

UK IT Managed Services M&A Snapshot - 2024



SOLD TO

wavenet

6POINT6

SOLD TO

accenture



PE INVESTMENT

Bridgepoint



SOLD TO

Evergre



PE INVESTMENT

PICTET

Atech

SOLD TO

iomart



SOLD TO

focus group

CLOUD
THE FUTURE

Ubertas Consulting

SOLD TO

devoteam

qolcom

SOLD TO

bechtel

CCS
MEDICAL



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Analysis of 2024 deals

Deal Count

- M&A activity is **up by 19%** so far this year with **74 ITMS deals** completed. This is an impressive return to levels last seen in 2022, despite interest rates being higher now



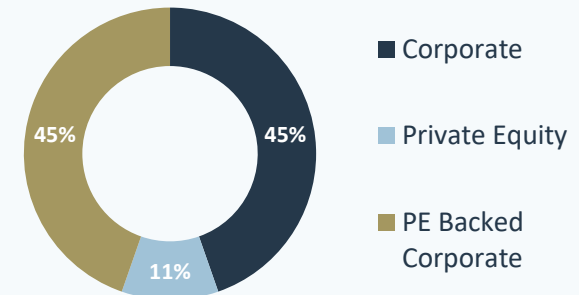
Buyer Industry

- Competitors rarely make the highest offer. So, it is no wonder that “strategic buyers” from adjacent markets such as Telecoms, Consultants and Resellers continue to account for c.60% of buyers



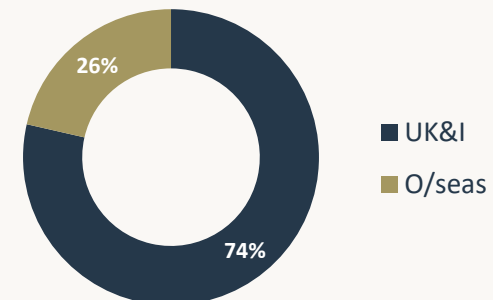
Buyer by Type

- Private equity and PE-backed corporate aggregators still account for over 50% of deals as the quest for consolidation continues in such a highly fragmented market



Buyer Geography

- Overall, overseas buyers account for nearly 50% of all UK Technology deals. However, in the ITMS sector, deals are dominated by UK buyers, who account for nearly 75% of all buyers

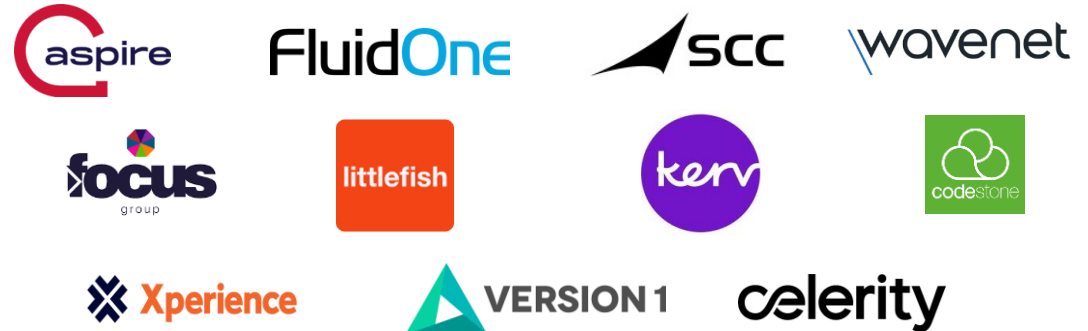


Main ITMS buyers in 2024

New Financial Investors



Private Equity Backed Buy-and-Build Platforms



Strategic Acquirers - UK



Strategic Acquirers - Overseas



UK ITMS 2024 Transactions (1/2)

