



# The Dream Exit: M&A and Valuation

Craig Fulton, M&A Advisor

# Craig Fulton, Advisor for Evergreen



**30 years in technology**  
**Dedicated to helping**  
**MSPs have success in**  
**growing and**  
**exceeding goals**

- 3 Years with Evergreen
- 16 Year ConnectWise veteran
  - Engineer at the MSP
  - Product and Business Consultant
  - Chief Product Officer
  - Chief Customer Officer
- 4-time CRN Channel Chief, Top Gun 5, MSPMentor
- Married to Jillian, 3 sons: Brody, Tanner, and Parker
- Cars, restorations, fly fishing, archery





# Evergreen Overview

***Our Mission** is to build the best home for MSPs and their leaders*

## **Our Strategy**

- ① **Buy and hold forever**
- ① **Decentralized Operations**
- ① **Talent placement**

## **Our Numbers**

- ① **Founded: 2017**
- ① **Revenue: \$1.5B**
- ① **Employees: 6,000+**



# State of M&A

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# The Punchline:

## It's a great time to be an MSP owner

01



**Exit Options for MSPs:**  
Much better today than they were 5-7 years ago due to increased involvement of private equity

02



**Slowing Organic Growth**  
and higher interest rates have led to a slight decline in valuations since 2022

# Valuations

*It's a great time to be an MSP owner*



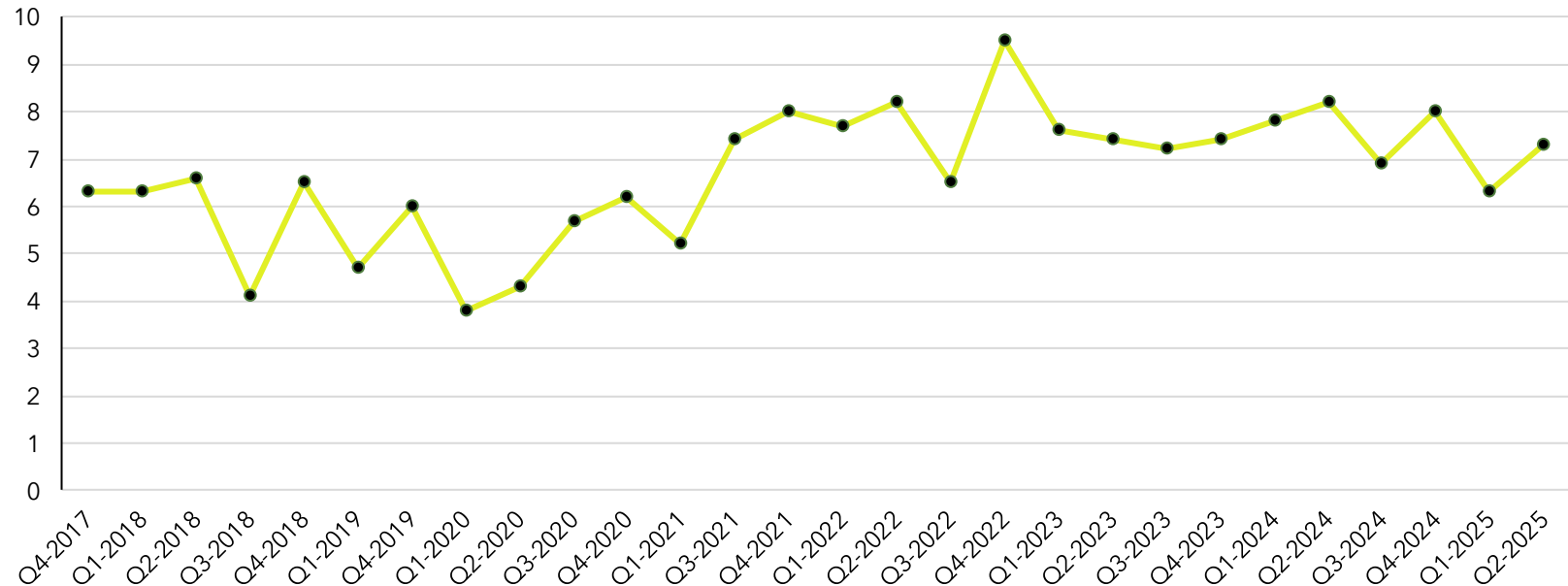
**MSP Cash Multiples by Quarter**

**BELOW \$500K EBITDA: 3-5X**

**\$500K-\$1M EBITDA: 6-7X**

**\$1M-5M EBITDA: 7-8X**

**\$5M+ EBITDA: 8-10X+**



# Consolidation Myths

***Myth #1: The MSP industry is consolidating rapidly***

**Reality:**

Startup MSPs are easily keeping up with the pace of M&A

We track over 15,000 target MSPs that have not been acquired

***Myth #2: Small MSPs can't compete with bigger players***


**Reality:**

Smaller MSPs grow faster organically


Smaller MSPs are nimble and can deliver high touch service at reasonable prices




# What are Buyers looking for?




**EBITDA:** \$500k+ after normalizing owner compensation




**Recurring Revenue:** 60%+ between managed services and product resale




**Organic Growth:** Consistent double digit recurring revenue growth



**Retention:** 90%+ customer retention, 100%+ net revenue retention



**Customer Concentration:** Less than 25% of revenue from top customer, less than 50% from top 5 customers



**Other Considerations:** Seller-trustworthiness, owner centricity, non-owner-led sales engine, staffing levels





# Value Creation

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# What creates value in an MSP?

