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Rising Stars 2020

The UK tech channel's most dynamic, profitable and fastest-growing firms

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PASSION TO INNOVATE

CONTENTS

Welcome to Rising Stars 2020

What is in the DNA of the most successful firms in our industry?

That is the central question we strive to tackle in this report, which examines the anatomy of six small to mid-sized firms lighting up the sector with their blistering growth and profits.

Ranging from a highly ambitious Scottish managed security services provider with its own SOC, to a Reading-based reseller that has reinvented itself as a public cloud migration specialist, beyond their buoyant financial results these firms have little in common at first glance.

But scratch beneath the surface and several shared traits emerge, not least their ability to transform themselves in line with new technology and customer buying patterns.

This sextet were drawn from outside the top 100 firms in *CRN*'s *VAR 350* report, which ranks the top UK resellers, MSPs and consultancies on our radar by revenue.

On average, the half-dozen grew by 63 per cent in their most recent financial years on record and achieved average net profit margins of 9.6 per cent. This compares with 12.4 per cent growth and median net profit margins of 2.7 per cent among the wider VAR 350.

Despite their relatively small stature, several harbour lofty ambitions, with one looking to grow to £150m revenues and at least two poised for international expansion.

Several have a focus on cloud, with at least two viewing intellectual property development as key to their fortunes.

In a microcosm of the wider channel, two of the six have taken on private equity funding in the last two years. Others are self-funded or have taken on bank debt, with another recently joining forces with a larger rival, as we explore on p5.

In any event, availability of funding has arguably never been more important as the need to invest in new technology and systems continues to accelerate.

How leading firms in our sector benchmark themselves is also evolving, with one Rising Star adhering to KPIs borrowed from the professional services sector, and others now obsessed with measuring customer experience (*see p5*).

The six sub-£40m-revenue firms profiled in this report, which has been compiled in partnership with Agilitas, are somewhat symbolic of the 250 firms that lie outside the top 100 in VAR 350.

Despite generating just a fifth of the VAR 350's total £21.8bn revenues, these 250 firms are typically more profitable than their larger counterparts, and we profile the 26 firms within this cohort that are making double-digit margins in the final section of this report.

The UK channel is chock-full of fast-growing, highly profitable firms that are embracing transformative change, and we hope that this report serves to map the genetic make-up of some of its most successful protagonists.

■ *Doug Woodburn is editor of CRN*

Rising Stars success comes from a shared DNA

Agilitas is once again proud to sponsor this year's *CRN Rising Stars* report, which focuses on what contributes to the DNA of a successful company in our industry. With the channel undergoing one of its most turbulent, exciting and disruptive periods, it seems that this question has never been more pertinent than it is today.

As anybody operating in the UK channel will know, the market is growing more competitive with every passing year – something that is illustrated clearly by the outstanding calibre of the 'rising stars' detailed in this report.

In these fast-moving and ever-changing times, it can be easy to get caught up in the day to day, tackling the challenges that the business faces at that moment. However, it is important to remember to periodically step back and consider the bigger picture as well; working on – rather than in – the business is often far more valuable.

"It is important to remember to periodically step back and consider the bigger picture as well; working on – rather than in – the business is often far more valuable"

It is clear from the businesses profiled in this report that there are several things that make up the DNA of a truly successful channel business. These can be generally broken down into three areas: most centrally within the business is intellectual property and know-how; most outerly is the matter of external investment; and tying the two together is the matter of continually innovating in order to remain relevant to customers.

Intellectual property is a divisive topic in our industry, with some considering it the lifeblood of any technology company, and many other channel businesses seeing it as not essential for their business. However, developing your own intellectual property is a strong way to offer true added value to customers, therefore building loyalty to your brand.

Here at Agilitas we have invested in building our own intellectual property around our ERP system named MORSE, which allows integration into our customers' systems, thus making it easy for our customers to do business with us. This system underpins all our services, allowing us to plan the right parts in the right location to hit customer SLAs, monitor stock levels and logistics trends, and helping to drive automation, workforce management and wider operational efficiencies across our business and our customers' businesses.

