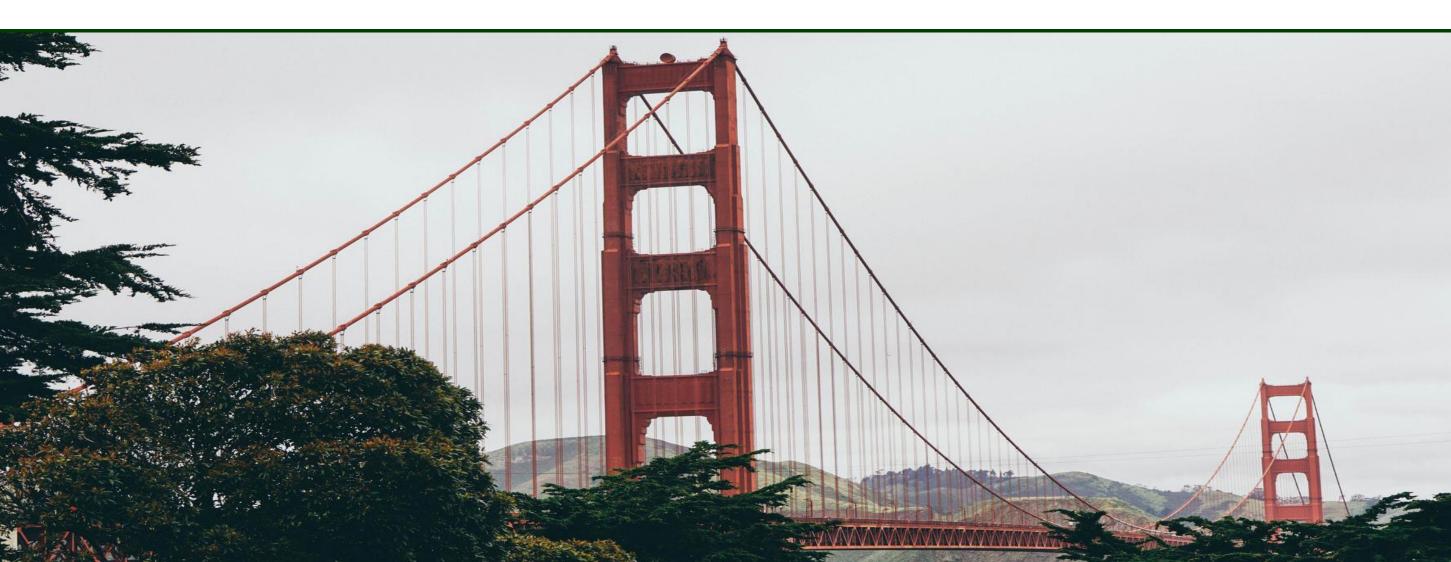# Evergreen
Services Group

4 Key Factors Driving MSP Valuations

Who We Are

Evergreen Services Group

- Evergreen is a group of independently operated companies built through acquisitions of growing MSPs across North America

- Through 7 platform MSP acquisitions since January 2018 – **Executech, Wolf Consulting, JENLOR, Interlaced, Integritek, Netgain Technologies and Tech-Keys** – and 7 add-on acquisitions, Evergreen companies generate over $115 million of revenue and are growing at 15% year-over-year

- Evergreen is currently under LOI to acquire 6 additional MSPs before the end of 2019

- Evergreen is backed by Alpine Investors Fund 6 and is deploying $100 million of equity capital into the MSP space

Jeff Totten
CEO
Sets the vision and strategy for Evergreen

Ramsey Sahyoun
Head of M&A
Leads Evergreen's acquisitions

Brad Wittwer
President & COO
Oversees operations post-acquisition

Who is Buying?

Types of Buyers

Strategic MSP Buyer	Private Equity Buyer	Search Fund
• Slower deal process as M&A in not a core competency	• Faster deal process as M&A is a core competency	• Slow deal process due to a lack of committed capital and the limited M&A experience of the searcher
• Your company will be tightly integrated into theirs	• If your company is a "platform," it will continue to operate independently. If it is an "add-on" it will generally be folded into the platform company	• Searcher takes over as the CEO of the company at close
• Systems and brand will likely change and cross-selling of the acquirer's products/services will be encouraged	• Purchase price structured as cash at close plus a seller note, earnout and/or a piece of retained ownership	• Most structured purchase price with lowest cash at close. Opportunity to retain some ownership
• Purchase price structured as cash at close plus a seller note, earnout and/or stock in the acquirer	• 3-5 year time horizon, after which the business will be sold to another private equity firm or a strategic buyer	• 3-5 year time horizon after which the business will be sold to a private equity firm or a strategic buyer
• Longer term / indefinite time horizon given the operations will be tightly integrated		

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MSP Valuation Drivers

Evergreen's Acquisition Scorecard

Category	Criteria	Score	[Company] Details
EBITDA	$2m+ of EBITDA for platforms or $500k+ for tuck-ins factoring in management compensation	Red Yellow Green	**EBITDA:**
Recurring Revenue	50%+ recurring revenue, 80%+ of revenue from managed customers		**Recurring Revenue**: **Managed Revenue:**
Retention	85%+ customer retention 90%+ revenue retention		**Customer**: **Revenue**:
Growth	Double digit recurring revenue growth for platforms; at least single digit for tuck-ins		**Growth**:
Valuation	Multiple of trailing twelve-month EBITDA based on factors above		**Valuation**:
Geography	Relevant market for existing company or a platform		**Markets Served:**
Customer Concentration	Total revenue: less than 25% for top customer; less than 50% for top 5 Non-recurring revenue: less than 33% for top customer; less than 50% for top 5		**% of Total Revenue** • **Top Customer** • **Top 5** **Non-recurring Revenue** • **Top Customer** • **Top 5**
Other Considerations	Quality of team, seller trustworthiness, pricing, operations metrics, predictability of NRR, ability to do M&A (if a platform), end markets served, EBITDA to free cash flow conversion		

What Buyers Care About: 4 Key Drivers

All financial buyers will take the following factors into consideration when determining their interest level in your company and your company's valuation

Size
- Most buyers will have a **minimum threshold for revenue and/or EBITDA.**
- Size indicates a strong competitive position, a fully formed management team beyond the founder and the ability to serve as a platform investment

Revenue Mix
- Buyers care a lot about revenue mix and many will have a requirement for **% recurring revenue**
- Service revenue is more valuable than product revenue and recurring revenue is more valuable than non-recurring revenue

Retention
- Customer and revenue **retention is the most important analysis we run at Evergreen**
- Evergreen companies have 107% recurring revenue retention, implying that the business can sustain itself without adding a single new customer

Growth Rate
- Buyers value growth rate, particularly in recurring managed services revenue and EBITDA
- Buyers like to see companies that are growing revenue and EBITDA at a similar rate. **Growing EBITDA faster than revenue is an unsustainable dynamic**

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Spotlight: Revenue Retention

Customer & revenue retention is the most important analysis we run at Evergreen. Winning new customers is sexy, but the key to growth lies with your existing customers

Assumptions	Retain Co.	Acquire Co.
Beginning Revenue	10,000,000	10,000,000
Annual New Revenue Add	500,000	2,000,000
Revenue Retention (existing customers)	105.0%	85.0%

Retain Co.	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Revenue from Existing Customers	10,500,000	11,550,000	12,652,500	13,810,125	15,025,631	16,301,913	17,642,008	19,049,109	20,526,564	22,077,893
Annual New Revenue Add	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000
Total Revenue	**11,000,000**	**12,050,000**	**13,152,500**	**14,310,125**	**15,525,631**	**16,801,913**	**18,142,008**	**19,549,109**	**21,026,564**	**22,577,893**

Acquire Co.	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Revenue from Existing Customers	8,500,000	8,925,000	9,286,250	9,593,313	9,854,316	10,076,168	10,264,743	10,425,032	10,561,277	10,677,085
Annual New Revenue Add	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Total Revenue	**10,500,000**	**10,925,000**	**11,286,250**	**11,593,313**	**11,854,316**	**12,076,168**	**12,264,743**	**12,425,032**	**12,561,277**	**12,677,085**

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Dollar Difference	500,000	1,125,000	1,866,250	2,716,813	3,671,316	4,725,745	5,877,265	7,124,077	8,465,287	9,900,807
% Difference	4.8%	10.3%	16.5%	23.4%	31.0%	39.1%	47.9%	57.3%	67.4%	78.1%

