

To Build or Buy?

Growth Strategies For Small to
Mid-Sized Hosts

Presented By:

Hartland Ross & Devin Rose

The Host Broker & eBridge Marketing Solutions



eBridge Marketing Solutions

- Boutique marketing agency serving MSPs, web hosts, and IT service firms
- Established in 2001
- Full range of marketing services
- www.eBridgeMarketingSolutions.com



Devin Rose
VP of Digital Marketing

The Host Broker

- Brokerage for MSPs, web hosts, data centers, IT service firms, and IP address blocks
- Founded due to client demand
- Free evaluation available
- www.TheHostBroker.com



Hartland Ross
Founder

The Environment for Buying

- Reasonably strong demand from buyers
- More consolidators than strategic buyers
- Fewer sellers, especially mid and upper market
- Sellers exiting mostly due to growth ceiling
- Lifestyle and personal reasons
- Partner or founder wants out
- Business interests outside hosting

Financing Sources for Buying

- Equity partners including VCs
- Debt financing
- Cash from operations
- Vendor financing



What Actually Gets Sold?

- Most transactions involve assets (not stock):
 - Customer base
 - Equipment
 - Licenses
 - Leases
 - Software
 - IPs
 - Domain name
 - URLs
 - Websites
 - Employees
 - Intellectual property
 - Etc.

Overview of the Process

- 1 • Broker's agreement & responsibilities
- 2 • Non-disclosure agreement
- 3 • CIM / Overview / Package & Questions
- 4 • Valuation
- 5 • Deal structure
- 6 • Negotiation
- 7 • Due diligence
- 8 • Closing to migration

Broker's Agreement & Responsibilities

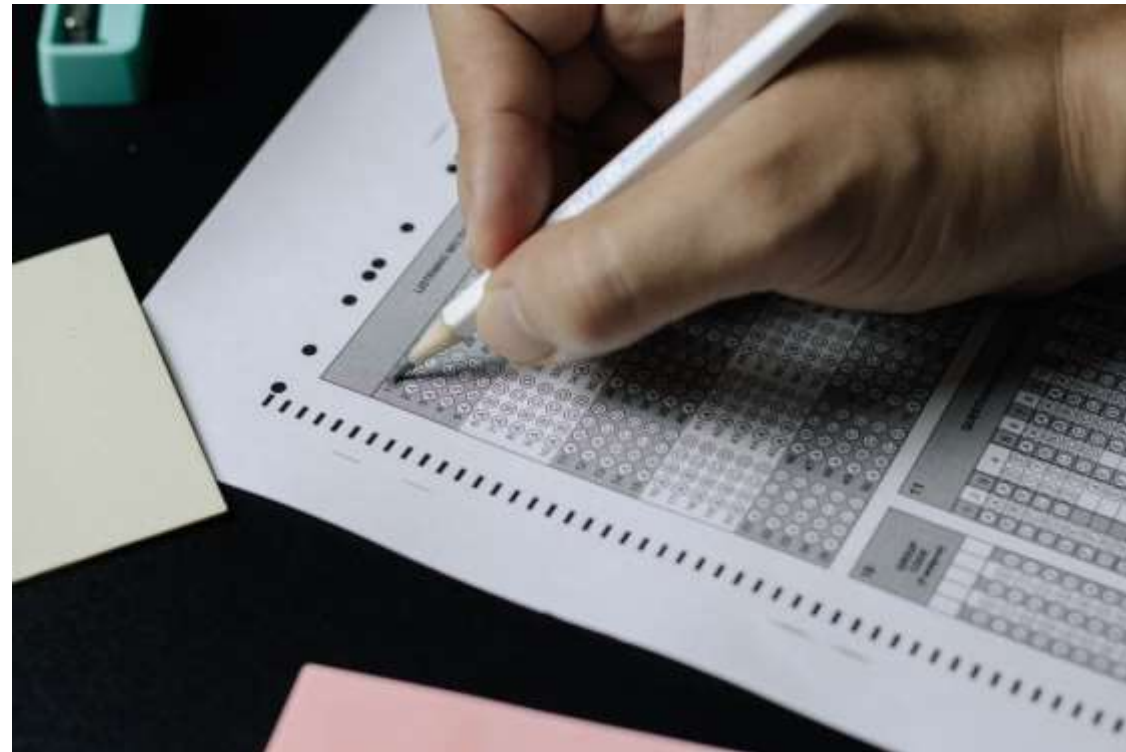
- Assuming there's a broker involved...
- Buy side vs. sell side
- Roles and services provided
- Legal, financial, and operational due diligence
- Fees

