

UK IT Managed Services (ITMS) M&A Snapshot - 2023



Brian Parker
Head of M&A
brian@iconcorpfin.com



William Lander
Director
william@iconcorpfin.com

Analysis of 2023 deals

Deal Count

- Tech M&A activity is down by about 30% this year, albeit from a record level in 2022. Yet, it's still been a busy year, with nearly 60 ITMS deals being completed as buyers are attracted to high cloud services growth



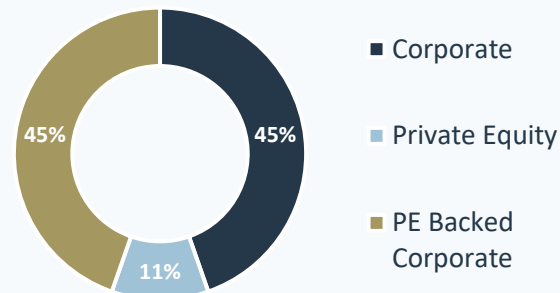
Buyer Industry

- Competitors rarely make the highest offer. So, it is interesting to see that “strategic buyers” from adjacent markets such as Telecoms, Consultants and Resellers accounted for 61% of buyers



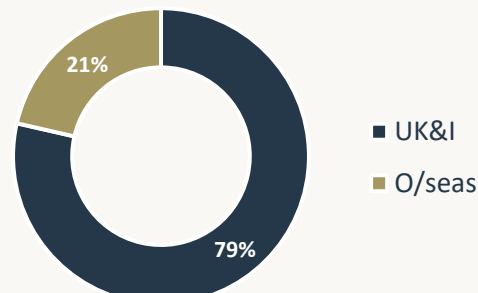
Buyer by Type

- Despite the rise in interest rates, private equity and PE-backed corporate aggregators still account for over 50% of deals as they look to consolidate a highly fragmented market



Buyer Geography

- Overall, overseas buyers account for nearly 50% of all Technology deals. However, in the ITMS sector, deals are dominated by UK buyers, who account for nearly 80% of all buyers



Main buyer types in 2023

New Financial Investors



Private Equity Backed Buy-and-Build Platforms



Strategic Acquirers - UK



Strategic Acquirers - Overseas



Microsoft cloud growth continuing to drive M&A activity

- Last month Microsoft announced a 24% growth in Cloud revenue to nearly \$32bn, driven by 29% growth in Azure and other cloud services
- Microsoft also announced very solid YoY growth of 18% in Office 365 and 28% in Dynamics 365
- Whichever line you look at, and given the scale of the business, the growth rate is amazing and explains the ongoing wave of M&A buy-and-build as buyers add capability in cloud services and participate in the growth
- As Satya Nadella CEO of Microsoft said recently the vision is to “build Azure into an AI supercomputer for the world”

+24%

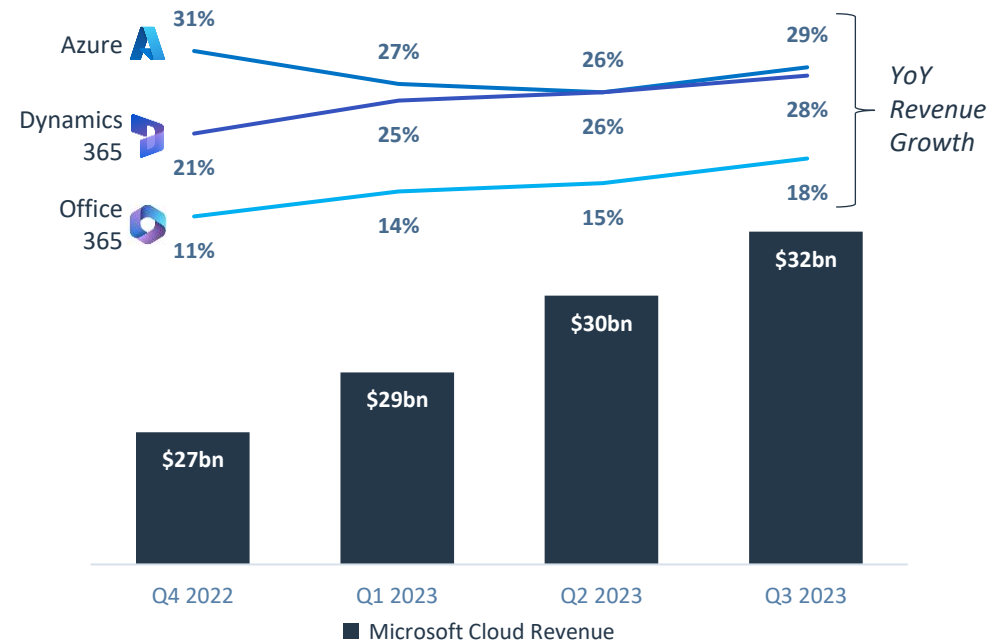
Growth in
Cloud
Revenue

+29%

Growth in
Azure YoY

“Build Azure into an AI
supercomputer for the
world”

