

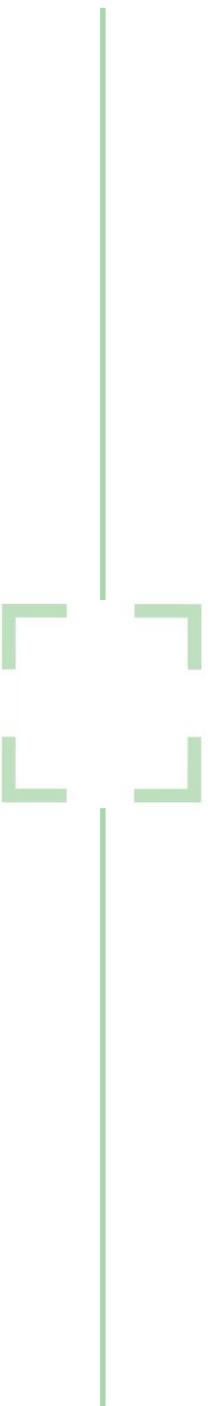


## NBG Insights: IT/Cloud Managed Services

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Spring 2019

**Confidential**

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

# □ □ We take a different approach to investing in businesses

Characteristic	NBG model	Typical private equity firm
<b>Team</b>	Former consultants and operators with deep Tech/Telecom experience	Former bankers, “Wall St” types
<b>Industry knowledge</b>	Specific focus on the MSP and CSP space: have evaluated many investments in the industry in last 12 months and can provide quick feedback on fit	May simply be opportunistically pursuing any business with nice margins and recurring revenue; cumbersome diligence process
<b>Portfolio size</b>	3-5 investments, concentrate risk	8-20+ investments, bad outcome can be overcome
<b>Investment style</b>	Make investments to grow business	Push on debt load, look for ways to cut costs
<b>Transaction structure</b>	Highly flexible, try to align transaction structure with seller’s goals	Rigid structure across most deals (e.g. CEO has to go/stay)
<b>Operational value add</b>	Former consultants and operators; partners to management <u>without interfering in day-to-day operations</u>	Focus on financial reporting, busy chasing new deals
<b>Process</b>	2 decision makers, streamlined decisions	Multiple partners, “investment committee” decision making
<b>Deal tactics</b>	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
<b>Funding model</b>	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

# 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. Executive team to support growth and NBG vision



# □ □ 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 Foodpanda 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 including retailer Party City (NYSE: PRTY), where he was a Board Observer. 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

Audax  
Group™

UNIVERSITY OF  
MICHIGAN

scout  
FINANCE

YAHOO!

HARVARD  
BUSINESS  
SCHOOL

BAIN  
& COMPANY

# □ □ In addition to core team, NBG has a strong set of resources to assist with the growth of MSPs and CSPs specifically

## Industry Experts

**Description:** Seasoned Technology Services executives who have led highly successful organizations as founders, CEOs, or sales executives

**Role:** Ability to serve as Board, operational, or consultative resources to management teams and NBG

**How they can help:**

- Hiring great talent from within their networks
- Introductions to customers, vendors, and acquisition targets
- Strategic planning and vision
- Lessons learned and best practices from prior experiences
- Putting in place plan for CEO transition

## M&A Advisory

**Description:** Third party firm that focuses exclusively on sourcing add-on acquisitions in the MSP and CSP space (over 100 transactions completed to date)

**Role:** Develop and execute on M&A pipeline

## Other

- Fractional CFO resources
- Sales lead generation experts
- Executive recruiting firms

Please contact us for additional information

# [ ] 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; \$2-15M 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

# Questions or comments? Please get in touch

## Contact information

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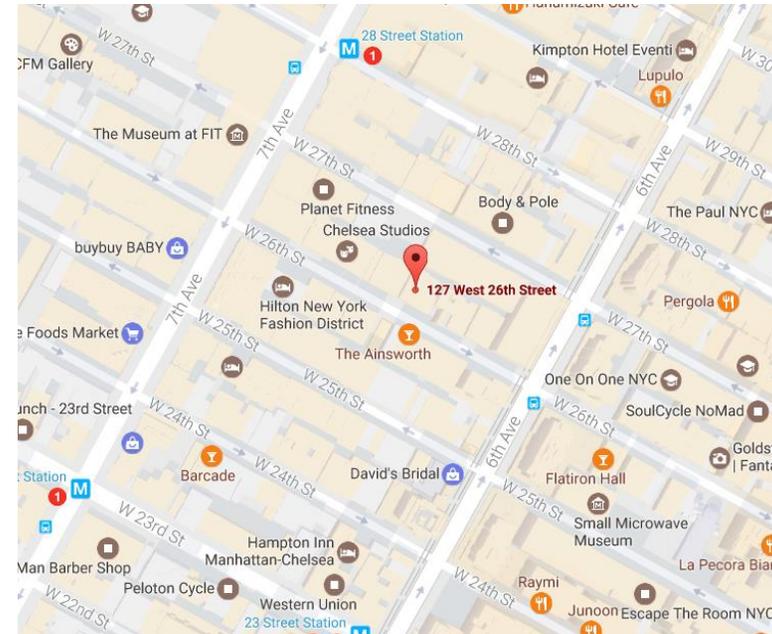
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# Value Addition Case Study: Strategic Planning

**NBG's Partners have a depth of experience developing long-term strategic growth plans for companies of all sizes, including Party City, a leading US retailer**

## Strategic Planning

- Party City, a former Berkshire Partners portfolio company with \$1.5B Revenue, was facing a challenging retail environment during the Great Recession and needed help developing a strategic plan
- Neel worked directly with the company's CFO, COO, and President to develop a 5-year plan and financial model, present to Board of Directors, and implement
- Growth levers included:
  - E-commerce launch
  - Same store sales growth
  - New store openings
  - International expansion and new product launches
  - Acquisitions

## Value Creation

- Identified growth levers and implemented plan to increase EBITDA by over 50% (\$100M+) over 5 years
- Berkshire Partners sold it's stake in the company 3 years later for a very strong return
- Party City (NYSE: PRTY) was taken public in 2015 and is currently valued at ~\$1.5 billion



**NBG brings this playbook to companies at a much smaller scale, creating opportunity for even greater impact**

# Value Addition Case Study: building an M&A pipeline

**NBG's Partners have significant experience developing M&A strategies and acquisition pipelines for a variety of companies, including smaller private equity backed companies as well as large public companies**

## M&A Strategy & Execution

- Yahoo! was looking to accelerate its efforts to enter the SMB segment with new products and technologies
- Goal was to significantly accelerate Yahoo's internal product development efforts and find engines for new revenue growth
- Ariez worked closely with Yahoo's CFO and Business Unit leaders to identify, prioritize, and reach out to potential acquisition targets in the SMB space
- Resulted in a pipeline of 100+ companies and conversations/meetings with 50+ potential targets over the course of 12 months

## Results

- Yahoo! performed in-depth due diligence on four acquisition targets and received Board approval to make formal offers on all four targets with potential total deal value of nearly \$4b
- Yahoo! was able to acquire Associated Content, an online publishing platform, as part of this effort
- The acquisition gave Yahoo and immediate asset it could use to become a major player in local content. The acquired company's team remained after the acquisition was completed and received significant additional resources.

**NBG can function as an "outsourced" corporate development team for our portfolio companies to find, structure, and finance strategic add-on acquisitions**