Non-Disclosure Agreement



CIM / Overview & Questions

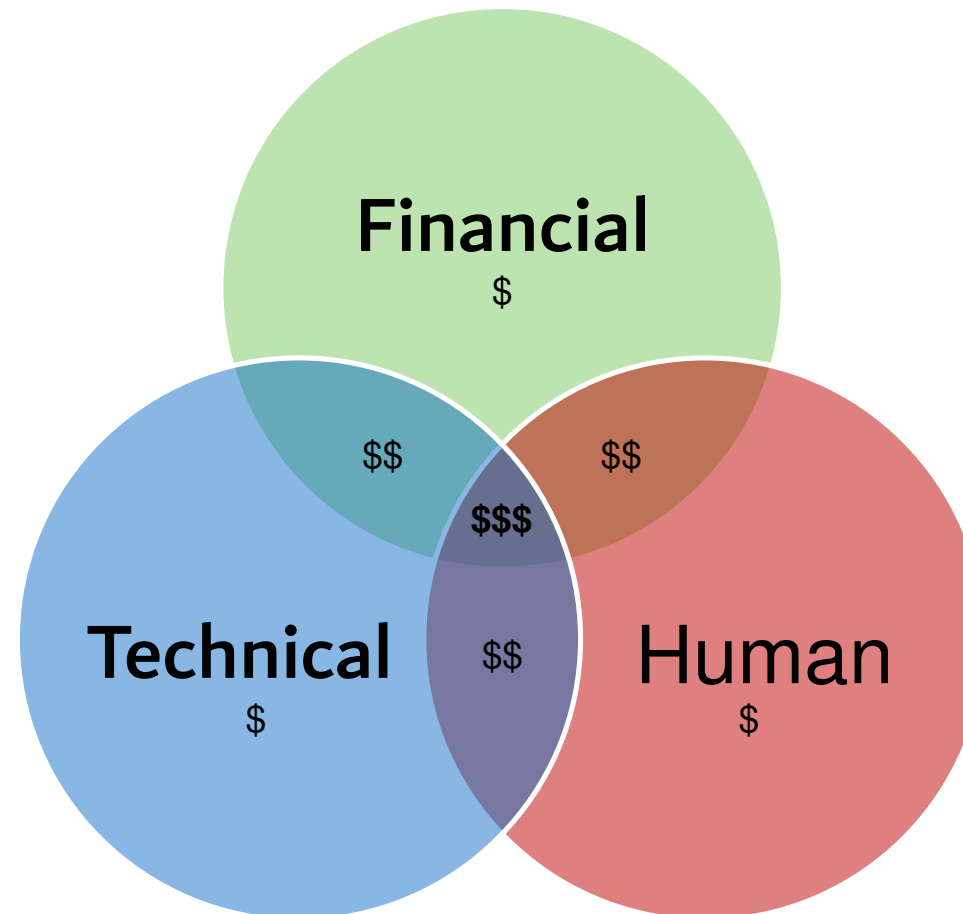
- Fielded through email or conference calls.
- Preapproval needed in some cases



Valuation

- Rule of Thumb: 1x annual run rate (12 months)
- Higher for larger transactions
- Varies and depends on many factors...

Factors Impacting Valuation



Financial Factors

- Growing or declining (churn)
- Different lines of business valued differently
- Accounts prepaid or paid monthly (deferred)
- Assumption of contracts
- Payment terms

Technical Factors

- Nature of client base (Windows vs. Linux, etc.)
- Ease of account migration
- Use of proprietary software
- Inclusion of IP blocks
- Age/condition of hardware
- Compatibility of infrastructure
- Location of infrastructure

Human Factors

- Reason for selling
- Owner's relationship to customer base
- Strategic benefit to buyer
- Competing offers
- Seller support
- Brand reputation
- Geography of customer base

Deal Structure

- An inquiry does not equate to an offer
- Importance of understanding seller's motivations
- Mitigation of downside risk
- Allocation of purchase price
- Payment terms

Negotiation

- Understanding where in the process the deal is
- Speak to seller's motivations
- Importance of establishing rapport
- Establishing deadlines (DD, close etc)
- Term sheet (LOI) vs. purchase agreement

Due Diligence

- Financial statements (or revenue and expenses)
- Tax returns?
- List of assets
- Customer breakdown (by plan, country etc)
- Leases, contracts
- Merchant and bank account statements

Closing to Migration

- Assuming there's a migration...
 - Seller to provide migration assistance
- Buyer responsible for churn
- Buyer generally paying for expenses

Keys to Success for Buying

- Establish a process with clear objectives
- Start small and move to larger deals
- Build your team
- Secure financing
- Allocate the time
- Clear valuation expectations
- Prepare examples of previous success

Pros and Cons of Buying

- Speed
 - Competitive advantage
 - Costs
 - Heterogeneous customer base
 - Efficiency
- Requires financing
 - Risk and leverage
 - Disparate tech, teams and systems
 - Time consuming
 - Hard costs
 - Distraction
 - Competitive

The Environment for Building

- Extremely competitive
- Niche companies doing better
- Growth in SMBs
- Channel partners
- Hosters have been a beneficiary of COVID

Pros and Cons of Building

- Low hanging fruit
 - Steady and manageable growth
 - Less disruption
 - Hedge against churn
 - Costs can be controlled & adjusted
- Costs likely higher
 - Requires patience
 - Requires commitment
 - Less timely
 - Many constraints
 - Hard costs with no guarantee of results

Keys to Success for Building

- Clear target market
- Testing and tracking
- Realistic expectations
- Dedicated resources
- Creativity
- Credibility and reputation

Since 2015, opportunities to grow by building have been outpaced by the opportunities to grow by buying.

Thank You! And You! And You!



Contact The Host Broker

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