It is expensive to sell $2m to new customers every year. This model only shows the revenue picture, but imagine the impact on profitability…

MSP Valuations: Get an Estimate Today

mspvaluations

- *We noticed that there wasn't a place for MSP business owners to go if they wanted to get a clear estimate of their company's valuation*

- *To help solve that, we created www.mspvaluations.com, where you can answer 16 questions about your business and we'll send you a free valuation within a week*

- *All information will be kept strictly confidential*

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The Deal Process: What to Expect

The Pre-LOI Process

Before getting into the different options available to business owners looking to exit, it is important to understand the **process you will be undertaking**
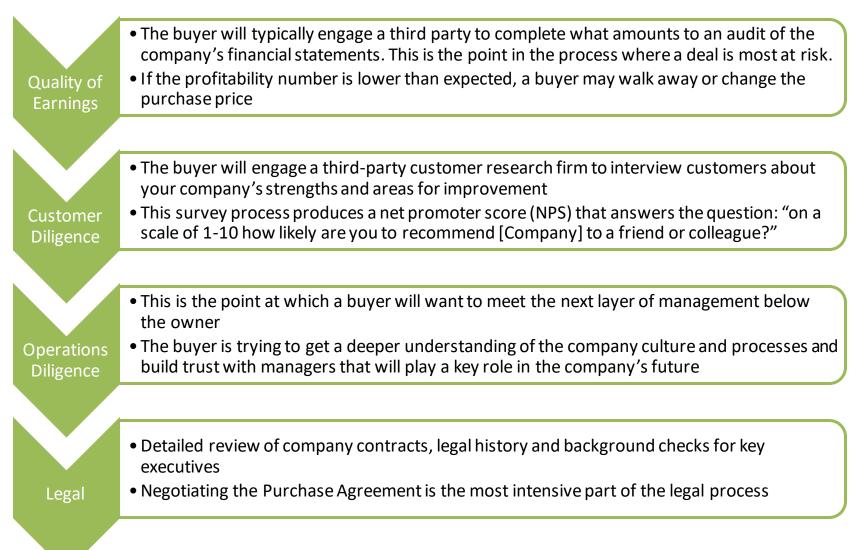
Introduction
- Typically consists of a 30-60 minute phone call or informal meeting
- Both sides learn surface level information about each other and determine if there is a good fit
- If there is mutual interest following this step, get an NDA in place before sharing additional information

Initial Data Exchange
- Typically you at least provide historical financial information (P&L and balance sheet)
- Some buyers will request a redacted customer data file to assess revenue predictability and calculate retention rates

Follow Up Call
- More detailed Q&A about the business and specific financial questions
- A high-level discussion on valuation generally takes place at this stage

In-Person Visit
- Typically consists of a dinner and a meeting the following day
- Meeting lasts most of the day and is typically onsite at your company

Follow Up Data Request
- New information is often revealed during the in-person meeting and a buyer typically has follow up information requests
- It is important that you are clear on the profitability metric that the buyer is using to determine valuation

Letter of Intent (LOI)
- Assuming mutual interest, an LOI can be expected within a couple weeks
- Negotiation on valuation and other LOI terms typically takes a couple weeks as well
- A 60-day post-LOI due diligence period is standard

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The Post-LOI Process

After signing an LOI, a 45-90 day due diligence process begins. *Signing an LOI does not mean it's a done deal*

Quality of Earnings
- The buyer will typically engage a third party to complete what amounts to an audit of the company's financial statements. This is the point in the process where a deal is most at risk.
- If the profitability number is lower than expected, a buyer may walk away or change the purchase price

Customer Diligence
- The buyer will engage a third-party customer research firm to interview customers about your company's strengths and areas for improvement
- This survey process produces a net promoter score (NPS) that answers the question: "on a scale of 1-10 how likely are you to recommend [Company] to a friend or colleague?"

Operations Diligence
- This is the point at which a buyer will want to meet the next layer of management below the owner
- The buyer is trying to get a deeper understanding of the company culture and processes and build trust with managers that will play a key role in the company's future

Legal
- Detailed review of company contracts, legal history and background checks for key executives
- Negotiating the Purchase Agreement is the most intensive part of the legal process

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Questions

Q&A

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