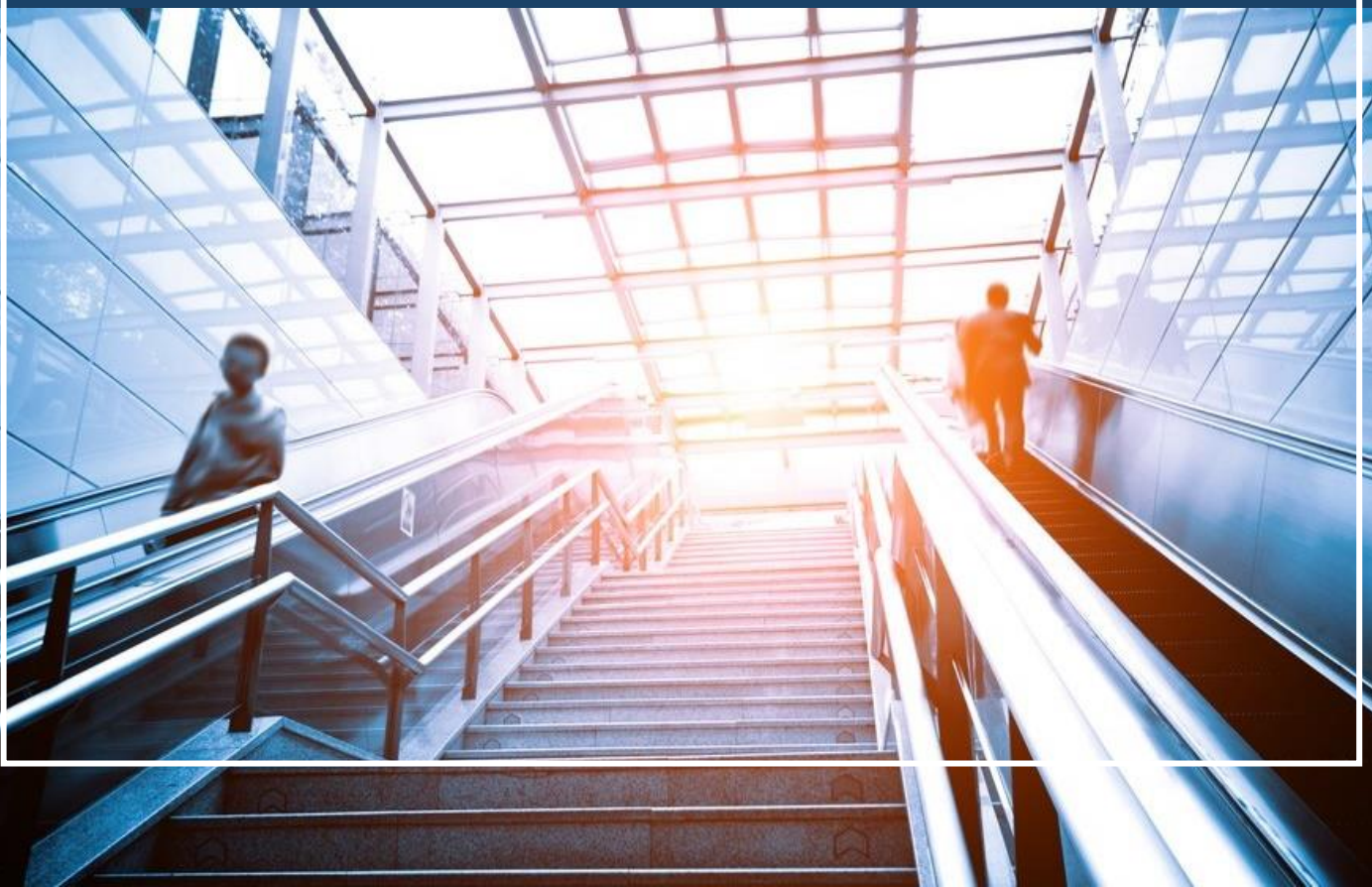


# Private Equity: The Continued Development of the Managed Services Market

OCTOBER 2021

As technology is now embedded in every aspect of business, the discussion around managed services has moved from a comparison with traditional technology management solutions such as on-demand outsourcing or building in-house teams, for example, to the more straightforward question of which managed service solutions to adopt. This is an era when making the right technology choices and adopting the right implementation and monitoring model can offer a real competitive advantage.

Continued overleaf.