Many companies are currently securing external funding at a time when money is cheap and there is plenty in the investor community. However, this can sometimes result in further challenges down the line, when the expected returns are demanded, or interest rates inevitably increase. To deliver on these, many businesses find themselves in the position of having to transform quickly in order to build the dynamic and agile business model required to provide a return on this investment.

In order to avoid finding your business in a position like this, it is critical to maintain a 'big-picture' view, ensuring that you keep in mind the milestones that the company needs to hit, and when. A large part of this will involve making sure that your company remains relevant to its customers in everything that it does by remaining agile and proactive.

There is very little point in striving to grow or transform a business, without first considering the exact needs and desires of your customers. For more and more customers today, standard out-of-the-box solutions are no longer sufficient – this is unsurprising, when you take into consideration the growing competition in the market. When all your competitors are striving to stand out from the crowd, it only takes one of them to be more relevant to your customer's requirements, and you may lose their custom not only for today but future years ahead.

Focusing on the customer and their desired business outcomes is critical. Companies need to align their own internal KPIs with customer experience, putting this first and foremost among their aims as a business.

To achieve this, businesses must focus on evolution, rather than revolution; constant improvement rather than one-off projects. Transformation has recently come to be understood as referring to large-scale change, intended to revolutionise the way a business operates. However, it is much more effective to embed the values of prioritising the customer in the core of the business, allowing change to be undertaken little and often.

Over the years, we have been applying small, ongoing changes to the way we operate at Agilitas, to huge success. We continue to grow at a rapid rate, due in no small part to the digital and operational evolution we are continually undergoing, which helps us ensure we are remaining relevant to our partners and customers.

It will be clear from reading this report, and the fascinating profiles of the fast-growing businesses within it, that the DNA of a quality channel business transcends several transformational areas. However, it is the processes put in place to deliver continual transformation that will ensure channel firms remain relevant to their customers for years to come.

■ *Shaun Lynn is CEO of Agilitas*

The DNA of a Rising Star

Ranging from cloud migration specialists to MSPs, MSSPs and IT infrastructure providers, the standout performers in our VAR 350 have little in common at first glance.

But dig a little deeper into their DNA and several communal traits begin to emerge.

Often they have moved to reduce exposure to lower-margin resale or are selling product only as an enabler, if at all.

Some – but not all – operate a cloud-first model, and several now build their own intellectual property.

In a world where buyers have typically completed 70 per cent of the buying journey before they approach a supplier, some highlighted to us how they are no longer selling on price or service levels, but instead on providing a bespoke, tailored service in a world where customer experience is king.

When it comes to finance, a disproportionate number of Rising Stars have taken on private equity backing to scale their businesses at a time when money is cheap and the need to invest in new technology, systems and processes is arguably greater than ever.

And more than one of the companies we have chosen to profile is run by executives with a technical background. They have shaped their firms based on the frustrations they experienced working with suppliers in their previous careers.

Pocket dynamos

This year we are highlighting six fast-growing, dynamic and profitable firms that are embracing transformative change.

They are all ranked outside the top 100 in the *CRN VAR 350*, which profiles the UK's top 350 VAR, MSPs and tech consultancies on our radar by revenue.

Although the top 100 generated 80 per cent of the top 350's £21.8bn combined revenue, their smaller, more fleet-of-foot counterparts positioned outside this top century of players leave them for dead when it comes to profitability.

The average median net profit margin of those ranked from 101 to 200 and 201 to 350 stands at 2.3 and 3.4 per cent, respectively, compared with 1.9 per cent for the top 100.

Boasting revenues of between £1m and £42m, this cohort of tech suppliers has spent recent years re-engineering their businesses to exploit changes in the IT buyer and technology landscape, with transformation the watchword.

And none more so than the six firms profiled in this report, who have been picked based on their surging revenues and rippling profits. On average, this sextet of firms grew 63 per cent in their latest years on record and boast average net profit margins of 9.6 per cent.

Despite their relatively small stature, these firms do not lack ambition, with some harbouring plans to break the £150m revenue barrier, or even to expand overseas.

This year's crop comprise:

- **Adarma** (*see p9*): