

CRN
ESSENTIAL

**Private
Equity**
REPORT 2021
EXECUTIVE SUMMARY

Welcome to the PE Report

Welcome to the Executive Summary of the *CRN Private Equity Report*. The influx of private equity into UK managed services providers and resellers is one of the most striking industry trends of the 2020s so far.

In the first quarter of 2021 alone, there were at least eight platform investments of UK resellers and MSPs by private equity houses, and at least 31 bolt-on acquisitions by private equity-backed UK resellers and MSPs.

The private equity model has always attracted a degree of scepticism, particularly in the wake of 2e2's collapse in 2013. Critics argue it favours short-term gains over long-term value and can overload companies with debt.

But private equity offers an obvious route for ambitious owner-managers eager to grow their business while taking some money off the table.

Culminating with our ranking of the top 38 private equity houses that currently back UK resellers and MSPs, the full version of this report – available only to CRN Essential subscribers - examines what lies behind the private equity feeding frenzy and whether it is good or bad for the industry.

This Executive Summary rounds up some of the key opinions and facts and figures from the report.

Any business owner reading the report should gain insight into whether private equity is the right option for them, and what factors they should consider in the event they take the plunge.

We took care to speak to a range of sources to compile this report.

This includes partners from three of the private equity houses themselves and the CEOs of several PE-backed firms. For balance, however, we also spoke to some owner-managers who have opted not to take on private equity backing and asked them why this is.

Wherever you stand on the pros and cons of the model, what is beyond doubt is that private equity investment in the channel is accelerating.

There were 31 add-on acquisitions by PE-backed UK resellers and MSPs in the first three months of 2021, compared with 41 for the whole of 2020.

We hope that the report provides a useful overview for anyone looking to get to grips with this important industry trend.

■ *Doug Woodburn is group editor of CRN and Channel Partner Insight*

'It has been a positive, enjoyable experience'

The UK's largest Apple reseller, Jigsaw24, has received investment from two private equity houses in the form of NorthEdge (2013 to 2018) and Alcuin Capital Partners (2018 to present). Its CEO Roger Whittle argued that PE is "very helpful to running a business in the IT channel", highlighting six key reasons...

- 1 We get help with refining our strategy, and the path we should take on investment.
- 2 It raises the standard of governance, from good governance to the best. It's good for discipline and professionalism.
- 3 Although not all private equity investment is tied to a five-year window, that's often the case. I think a circa five-year investment window is a good period. It's the period lots of democracies have decided is



suitable for a democratic term. It's not too short, and not too long. And that gives us as management time to do all the right things in terms of running the business, but also to think about succession planning and refreshing the management

cycle. It concentrates the mind in a constructive manner.

- 4 Private equity enables management to have equity in the business, which helps management focus on the value of the business. And when I say management that can often be a wider subset of the company's management than was maybe formerly the case under private ownership. So I think it's more democratic and better for the business. It's a better form of capitalism.
- 5 We've found that private equity helped us with our acquisition strategy.
- 6 Maybe it's an echo of the other points, but having the encouragement and support there has helped us with our ambitions. It enables you to focus harder on trying to realise your ambition. I

Why PE is not (yet) for me...

Private equity houses have come knocking for London-based Microsoft Dynamics specialist QUANTIQ and Cisco Gold partner Block Solutions. CEOs Stuart Fenton and Marc Chang explain why they've so far held off



Stuart Fenton

PE works brilliantly for some firms (like Jigsaw24), and less well for others. I hear horror stories from some management teams where the PE firm buys the company and effectively ladens that acquired company with the debt used to buy it in the first place. Other horror stories is that the PE firm is very hard to deal with, often unreasonable and changes out the management without notice.

The culture of an organisation can change with PE. Note that at the beginning of the pandemic, all PE-backed firms cut costs, took government money, made redundancies, etc. Many owner-operated businesses did not. They took a longer-term, slightly less mercenary view. In the end, these businesses have been far more successful organically.

I get PE firms knocking on the door all the time. Some want us as the platform, others have a platform and want us to augment their business. I

occasionally meet them but usually remain underwhelmed by the vision. I have only met a couple of PE firms that I would consider working with because they would allow the business to flourish. However I have yet to be persuaded that this is a good course for QUANTIQ or me.

If we take QUANTIQ, the typical criteria for PE isn't met:

I don't want to exit. This market has huge upsides. Dynamics is hot hot hot.

QUANTIQ has a great team which works well together – why change that?

I don't need someone else's cash to grow the business – I have cash, I have access to cash and the business creates cash through being nicely profitable.

I have no desire to run someone else's business.