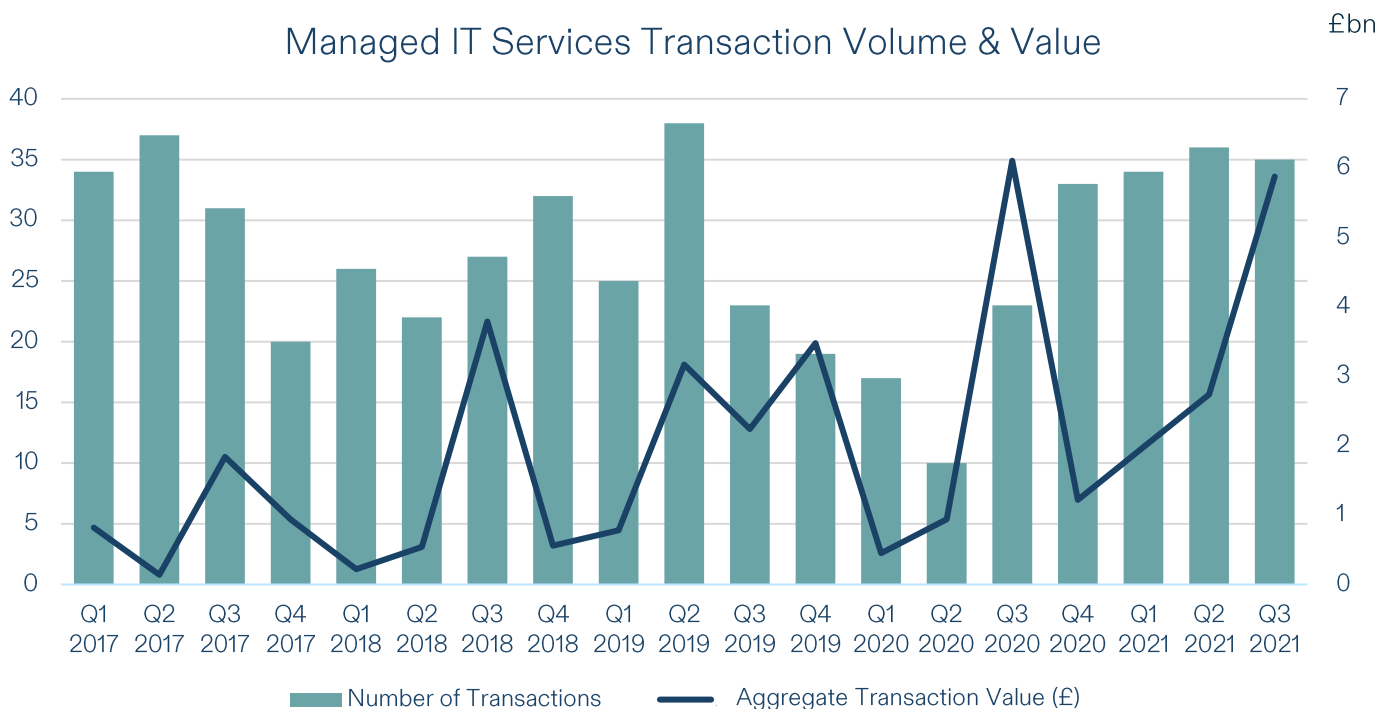
## The Continued Development of the Managed Services Market

Security breaches, outages and downtime are no longer simply an inconvenience: they impact the bottom line and can severely compromise corporate reputation. Dated approaches, such as fixing technology when it breaks using ad-hoc suppliers, are totally incompatible when technology is right at the heart of a company's core functions. As such, managed service providers have become the go-to choice for companies needing sophisticated, adaptable, long-term technology solutions, especially as organisations look to transition from a lumpy capex approach to an opex approach. As a result, the global managed services market, that was valued at \$152 billion in 2020, is expected to grow to \$274 billion by 2026 (Statista).

Managed service providers help businesses meet their clients' objectives by providing dedicated services at a pre-agreed cost, freeing the company from the time-consuming and often difficult-to-predict costs of hardware and software investment, recruiting in-house teams, and buying in ad-hoc solutions when things go wrong. The success of small businesses in securing these professional services at an affordable rate has thrown the doors open for managed service providers to handle more technical workstreams and develop attractive streams of recurring revenue.

Recent generations of business technology solutions have seen, for example, workloads migrating to the cloud. Organisations expect their managed service providers to be able to evolve to embrace such changing technologies across everything from applications to infrastructure, introducing new solutions quickly and efficiently at a time when the ability to be agile is critical. The best providers can offer a full suite of evolving capabilities, from advisory through to operations including introducing new technology solutions within a cost-controlled model, setting standards which few in-house technology departments can match.

