A CFOFORIT WHITEPAPER

Managed Services Valuations

5 value drivers

Why Operational Maturity Still Reigns

CFOforIT

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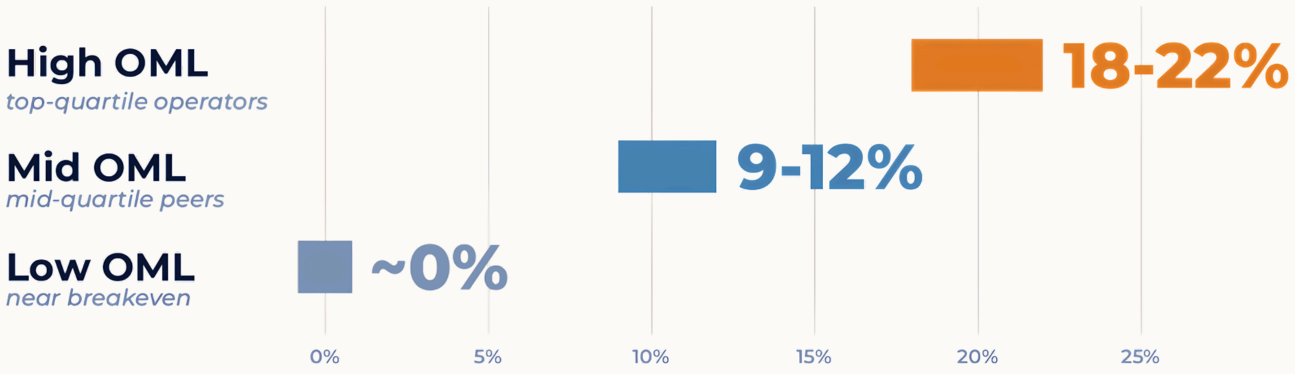
Executive Summary

How disciplined MSPs build enterprise value long before they go to market.

Valuation in the managed services industry is not set at the time of sale, it's earned through daily operational maturity.

Service Leadership's most recent industry report confirms that firms with higher Operational Maturity Levels (OML) consistently achieve EBITDA margins between 18% and 22%, compared to 9 to 12% for mid-OML peers and near breakeven for low-OML providers.

Service Leadership industry report. Higher OML, higher EBITDA.



Those maturity-driven firms command confidence, predictability, and ultimately, higher valuation multiples.

Best-in-Class (BIC) MSPs convert their discipline into measurable results. They maintain recurring revenue above 70%, services gross margins averaging 41.2% versus 30.7% for bottom-quartile peers, and SG&A near 57% of gross margin dollars (GM$) compared to more than 70% for the median.

These results reflect consistency, standardization, and strong financial architecture, the very qualities that drive valuation premiums.

This white paper explores how operational maturity translates to enterprise value. It also shows how CFOforIT helps MSPs build valuation readiness, long before a transaction, by installing the systems, visibility, and rhythm that make earnings repeatable, transparent, and trusted.

Introduction

The market for managed services remains active, but buyer selectivity has never been higher. Private equity and strategic investors increasingly value consistency and visibility over growth alone.

Service Leadership's most recent report reinforces a clear pattern: **valuation follows maturity**.

Higher-OML MSPs don't simply earn more, they're rewarded with stronger valuation multiples, smoother diligence, and more favorable deal structures.

In practice, that means mature MSPs, those with process discipline, clear financial reporting, and strong cash conversion, command greater investor trust.

These firms operate with structure and repeatability, achieving 18 to 22% EBITDA margins, gross margins above 40%, and churn rates below 7%. Their balance of predictability and profitability allows investors to underwrite with confidence.

When operational maturity rises, valuation strength follows.

The leading indicator. The result.

CFOforIT's experience across multiple MSPs confirms this: when operational maturity rises, valuation strength follows.

This paper outlines how MSPs can embed valuation discipline into the way they operate every day, not as a pre-sale exercise, but as an enduring management philosophy.

Core Insights

1. Earnings Quality Is the Foundation of Valuation

Investors don't pay for potential. They pay for proof. A firm's earnings quality defines its valuation narrative.

High-OML MSPs operate with clean, normalized financials, consistent revenue classification, and clear SG&A governance.

They separate recurring services from resale, allocate labor accurately, and maintain visibility into contribution margin by service line.

These controls not only improve profitability, but they make the numbers defensible.

Service Leadership's most recent benchmarks confirm that high-OML MSPs maintain SG&A around 57% of GM$, compared to 70%+ for lower-maturity peers. That discipline signals to investors that growth is controlled, sustainable, and backed by sound operating economics.

01 **Normalized financials.**

02 **Consistent revenue classification.**

03 **Clear SG&A governance.**

Profitable.
Defensible.

