

# 2022 Tech M&A: Trends in Cloud & Managed Services

---

# Trends in the MSP and MSSP Market

- As organizations shifted to remote (and more recently hybrid) work environments, the need to adopt more efficient and secure managed IT and cloud solutions accelerated. As the speed and scale to adopt a digital first work model increased, the need for highly specialized resources in digital and cloud transformation and cyber security intensified.
- Global IT spending is projected to rise to \$4.5 trillion in 2022, a 5.5 percent increase compared to 2021 according to Gartner.
- Organizations of all sizes are moving from short-term projects that were needed to meet the challenges of the pandemic, to more fully-developed strategies that encompass their entire operation.
- Enterprises are expected to focus on securing infrastructure and supporting hybrid work models.
- The 2022 State of IT report from Spiceworks Ziff Davis aligns with Gartner's projections, stating that 53 percent of North American and European businesses plan to spend more on tech in 2022 than they did in 2021.
- S&P 451's Voice of the Enterprise (VotE) Survey found 32% of enterprises say they expect a long-term or permanent increase in spending on cloud due to the pandemic, as opposed to only 5% who expect any type of reduction - permanent or temporary.

# Tech is Driving Digital Transformation

- Technology is the key enabler and driver of the digital economy: Cloud-native applications, cloud infrastructures, security, data, and enhanced user experience all serve as the platform for the digital transformation of individual companies and entire industries.
- Managed and cloud consultancy IT services spending will surge nearly 8% annually to \$1.28 trillion in 2022 as companies increase their reliance on external consultants to help them create the cloud and managed infrastructure strategies they now require.
- The accelerated spending in managed IT and cloud solutions spurred a rapid increase in M&A activity in a market that is still largely fragmented, with many regional firms across North America.

# Increased Complexity + Scarcity of Resources

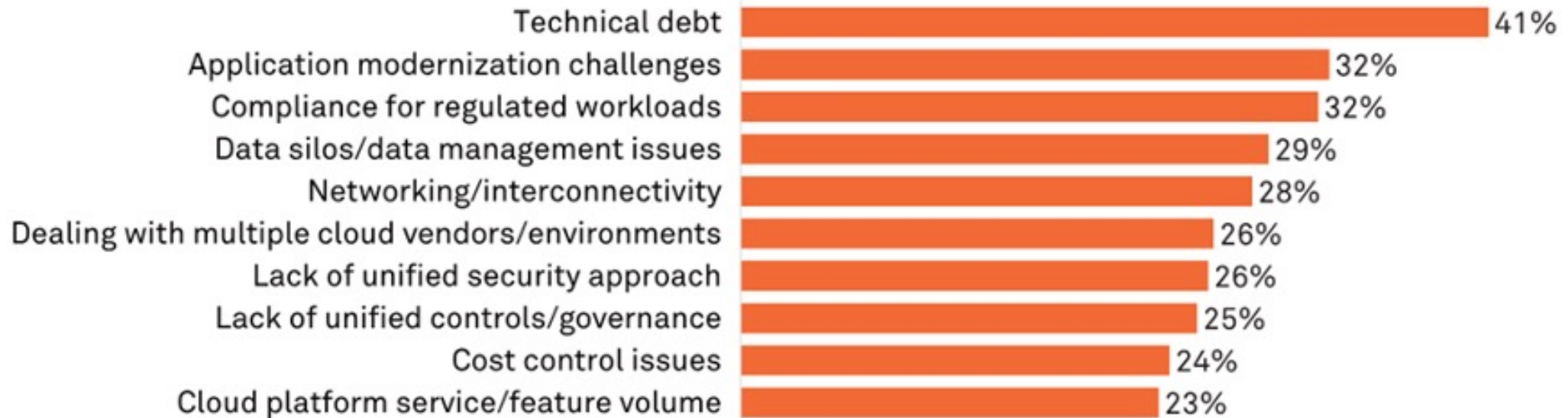
- As cloud environments become more complex, managing infrastructure, scale, and security becomes increasingly challenging for organizations. When combined with the competition for talent with these skillsets, an opportunity has been created for cloud and managed service providers.
- As organizations struggle to manage increasingly complicated cloud environments, ongoing cloud skills shortages make IT transformation harder to achieve. Organizations will increasingly look outside to managed service providers to fill skills gaps and bring additional expertise to modernize and manage their IT environment.
- As the same skills gaps also affects IT and Managed Service providers, Managed Service and Cloud providers with high retention rates become very attractive acquisition targets. Further to this, providers who have adopted subscription-based business models with high recurring revenue and low project-based and product revenue are at the top of the list for buyers seeking high-quality targets.
- As a result of all these pressures, plus the accessibility to cash across all buyer personas (corporate, private equity, search funds, family offices, consolidators, etc.) and the appetite to pursue acquisitions to plug technology gaps, increase market share, pursue roll-up strategies, buy talent, and more, an environment was created that drove a huge increase in the value and volume of acquisitions in 2021.