Managed IT Services Transaction Volume & Value



Source: S&P CapitalIQ 2021

*“The managed services space is highly attractive given the ongoing long-term shift towards cloud-based and hybrid infrastructures, accelerated by the pandemic. We are also seeing increasing opportunities in subsectors such as managed cyber security. The dominance of large vendors such as Cisco and Microsoft creates an opportunity for nimble mid-market service providers who can add their own niche expertise and customer service wrappers.*

*At Inflexion our approach to this space is to look for clear differentiation, recurring revenue, and outstanding entrepreneurial teams, as well as growth angles that we can help with – for example M&A, or international expansion in markets such as the US, LatAm, and Asia-Pac, where Inflexion has people and experience. These factors led us to invest in Systal, which we saw had an exceptional track record and opportunity as a managed network partner to large, global enterprise clients.”*

Abhishek Majumdar  
INVESTMENT DIRECTOR  
Inflexion Private Equity



For companies considering managed services there are a number of prevailing trends which impact the choice of solution:

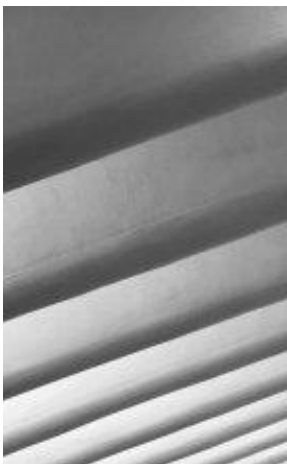
## More Focus on Data Security

Today, any organisation needs to collect, store, access, and assess many datasets on a regular basis to keep its processes going. The direct fall out from this is the burgeoning demand for data security and privacy. Organisations have already started implementing cloud-based platforms to keep their data secure. Managed services can provide layered data security, allowing companies to adhere to data compliance regulations such as GDPR, thereby avoiding expensive fines from potential breaches.

As the amount of data generated by organisations multiplies, the need for data security and privacy will only increase, especially at the network edge due to the increased prevalence of working remotely. Organisations are turning to managed services as the only comprehensive option for providing specialist advice on handling the avalanche of information companies now face.

## Rise in Artificial Intelligence and Machine Learning

As business processes become more complex, companies are increasingly including machines as extensions of their human resource, adopting artificial intelligence (AI) and machine learning (ML) technologies. As these technologies are currently in their infancy but evolving fast, they bring with them issues around data security and technical reliability. Managed services providers can track the changing picture and offer solutions based on the most current knowledge ensuring that organisations develop AI and ML as a competitive advantage in a structured fashion rather than being left behind by more forward-thinking peers.



## Data Analytics

AI and ML are helping organisations gain insights from the data they hold in ways that have not previously been possible. This is a step change for many companies who have accumulated data that until recently they have not had the means to use to their advantage. Ground-breaking technology however needs the backup of managed service providers who understand the systems in order to maximise the opportunity and maintain the hardware and software. Done well this type of solution helps companies add value to their data, offering valuable insights to contribute to vital business decisions.

One of the key differentiators between managed service providers emerging is their ability to help clients gather and analyse data in ways that can be leveraged to drive value with the end customer. The companies succeeding in this area are transforming their appeal to client companies by offering a value-led rather than more traditional cost-led approach.