Satya Nadella



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 30-50%
- 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:

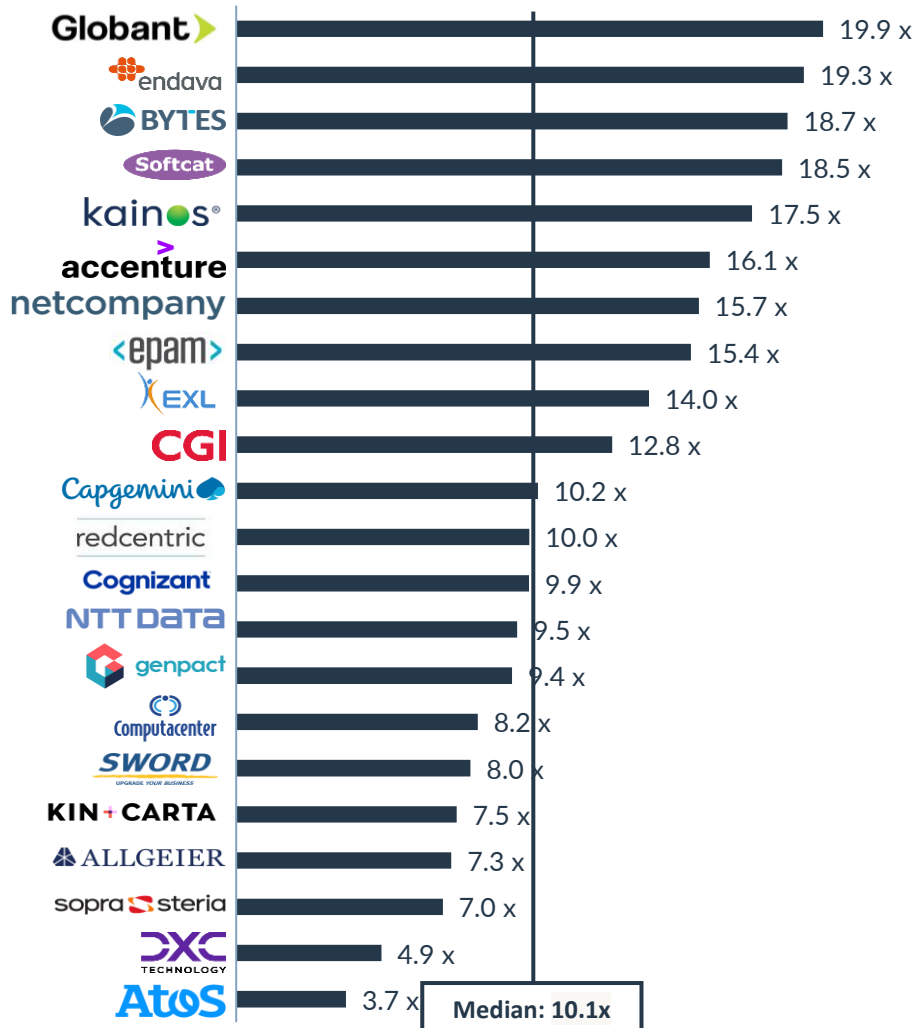
- 1 Scale
- 2 Scalability - processes
- 3 Revenue growth
- 4 % of recurring revenues
- 5 Intangibles (IP/tools)
- 6 Quality of clients

Valuations are ultimately a multiple of current year EBITDA

- ✓ Majority of acquirers offer 7-9x EBITDA
- ✓ Strategic acquirers offer 10+ x EBITDA
- ✓ Most deals are 1.2-1.7x revenue