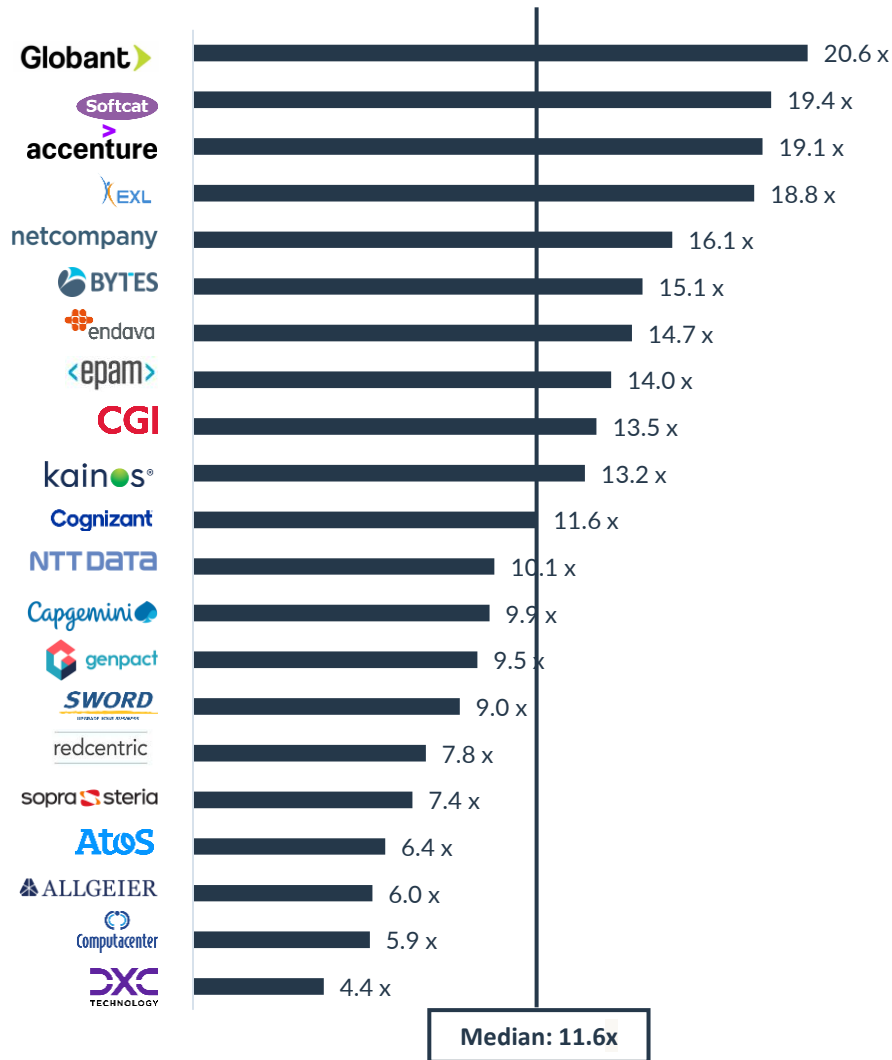
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UK ITMS 2024 Transactions (2/2)

 <p>SOLD TO</p>  	 <p>SOLD TO</p>  	 <p>SOLD TO</p>  	 <p>SOLD TO</p>  	 <p>SOLD TO</p>  	 <p>SOLD TO</p>  	 <p>SOLD TO</p>  
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 <p>PE Investment</p>  	 <p>SOLD TO</p>  	 <p>SOLD TO</p>  	 <p>SOLD TO</p>  	 <p>SOLD TO</p>  	 <p>PE INVESTMENT</p>  	 <p>PE Investment</p>  

Healthy M&A multiples for ITMS

Current public FY 24E EV / EBITDA multiples



- Trailing EBITDA is c.11x for both, similar listed valuations and M&A transactions
- After a bidding war between BC Partners and Apax for Kin+Karta, BC Partners eventually won with a £239m cash offer (£33m more than what Apax offered) – shows the power of competitive tension....!
- iomart acquired Atech for an impressive 17.3x EBITDA, but at 1.8x revenue, it does highlight that MSP deals tend to be in 1x-2x revenue range

Selected M&A multiples (TTM)

