

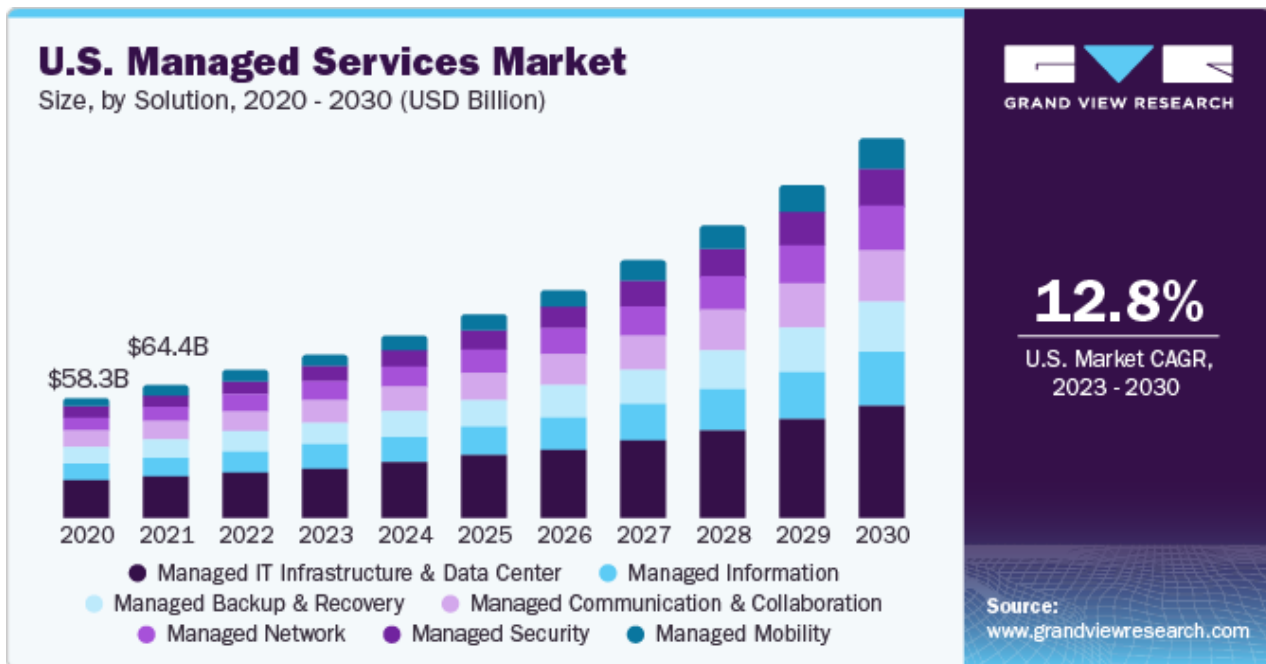


# M&A DEMAND FOR MANAGED SERVICE PROVIDERS IN 2024

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## GREENWICH CAPITAL GROUP

The Managed Service Provider (“MSP”) industry has undergone a significant transformation in recent years, powered by advancements in technology, evolving business landscapes, and the movement toward cloud-based services. As of 2023, the global MSP market size was an estimated \$299 billion, and experts project the industry to grow at a CAGR (compound annual growth rate) of 13.6% globally and 12.8% in the U.S. market through 2030 ([Grand View Research](#)). MSPs are identifying major opportunities to capitalize on market share amidst an expected general economic slowdown and as margin-pressured businesses look to streamline their IT operations. While industry consolidation has persisted in recent years, large strategics such as Accenture, Cognizant, and Insight Enterprises have been considerably active in acquisitions. Notably, Accenture closed six acquisitions in the last three months. In an increasingly competitive environment, providers are honing in on enhancing the customer experience and expanding their capabilities to support customers' needs across the technology landscape.



Several core elements of the MSP business model make it an attractive investment, not just for larger strategics, but also for financial investors. MSPs have the unique ability to produce predictable revenue streams, foster strategic relationships with customers, scale their services to meet demand, and deliver proprietary knowledge about niche industries. These characteristics combined create a wide, competitive moat.

### Trends Driving M&A Demand for MSPs

As the demand for cloud services has grown, the role of IT departments has become progressively outsourced. This evolution has driven the demand for managed service offerings to bridge the gap between third-party cloud technologies and the specific requirements of enterprises. This necessity has only furthered how managed service providers have adapted their business model to support customers' heightened demands. Some providers are taking considerable steps to provide more flexible pricing strategies, such as offering subscription-based and consumption-based pricing models, to match the procurement preferences of their customers. A strategic or financial acquirer with experience in these business models can unlock huge value for MSPs facing pressure from customers to transform to a modern pay-as-you-go model.

Cybersecurity and regulatory compliance efforts make managed service providers structurally integral to a company's operations, compelling organizations to invest in long-term provider relationships. Providers deploy advanced technologies and artificial intelligence, along with implementing sufficient backup systems and recovery plans to maintain security standards. Additionally, providers implement and maintain IT governance frameworks, which are integral in industries such as healthcare and finance, where stringent regulatory requirements exist. MSPs are seen as mission-critical, and this mutual

alignment creates stable customer relationships. A diversified customer base of highly recurring revenue streams is highly desirable for both strategic and financial acquirers.

The proliferation of AI is accelerating the demands placed upon IT departments. The various stakeholders throughout enterprises are asking for best-in-class solutions to drive decision-making with AI. It is unlikely that the IT organization has in-house expertise across this nascent set of solutions, which again makes outsourcing managed services an attractive solution. The power of AI to deliver in-depth expertise in specific areas across industries has spurred the growth of specialization amongst MSPs. Specialization allows for small players to carve out niche market positions with compelling margins. AI is now a driving force behind further fragmentation in the ecosystem, resulting in a wide range of targets for strategic and financial acquirers pursuing roll-up M&A strategies.

Industry-wide, key trends are fueling both financial and strategic investors to acquire managed service providers. In addition to the cloud surge, rising complexity of security concerns, and subsector specializations, investors will also look to acquire talent and establish presences in new geographies. GCG believes M&A activities are expected to flourish in the coming years, and companies must be agile to navigate these changes. Working with an advisor can help you navigate a competitive M&A environment and maximize the opportunity for value creation from both buy-side and sell-side perspectives.

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GCG was founded by entrepreneurially minded investment banking professionals focused on building an organization centered around advising clients. We strive to build relationships by representing our clients' long-term interests and earning their trust. In contrast to the practice of pushing transaction responsibilities to junior resources, our philosophy is to deliver personalized, senior-level attention and experience to every GCG engagement. We are proud to offer references that will speak to a differentiated level of service and results.