Healthy M&A multiples for ITMS

Current public FY 23E EV / EBITDA multiples

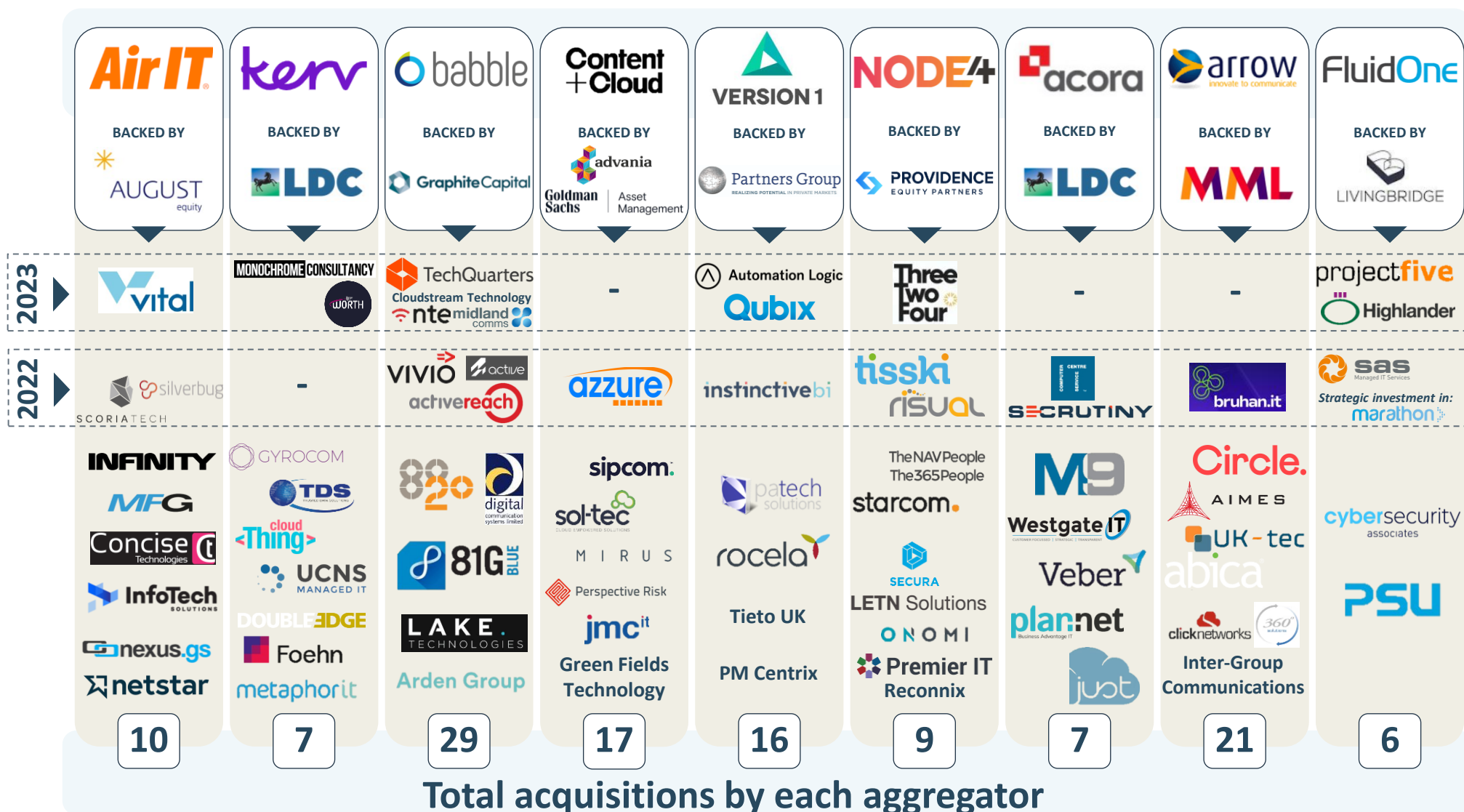


- Similar listed valuations remained steady in 2023, with a median EV multiple of 10.1x 2023 EBITDA. Similarly, M&A valuations of quality targets were mainly in 9-12x EBITDA range (or 1.2 to 1.7x revs)
- Two large privatisations in 2023 were backed by PE, further reducing the listed pool. Apax's has proposed a £203m all-cash offer for Kin + Karta for 9.4x EBITDA. Macquarie (which also recently backed Zenzero) helped Wavenet acquire AdEPT for £50m in cash, or 11.5x EBITDA
- US-based Jamf acquired Apple specialist dataJAR for £25m, or estimated 3x revs, is a big outlier. It includes a 25% (12 month) employee retention pool, rather than an earn out