	Acquirer	Target	EV/ Revenue	EV/ EBITDA
2024	iomart	Atech	1.8x	17.3x
	BC PARTNERS	KIN + CARTA	1.4x	9.4x
	Valtech *			
	aspire	CLOUDCOCO THE FUTURE STARTS NOW	1.3x	n.a
	Gamma	satisnet streamlining security management	1.7x	13.0x
	sopra steria	ORDINA	1.3x	11.5x

Deal structures and valuations we see in the market

Deal Structures

Deal structures in IT Managed Services are still primarily in cash. There is, however, normally a retention mechanism (this can vary from earn out or equity rollover or just a deferred payment depending on the amount of competitive tension). We are typically seeing the following in the market:

- High response rate from buyers >50%
- Circa 80% of EV payable in cash
- Circa 20% payable deferred
- Competitive tension is shortening e/o periods and lowering any earn out targets
- Short handover period for exiting founders

Valuations

Over 90% of ITMS deals do not disclose financial details. However, we know valuations in the sector are a function of the following factors – one of the most critical is the percentage of recurring income. Factors are:

- 1 Scale
- 2 Scalability - processes
- 3 Revenue growth
- 4 % of recurring revenues
- 5 Intangibles (IP/tools)
- 6 Quality of clients

Valuations are ultimately a multiple of sustainable EBITDA

- ✓ Majority of acquirers offer 7-9 x CY EBITDA
- ✓ Strategic acquirers offer 10+ x CY EBITDA
- ✓ Most deals are 1.0-1.8x revenue

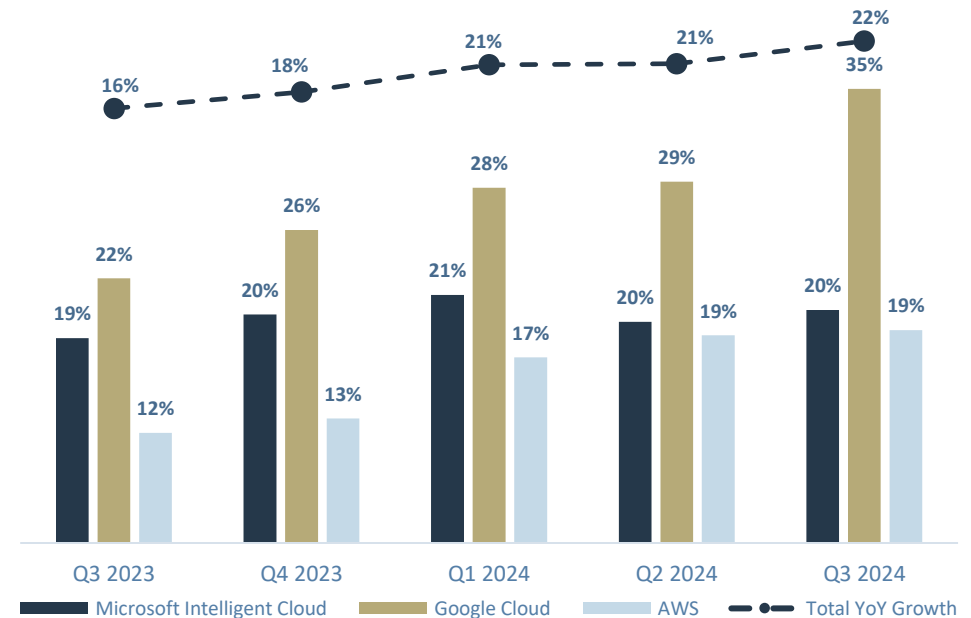
Microsoft cloud growth continuing to drive M&A activity

- Last month, Microsoft announced a **22% growth in Cloud** revenue to nearly \$39bn, driven by **33% growth in Azure** and other cloud services
- Latest results also highlight big investments in AI and the struggle to bring data centres online fast enough to keep up with the huge demand for its artificial intelligence division
- Given the scale of the business, the **growth rate continues to be amazing** and explains the **ongoing wave of M&A buy-and-build** as buyers look to add capability in cloud services to participate in the growth



Microsoft's AI business is “on track to surpass an annual run-rate of \$10bn next quarter, which will make it the fastest growing business in our history to reach this milestone”

Satya Nadella





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