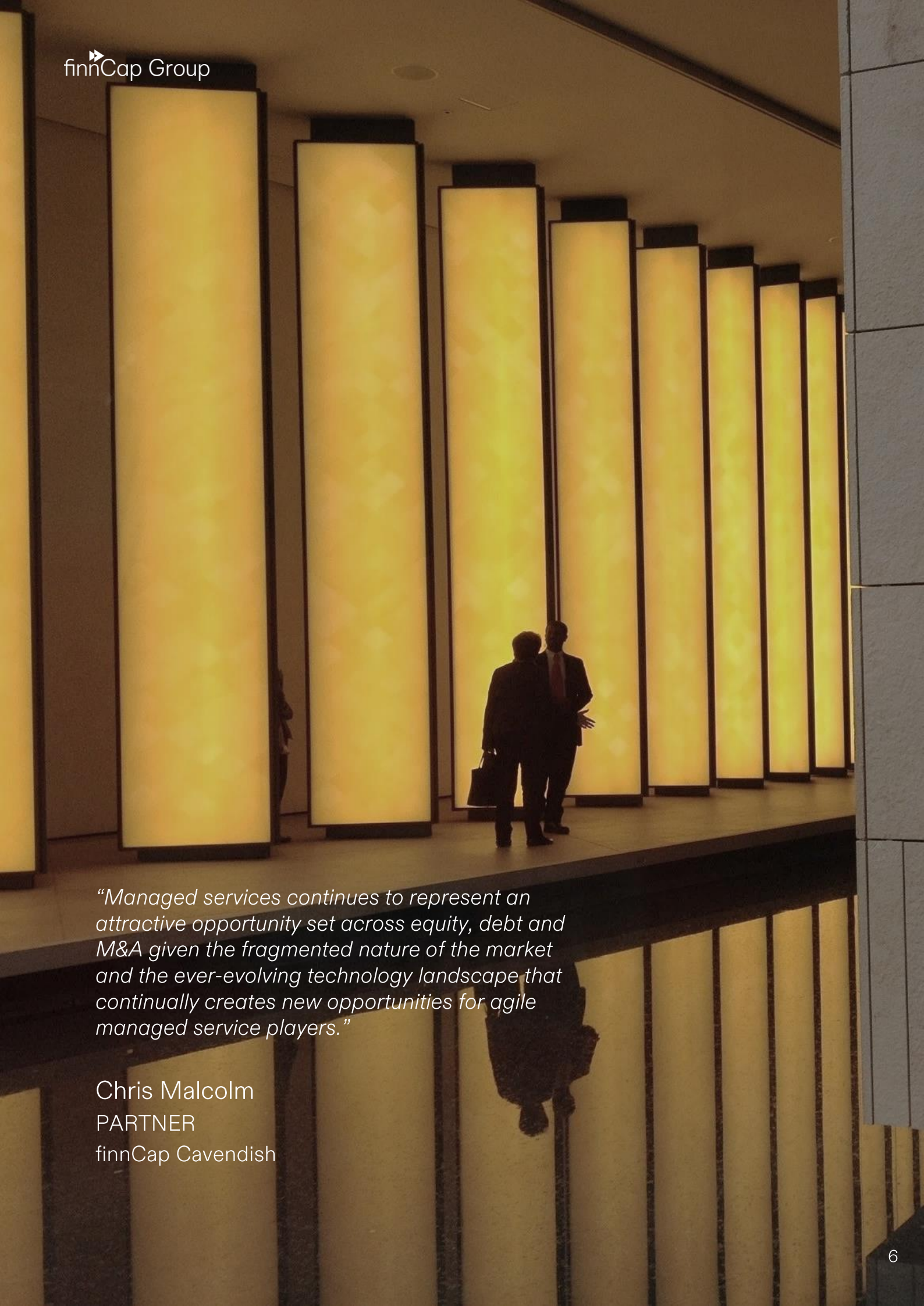


## The Opportunity for Private Equity

The opportunity for private equity comes as managed service players take client companies on the journey from project-based services to recurring managed services, ie. the outsourcing of the day to day running of a significant proportion of the IT real estate. For many managed service providers, annual recurring revenue is over 70% of total revenue. The value for private equity comes as managed service providers can acquire assets with attractive top line growth, levels of recurring revenue that provide significant visibility and cashflow, and are therefore highly supportive of the typical PE investment model. Additionally, as they go through that transition from project to managed services, these companies also get the benefit of enhanced margin profiles and the ability to cross-sell and overlay other services to sticky end customers with long-term contracts and recurring revenues.

Fundamentally, from a PE perspective, owning an asset with the attractive revenue and cashflow visibility and resilience demonstrated by managed services compared to other sectors, particularly those affected by Covid, is highly attractive.



A photograph of a modern interior space. Two men in suits are standing in the center, silhouetted against a row of large, vertical, rectangular light panels that emit a warm, yellow glow. The panels are arranged in a line, receding into the background. The ceiling is white with recessed lighting. The floor is a light-colored, polished surface. The overall atmosphere is professional and contemporary.

*“Managed services continues to represent an attractive opportunity set across equity, debt and M&A given the fragmented nature of the market and the ever-evolving technology landscape that continually creates new opportunities for agile managed service players.”*

Chris Malcolm  
PARTNER  
finnCap Cavendish

## Challenges for the Sector

One of the significant issues the sector faces in the UK is the size and fragmentation of the market, making it difficult to separate the wheat from the chaff. Many of the providers started out as a value-added reseller and are still early on in their journey to become a true managed service provider, with the challenge for PE becoming how to identify those that provide a truly differentiated offering. One thing is clear however, those that do deliver such an offering approach organisations not from a cost-saving perspective, but from a value-add perspective.