Precedent M&A multiples (TTM)

Acquirer	Target	EV/ Revenue	EV/ EBITDA
jamf	dataJARltd.	3.0x	n/a
Gamma	satisnet	1.7x	11.4
iomart	EXTRINSICA	1.7x	n/a
wavenet	AdEPT	1.3x	11.5x
Apax	KIN + CARTA	1.2x	9.4x
daisy	ECSC	1.1x	6.9x

UK&I M&A market driven largely by buy-and-build consolidators like these



UK ITMS 2023 Transactions (1/3)

 MERGED WITH 	 SOLD TO 	 PE INVESTMENT 	 SOLD TO 	 SOLD TO 	 SOLD TO 	 SOLD TO 
 SOLD TO 	 SOLD TO 	 SOLD TO 	 SOLD TO 	 SOLD TO 	 SOLD TO 	 SOLD TO 
 SOLD TO 	 SOLD TO 	 SOLD TO 	 SOLD TO 	 SOLD TO 	 SOLD TO 	 PE INVESTMENT 

UK ITMS 2023 Transactions (2/3)










 PE INVESTMENT Management and nvm	 The business IT experts SOLD TO  BCN Group <small>INTEGRATED EXPERTISE</small>	 SOLD TO  SCC	 SOLD TO  accenture	 PFH Technology Group SOLD TO RICOH	PRACEDO SOLD TO  Collabera <small>Value. Accelerated.</small>	 SOLD TO  VERSION 1
 SOLD TO  EKCO	 SOLD TO  NTT DATA <small>Trusted Global Innovator</small>	 SOLD TO  GlobalLogic <small>A Hitachi Group Company</small>	 WE'VE GOT IT COVERED SOLD TO  babble	 MANAGED IT SERVICES SOLD TO  inTEC	 SOLD TO  babble	TETHER SOLD TO  TEKENABLE <small>built for change</small>
 SOLD TO  NODE4	 TECHNOLOGY GROUP SOLD TO  Air IT	 SOLD TO  SCC	 SOLD TO  EY	 SOLD TO  PARK PLACE TECHNOLOGIES	 PE INVESTMENT  MACQUARIE	 PE INVESTMENT  WOOLF PARTNERS

UK ITMS 2023 Transactions (3/3)

 PE INVESTMENT Management and KINGLAND CAPITAL	 SOLD TO 	 SOLD TO 	 SOLD TO 	 SOLD TO 	 MERGED TO FORM  	 SOLD TO 
 SOLD TO 	 SOLD TO 	 SOLD TO 	 SOLD TO 	 SOLD TO 	 SOLD TO 	 SOLD TO 

ICON deal experience across cloud services

With our deep sector knowledge, we can add significant competitive tension to the process

<div> <div>Live Mandate: Azure focused MSP</div> <div>EXIT MANDATE</div> <div>Status: Under Offer</div> </div>	<div>  TechQuarters </div> <div>SOLD TO</div> <div>  </div>	<div>  </div> <div>SOLD TO</div> <div>  </div>	<div>  </div> <div>GROWTH INVESTMENT</div> <div>  </div>	<div>  </div> <div>SOLD TO</div> <div>  </div>	<div>  </div> <div>SOLD TO</div> <div>  </div>
Sector IT Services Digital Transformation Dev Ops	Sector IT Services Digital Transformation	Sector IT Services Digital Transformation	Sector Enterprise Software Microsoft Digital Transformation	Sector IT Services Unified Comms Teams	Sector IT Services Enabling Tech
Technology Microsoft Azure Microsoft 365	Technology Microsoft Azure Microsoft 365	Technology Microsoft Azure	Technology IT infrastructure management software	Technology Microsoft Teams UCaaS	Technology ServiceNow
Deal type Strategic Sale	Deal type Strategic Sale	Deal type Strategic Investment/Sale	Deal type PE Growth Investment	Deal type Strategic Sale	Deal type Strategic Sale



Brian Parker
Head of M&A
brian@iconcorpfin.com



William Lander
Director
william@iconcorpfin.com

ICON Corporate Finance

London | San Francisco | Bristol

www.iconcorpfin.com

[in](https://www.linkedin.com/company/icon-corporate-finance) [linkedin.com/company/icon-corporate-finance](https://www.linkedin.com/company/icon-corporate-finance)