**Increase Price**



**Reduce Cost**



**New Business**



If you are doing something that doesn't fall into these three buckets, it does not create enterprise value.

# Scenarios

What does this look like ~~on paper?~~  
in excel?

# Scenario 1 | Cost inflation, nothing to offset

Assumptions		Scenario 1					
Price	-						
New Business	-						
Cost Inflation	3.0%						
Elevate MSP		Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Units Sold		100	100	100	100	100	100
Price Per Unit		50,000	50,000	50,000	50,000	50,000	50,000
Total Sales		5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000
Growth			-	-	-	-	-
Cost of Goods Sold		3,000,000	3,090,000	3,182,700	3,278,181	3,376,526	3,477,822
Gross Profit		2,000,000	1,910,000	1,817,300	1,721,819	1,623,474	1,522,178
Gross Margin		40.0%	38.2%	36.3%	34.4%	32.5%	30.4%
SG&A		1,250,000	1,287,500	1,326,125	1,365,909	1,406,886	1,449,093
EBITDA		750,000	622,500	491,175	355,910	216,588	73,085
EBITDA Margin		15.0%	12.5%	9.8%	7.1%	4.3%	1.5%
Multiplier		0.1x					
Value at 7x		5,250,000	4,357,500	3,438,225	2,491,372	1,516,113	511,596
5 Year Value Created		(4,738,404)					



# Scenario 2| New business offsetting cost inflation

Assumptions		Scenario 2					
Price	-						
New Business	3.0%						
Cost Inflation	3.0%						

Elevate MSP	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Units Sold	100	103	106	109	113	116
Price Per Unit	50,000	50,000	50,000	50,000	50,000	50,000
Total Sales	5,000,000	5,150,000	5,304,500	5,463,635	5,627,544	5,796,370
Growth		3.0%	3.0%	3.0%	3.0%	3.0%
Cost of Goods Sold	3,000,000	3,090,000	3,182,700	3,278,181	3,376,526	3,477,822
Gross Profit	2,000,000	2,060,000	2,121,800	2,185,454	2,251,018	2,318,548
Gross Margin	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%
SG&A	1,250,000	1,287,500	1,326,125	1,365,909	1,406,886	1,449,093
EBITDA	750,000	772,500	795,675	819,545	844,132	869,456
EBITDA Margin	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
Multiplier	1.2x					
Value at 7x	5,250,000	5,407,500	5,569,725	5,736,817	5,908,921	6,086,189
5 Year Value Created	836,189					

# Scenario 3| New business + Pricing!

Assumptions	Scenario 3
Price	3.0%
New Business	3.0%
Cost Inflation	3.0%

Elevate MSP	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Units Sold	100	103	106	109	113	116
Price Per Unit	50,000	51,500	53,045	54,636	56,275	57,964
Total Sales	5,000,000	5,304,500	5,627,544	5,970,261	6,333,850	6,719,582
Growth		6.1%	6.1%	6.1%	6.1%	6.1%
Cost of Goods Sold	3,000,000	3,090,000	3,182,700	3,278,181	3,376,526	3,477,822
Gross Profit	2,000,000	2,214,500	2,444,844	2,692,080	2,957,324	3,241,760
Gross Margin	40.0%	41.7%	43.4%	45.1%	46.7%	48.2%
SG&A	1,250,000	1,287,500	1,326,125	1,365,909	1,406,886	1,449,093
EBITDA	750,000	927,000	1,118,719	1,326,172	1,550,438	1,792,667
EBITDA Margin	15.0%	17.5%	19.9%	22.2%	24.5%	26.7%
Multiplier	2.4x					
Value at 7x	5,250,000	6,489,000	7,831,033	9,283,202	10,853,066	12,548,670
5 Year Value Created	7,298,670					

# Scenario 4| The power of cost containment

Assumptions		Scenario 4					
Price	3.0%						
New Business	3.0%						
Cost Inflation	-						

Elevate MSP	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Units Sold	100	103	106	109	113	116
Price Per Unit	50,000	51,500	53,045	54,636	56,275	57,964
Total Sales	5,000,000	5,304,500	5,627,544	5,970,261	6,333,850	6,719,582
Growth		6.1%	6.1%	6.1%	6.1%	6.1%
Cost of Goods Sold	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
Gross Profit	2,000,000	2,304,500	2,627,544	2,970,261	3,333,850	3,719,582
Gross Margin	40.0%	43.4%	46.7%	49.8%	52.6%	55.4%
SG&A	1,250,000	1,250,000	1,250,000	1,250,000	1,250,000	1,250,000
EBITDA	750,000	1,054,500	1,377,544	1,720,261	2,083,850	2,469,582
EBITDA Margin	15.0%	19.9%	24.5%	28.8%	32.9%	36.8%
Multiplier	3.3x					
Value at 7x	5,250,000	7,381,500	9,642,808	12,041,830	14,586,953	17,287,073
5 Year Value Created	12,037,073					

# My Ask of You



***Schedule it: Put time on your calendar to pick a value creation lever and commit to executing on it***

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# Thank You! Questions?

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