# Trends in Cloud 2022

## Complexity of Enterprise Cloud IT Environments

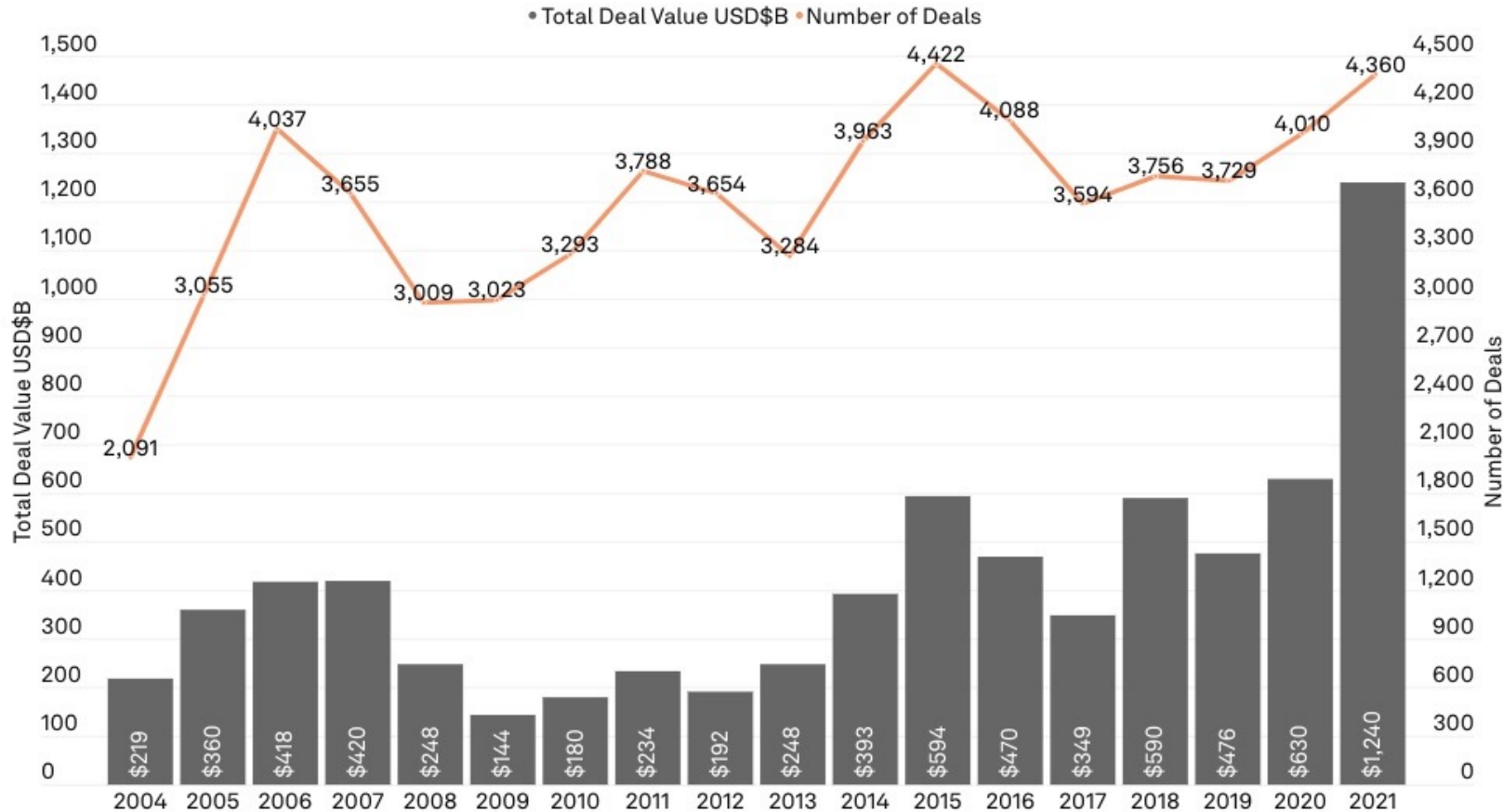


## Drivers of Cloud IT Environment Complexity



# Annual Worldwide Tech M&A Exploded in 2021

Annual Worldwide Tech-Telecom Deal Flow



Data as of December 31, 2021. Includes disclosed and estimated values. Source: 451 Research's M&A KnowledgeBase, S&P Global Market Intelligence.

Tech M&A deals broke all records in 2021 – hitting the highest levels since S&P 451 began tracking in the 1990s.

