



**NBG Insights: IT/Cloud
Managed Services**

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Neel Bhargava
neel@nbggroup.us



NB Group (“NBG”) is a private investment firm focused on growing small and medium sized Technology Services businesses in North America

Our thesis on the market opportunity in IT/cloud managed services

Managed Services Providers and Cloud Services Providers (“MSPs” and “CSPs”) are well positioned to continue to grow with strong profitability, driven by rapidly shifting technology stacks and greater demand for fully managed solutions

The accelerating migration to cloud, increasing complexity of IT and communications needs, and growing acceptance of outsourced IT infrastructure are driving strong market demand for IT managed services

In addition to a growing addressable market, MSPs and CSPs have several compelling business model characteristics including a high degree of recurring revenue, strong cash flow generation, and scalability

Industry is highly fragmented with varying business models and levels of performance: ability to consolidate and drive operational improvement

A range of additional services can be sold to customers once relationship is developed. Particularly attractive is the ability to move “up the stack” and offer high-value services such as security and private cloud

Opportunity to partner with a great operator and drive transformational growth of a platform business through M&A and organic initiatives



Rapidly changing IT landscape is driving increasing usage of MSPs

Key Trends Affecting Corporate IT Spending

1

Growing IT complexity

Businesses use more services than ever before, service issues unacceptable

2

Limited budgets

CIOs under constant pressure to drive profitability by focusing on strategic initiatives

3

Lack of in-house capability

IT departments do not have requisite experience in-house to manage complexity, choose among vendors

4

Shift to Cloud

Adoption of cloud technologies requires new vendors, rethinking internal architecture

MSPs/CSPs Address These Challenges

CapEx to OpEx

Customers can shift large up-front capital expenditure to more manageable monthly operating expense

Managed Service

Customers receive ongoing management, support, and reporting

Adaptability

Businesses do not need to continually invest time, resources, and capital to adapt to changing technology – MSP/CSP does this for them

We evaluate MSP/CSP investments across 10 key criteria

1. Highly recurring revenue base 
2. Service/product mix aligned with high growth, profitable market segments 
3. Revenue growth through combination of acquiring new clients and expanding within existing accounts 
4. Strong customer retention and churn metrics 
5. Attractive customer base with limited to moderate concentration 
6. Compelling sales and marketing strategy 
7. Processes, solutions or approach that provide differentiation and strengthen value proposition to client 
8. Average to above average EBITDA margins and expanding 
9. Strong return on capex investment 
10. Alignment between executive team and NBG 

□ NBG core team brings a mix of investing, consulting, and company building experience in technology

NEEL BHARGAVA | Founding Partner

Neel is an experienced investor, operator and advisor. Prior to NB Group, Neel was a member of the investment team at Berkshire Partners, a management consultant at Bain & Company, a co-founder of Food panda India, and worked in corporate development at the NY Times.

At Berkshire Partners, a leading growth-oriented private equity fund, Neel evaluated new investments across Technology and Telecom, including data center operators and fiber services providers. He also worked closely with the executive teams of several portfolio companies. At Bain, Neel advised clients on strategy and M&A across industries and worked with private equity funds on market diligence.

Neel is a graduate of the University of Michigan and Harvard Business School.

ARIEZ DUSTOOR | Partner

Ariez has over a dozen years of experience as an investor, operator and advisor. Prior to NB Group, Ariez was a member of the investment team at Audax Group, the M&A team at Yahoo!, a Co-Founder of Scout Finance, General Manager at Rocket Internet, and started his career at McKinsey & Company.

At Audax Group, a leading middle market private equity fund, Ariez evaluated new investments and worked closely with portfolio companies across industries. At Yahoo!, Ariez was heavily involved in global technology M&A. As Co-Founder at Scout Finance, a financial software company, Ariez helped lead product development and sales, and the company's exit to a strategic acquirer in 2017. At McKinsey, Ariez worked with Fortune 500 CEOs on strategy and operational improvement.

Ariez is a graduate of the University of Michigan, where he was elected Phi Beta Kappa.

Berkshire Partners

McKinsey
& Company

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YAHOO!

HARVARD
BUSINESS
SCHOOL

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We take a different approach to investing in businesses

Characteristic	NBG model	Typical private equity firm
Team	Former consultants and operators with deep Tech/Telecom experience	Former bankers, “Wall St” types
Industry knowledge	Specific focus on the MSP and CSP space: have evaluated many investments in the industry and can provide quick feedback on fit	May simply be opportunistically pursuing any business with nice margins and recurring revenue; cumbersome diligence process
Portfolio size	3-5 investments, concentrate risk	8-20+ investments, bad outcome can be overcome
Investment style	Make investments to grow business	Push on debt load, look for ways to cut costs
Transaction structure	Highly flexible, try to align transaction structure with seller’s goals	Rigid structure across most deals (e.g. CEO has to go/stay)
Operational value add	Former consultants and operators; partners to management <u>without interfering in day-to-day operations</u>	Focus on financial reporting, busy chasing new deals
Process	2 decision makers, streamlined decisions	Multiple partners, “investment committee” decision making
Deal tactics	Don’t make commitments we can’t keep (limited time/resources), honest and open communication	Promise aggressive terms, but often have to re-trade/re-negotiate
Funding model	Customize investor base for each transaction - ideally include investors with relevant experience, no outside pressure to put capital to work	Generic investor base lack relevant experience, pressure to do deals even if not passionate about the business



Investment parameters: MSPs/CSPs

NB Group is seeking to acquire a Managed Services / Cloud Services Provider offering a broad suite of outsourced IT services to a strong base of business customers

Investment target key criteria

- **Financials:** \$10-100M Revenue; \$2-20M EBITDA; 15%+ EBITDA margin
 - **Revenue composition:** 60%+ recurring revenue; low monthly churn
- **Growth profile:** 10%+ revenue growth, opportunity to accelerate
- **Customers:** limited customer concentration; open to SMB, mid-market, or enterprise focus; vertical-focused or vertical-agnostic
- **Services:** mix that includes high growth, profitable market segments (e.g. security, private cloud, infrastructure support, application management)
- **Geography:** United States or Canada
- **Investment type:** majority acquisition preferred
- **Management:** preference for management team staying on but open to installing new leadership

☐☐ Please get in touch with us

Neel Bhargava | Partner

neel@nbgroupp.us

D: 646-854-6675

Ariez Dustoor | Partner

ariez@nbgroupp.us

D: 415-999-2117

NB Group Investors, LLC

185 Wythe Ave

Brooklyn, NY 11249

www.nbgroupp.us