Several of my competitors are PE backed. One or two do brilliantly and continue to shine. Most substitute innovation and growth with acquisitions. The rest tend not to perform to the level of their potential and are often organically outgrown by the market and barely keep up only through acquisitions.

Our focus is on organic growth plus small acquisitions to add geographic coverage or capability. So far, we have made one very tiny acquisition for peanuts. We are likely to do another which is going to be larger and not in the UK.

Think back, and many owner operated firms grew fantastically well without PE. The companies were profitable, and used those profits to drive growth and reward the owners. Good businesses can always borrow from banks (without giving up equity) to fuel growth if they need it. Some

PE-backed firms become polemic messy conglomerates with competing management teams. They can be big, but sometimes, a bit crap.



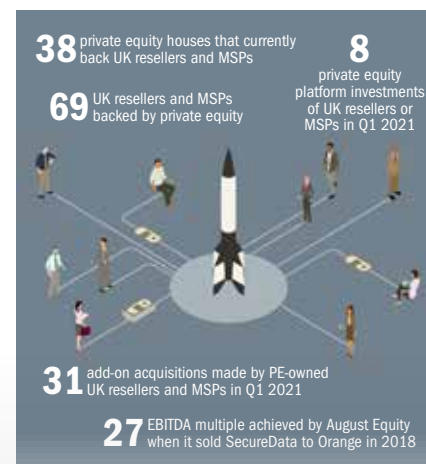
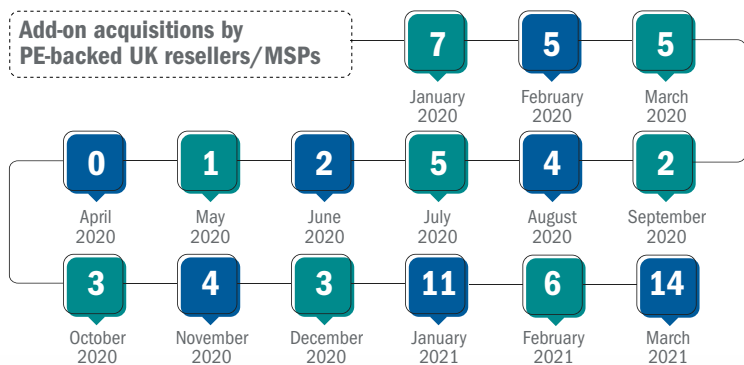
Marc Chang

It just hasn't been necessary or appropriate to be honest. I have looked at it in the past – mainly to de-risk myself personally and to help with growth ambitions through acquisition – but the alignment just hasn't been right so far – mainly because I have been quite comfortable with my current risk and return profile.

There does seem to be perfect conditions at the moment, with increasing number and size of funds, many late in deployment and a focus on technology. I would have thought it is a better market to use PE than ever.

It looks like an interesting space and have heard of many people looking in the channel – which I can understand – especially with the likely tightening of taxation policies over time.

Private Equity Report 2021



Top 38 PE houses of the UK channel



DoubleEdge Professional Services and Metaphor IT and headed up by serial channel entrepreneur Alastair Mills (pictured).

Active UK reseller/MSP investments: OneCom, Kerv, Littlefish, Solid Solutions, Phoenix Datacom, Commsworld, Centiq
Reseller/MSP exits include: babble (still holds minority stake), Connect Managed Services, Node 4
Sectors: Technology, media & telecoms, travel & leisure, support services, retail & consumer, industrials, healthcare, construction & property, financial

and Sapphire Systems (£35m commitment). It has supported 22 follow-on acquisitions at this quartet alone.

Neil Muller (pictured) said Horizon's backing of Timico was a "big part" of his decision to join the midmarket MSP as its CEO in 2018.

"From my first meeting it was clear they were a specialist investor who truly understood our sector," he said. "I have been particularly impressed with their support, particularly on finding and executing acquisitions. Consequently, since the start of our journey, we have more than doubled EBITDA and transformed our business."

Active UK reseller/MSP investments: Sabio, Timico, DMC Canotech, Sapphire Systems

The full version of this report is available exclusively to CRN Essential subscribers

The full report contains:

- Full ranking of the UK channel's top 38 PE houses
- Summary of MSP platform and add-on acquisitions made by PEs in 2020 and 2021
- Analysis of what is driving the PE influx into the channel
- Analysis of how to choose a PE partner
- Analysis of whether PE is good or bad for the industry
- Exclusive interviews with leading MSPs and private equity houses including LDC, August Equity, ECI Partners, Jigsaw24, North, QUANTIQ and Block Solutions

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