An option for PE is finding the right platform, doing a buy-and-build and taking the benefits of scale. Or alternatively, finding an asset that is focused on a niche part of the tech stack or a sub-sector, where the end market has very specific characteristics, such as education, legal or healthcare for example.

## Flight to Quality

At first sight, the overall managed services sector is highly fragmented, and there would appear to be low barriers to entry. However, as previously stated, many of the players are essentially re-sellers of hardware and software, with a cost-saving-led approach. If the business is a value-creating provider, with significant levels of recurring revenues, the barriers to entry become a lot higher.

*“Managed services has been an attractive investment thesis for private equity in recent years. The volume of transactions shows no signs of abating, in part due to the number of opportunities coming to market with a product offering at the forefront of the continually evolving technology landscape. Whilst we are starting to see a greater variability in the quality of assets coming to market, the higher quality assets continue to be in high demand resulting in strong multiples in the space and attractive returns for exiting founders and funds. As a firm we are perfectly positioned to help these businesses achieve their liquidity goals regardless of if they are owner managed, private equity owned or listed.”*

Leigh Webb

HEAD OF PE SPONSOR COVERAGE

finnCap Group



*“Cavendish understood our ambitions from day one and went to great lengths to understand the minutiae of the business in order to effectively position the investment proposition as it evolved throughout the transaction. Cavendish were not just an advisor but a true partner to the Systal team throughout the process all the way through to completion.”*

Neil Nicolson  
CEO  
Systal Technology Solutions



*“Working with ambitious tech companies such as Systal is central to Cavendish’s approach, and we’re delighted to help partner Systal with Inflexion as the two are aligned in both culture and vision for the future. Systal has quickly established a strong reputation for itself in the industry with a growing roster of high calibre clients across the globe.”*

John Farrugia  
MANAGING PARTNER  
finnCap Cavendish



## Unrivalled sector expertise

finnCap Group has been closely involved with the managed service sector since finnCap Capital Market's inception. We have extensive public markets experience, having been number one Tech & Telco broker on AIM since January 2010, by client numbers.

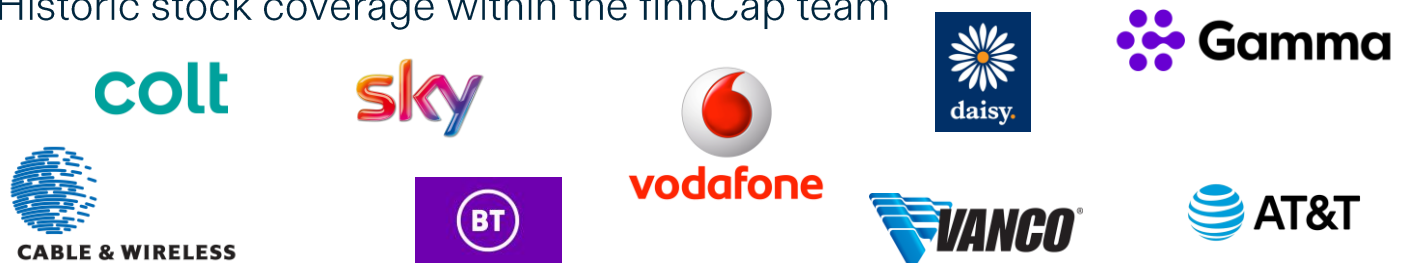
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## Our Coverage of the Sub-Sector

### finnCap Clients (past and present)



### Historic stock coverage within the finnCap team



### International Coverage





Strategic advisory and capital raising services



Largest Nomad and AIM company financial adviser and no. 1 broker on AIM



Leading UK mid-market M&A house with global reach

## ECM

Strategic capital market advice around liquidity events, IPOs and fundraisings



## Plc Strategic Advisory

Strategic takeover, shareholder activism and financial advisory to publicly quoted companies and bidders



## Debt Advisory

Identifying the optimal capital solution for growth



## Private Growth Capital

Raising institutional capital for ambitious private companies



## M&A

Leading M&A advisory with unrivalled specialist expertise in managing the sales process



# Delivering your business ambition

finnCap Group provides strategic advisory and capital raising services to companies.

We are mid-market specialists dedicated to providing the highest quality service to our clients both private and public.

We provide quality broking and fundraising capabilities alongside excellence in M&A advisory with a global reach. We have sold over 600 companies to date and are recognised as the largest Adviser on the LSE and No.1 broker on AIM.

finnCap Group always put clients first delivering your business ambition, whether that is to raise growth capital, IPO, refinance, raise debt for your business, execute an acquisition or sell your business.

Our specialist sector knowledge and entrepreneurial approach helps companies to achieve their ambition.



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