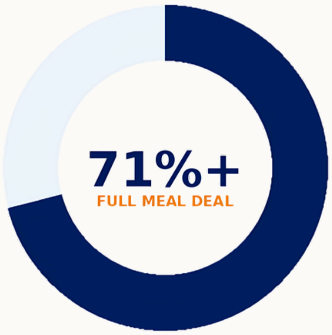
Margins compound. Numbers survive diligence.

Quality of earnings isn't a diligence deliverable; it's the natural outcome of disciplined operations.

2. Predictability and Recurring Revenue Drive Premium Multiples

Valuation premiums are earned through predictability.

Service Leadership's data shows that BIC MSPs sell their fullest standardized package, the "full meal deal," to over 71% of their customers.



These clients are described as “more outcome-focused than price-focused,” leading to higher margins, stronger renewals, and lower churn.

This repeatability makes earnings more forecastable and less dependent on one-off projects.

CFOforIT helps clients build recurring revenue quality by aligning contract structures, service inclusions, and pricing models to operational reality.

When investors can see that gross margin and client retention trends are consistent quarter to quarter, confidence in valuation follows.

Predictability is the new premium. Buyers pay for consistency, not complexity.

3. Cash Flow Conversion: The Investor’s Truth Serum

EBITDA may be an accounting measure, but investors prize cash.

Top-performing MSPs manage their working capital proactively, converting EBITDA into cash flow that proves operational strength.

They maintain short DSO, manage prepaid software pass-throughs cleanly, and align vendor terms to client billing cycles. This cadence not only improves liquidity but demonstrates discipline, a critical signal in valuation discussions.

01

Maintain

short DSO.

02

Manage

prepaid software pass-throughs cleanly.

03

Align

vendor terms to client billing cycles.

CFOforIT embeds cash forecasting and working capital management into clients’ financial rhythms. Our 13-week cash model and margin cadence approach create confidence internally and credibility externally.

Cash-backed EBITDA is the only kind investors trust.

4. Data Integrity and Transparency Win Diligence

Financial clarity is the language of confidence. Buyers and investors discount what they cannot verify.

Service Leadership's most recent report reinforces that high-OML firms excel at data discipline: consistent reporting, standardized COAs, and reliable client profitability models. These firms move through diligence faster and with fewer discounts because their data tells a coherent story.

At a prior organization we helped lead, the leadership team invested early in profitability dashboards, separating recurring from project revenue and normalizing financial reporting. Buyers highlighted the transparency of reporting and the stability of earnings as key factors in their offer, resulting in a higher proportion of cash at closing and no earn-out requirement.

Transparency shortens diligence and strengthens negotiating leverage.

5. Operational Maturity Is the True Value Multiplier

Every financial and operational improvement compounds over time. High-OML firms outperform not by accident but by architecture.

Service Leadership's data illustrates the return on this discipline: BIC MSPs' EBITDA margins average nearly double their peers, and their valuation multiples follow suit.

CFOforIT's framework helps MSPs institutionalize maturity through metrics, dashboards, and cadence, turning daily operations into lasting enterprise value.

Operational maturity is both the cause and the reward of disciplined leadership.

Conclusion

Valuation is a reflection of maturity. Service Leadership's most recent industry findings show that profitability, visibility, and standardization drive valuation premiums, because they create confidence. Investors reward businesses that demonstrate control, predictability, and transparency.

CFOforIT partners with MSPs to embed that maturity. By designing financial systems, standardizing data, and operationalizing dashboards, we help leadership teams build valuation readiness into their everyday rhythm. The result is a business that commands investor confidence and creates enterprise value long before a transaction.

Valuation follows maturity.
And maturity is built one disciplined quarter at a time.

About CFOforIT

CFOforIT is a fractional CFO firm built exclusively for MSPs, VARs, and IT services firms that want to scale profitably, operate with confidence, and maximize enterprise value.

Led by executives who have helped grow multiple IT services companies from under $20 million to over $130 million in revenue and executed more than 20 acquisitions, CFOforIT combines deep industry insight with proven financial architecture.

Our approach turns finance into a strategic operating system integrating cash management, pricing discipline, forecasting, and KPI governance into the daily rhythm of leadership. Whether preparing for growth, pursuing acquisitions, or positioning for exit, we work directly with CEOs and leadership teams to build data-driven visibility, optimize EBITDA, and unlock valuation multiples that reflect the true strength of their business.

CFOforIT partners with leadership teams to build the systems, metrics, and cadence that drive operational maturity and value creation because in IT services, sustainable profitability isn't a mystery; it's a discipline.

www.CFOforIT.com