Deal Value in Q4 2021 hit \$28B, vs \$6B in Q3 – more than a fourfold increase! Q4 valuation levels were more than 2x higher than the next highest quarter since 2015.

On an annual basis, 2021 valuation was over 2x higher than 2020.

# MSP / Managed IT Services M&A Deals

## Managed IT Services M&A Deal Trend (Annual)



Across Managed IT Services deals:

- 2021 saw \$52B in Deal Valuation over 192 transactions
- Almost 3x higher than the next highest year 2017

Source : M&A KnowledgeBase © 451 Research, LLC

# MSP M&A Deal Trends by Quarter

MSP M&A Deal Trend (Quarterly)



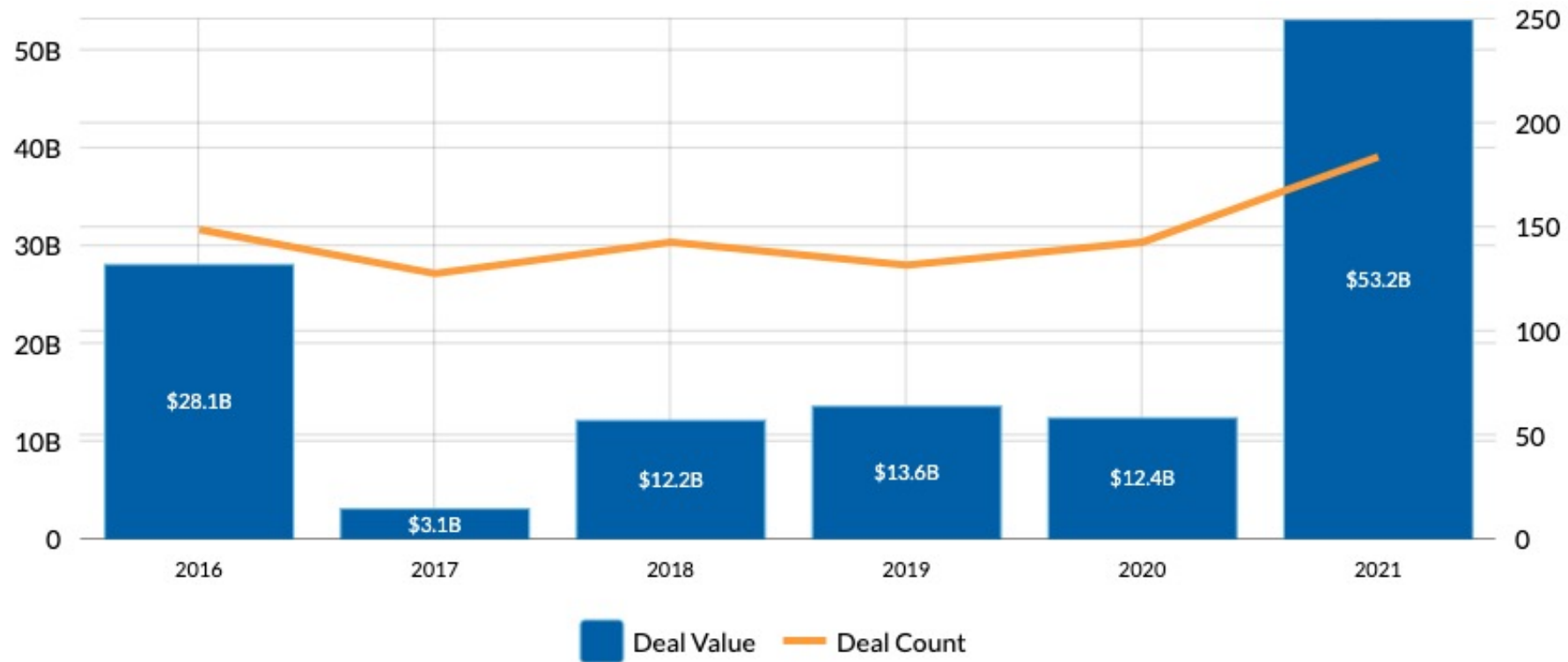
Deal volume cranked up exponentially in the last quarter of 2021 in the MSP sector

Source : M&A KnowledgeBase © 451 Research, LLC

















# Managed & Outsourced Security Services



Looking only at the Managed Security segment, we see the same explosive growth in transactions in 2021

Source : M&A KnowledgeBase © 451 Research, LLC

# Sample Deals in 2021

Target	Date	Space	Buyer	Total Enterprise Value	EV / Revenue
 CyrusOne	Nov 2021	Provides datacenter colocation services and other managed IT services such as data backup and network management to businesses.	 GLOBAL INFRASTRUCTURE PARTNERS	USD \$15.0 Billion	13.0x
 CORESITE An American Tower Company	Nov 2021	Provides colocation, managed hosting, internet interconnection, and cloud and peering datacenter services for businesses.	 AMERICAN TOWER	USD \$10.1 Billion	15.8x
 QTS	Jun 2021	Provides colocation, hosted services and managed IaaS (infrastructure as a service) from datacenter locations in the US, primarily for enterprises.	 Blackstone	USD \$10.0 Billion	20.1x
 CANCOM	Jul 2021	Provides IT managed, cybersecurity, and related IT consulting services for businesses in the UK. Services include digital transformation, managing and delivering hybrid cloud, managed hosting, IT support, and network management.	 Telefonica Tech	USD \$469.9 Million	N/A
 HERJAVEC GROUP	Feb 2021	Provides on-premises and cloud-based managed cybersecurity and remediation services for businesses in Canada, the UK, and the USA. Also provides payment card security services.	 Apax	USD \$275.0 Million	3.1x
 InteliSecure	Feb 2021	Provides managed enterprise data loss and IT asset protection and security consulting services for companies worldwide. Offerings enable data protection and security management.	 proofpoint.	USD \$62.5 Million	N/A

# Factors Driving M&A in the MSP Market

- Accelerated adoption of public, private, and hybrid cloud solutions by companies seeking to achieve higher efficiencies and meet the demands created by a distributed workforce
- Increased complexity across cloud, security, and infrastructure
- Lack of highly-skilled resources needed to help map out the right strategy and to support ongoing operations
- Highly fragmented market with many regional players
- Access to cash / low interest rates
- Private equity firms are sitting on ~ \$1.6 trillion of dry powder according to Preqin data
- Buyer are seeking qualified resources, recurring revenue, growth, new complementary skillsets

# Predictions for 2022

The MSP market is changing as a result of both external factors and improvements in technology. A few key trends that industry voices have identified for 2022 include:

- Continued increased adoption of public, private, and hybrid cloud as companies have embraced (or at least partially adopted) distributed or hybrid work environments. Increases in efficiencies and the ability for employees to securely connect remotely are key drivers.
- Focus on security and an increase in working with managed security service providers. Cybersecurity has become a huge concern for MSPs and their customers as the incidence of cyber hacks continues to rise. Many companies will look for external help to improve and manage their security requirements, as the resources required are highly skilled and specialized.
- Continued scarcity of skilled resources will make it more difficult for all companies (Enterprise, SME, and MSPs, Cloud, and MSSPs) to hire and retain people with the skillsets required to deliver services.
- MSPs are focusing on increasing their recurring revenue streams and moving away from project-based IT service revenues.
- Many MSPs will be implementing better internal solutions to help them become more efficient and to provide the ability to scale. These will include time management and billing solutions, along with self-help service apps to help customers resolve issues (ChannelE2E also identified Chatbots, Push Notifications, KB articles)
- MSPs will begin moving more toward a distributed work model themselves; as cloud adoption increases there will be less need to go on site and MSPs will need to shift to providing service through remote teams. This will result in MSPs ability to grow beyond a regional approach to a national, and in the case of larger MSPs, a global reach.

# Can the Pace of M&A Continue?

2021 saw the highest number of deals in the MSP and MSSP space *ever*

It is likely that we will continue to see high levels of M&A in this market in 2022 for a few key reasons:

- There continues to be a huge volume of cash on corporate balance sheets and in private equity and other similar firms
- Interest rates remain low for the time being
- The appetite to do deals remains strong
- The MSP and MSSP markets remain highly fragmented, offering buyers an opportunity to consolidate and achieve growth and ROI through acquisition
- Cybersecurity is a huge hot button that many firms are seeking solutions for through acquisition
- Continued move to the cloud by companies who need skilled resources to help them map out the right strategy and manage their platform
- As both cybersecurity and cloud become more complex, there is an increased need for highly specialized and skilled resources – many companies will pursue M&A to acquire the resources they need to meet their obligations

# Global Tech M&A by Experienced Executives

As former technology company owners and executives we understand tech on a deeper level. As business operations and growth specialists who have built companies, raised capital, and successfully exited, we bring real life experience to any M&A discussion.

Core expertise and focus is Enterprise B2B Software and Services

We bring unparalleled experience in Tech M&A, senior-level execution and proven results. Clients like working with a senior team and appreciate our high-touch approach and ability to get deals done discreetly.

See what our Clients say about us:  
<https://www.tequityadvisors.com/client-videos>

If you are interested in talking about what we're seeing in the market, including what buyers are looking for, valuations, and how to maximize your outcome in a transaction, let's have a call:

<https://calendly.com/dhortontequity/30min>

Diane Horton, CMI, CM&AA

Managing Partner

O: +1 905-581-7424

C: +1 416-993-1734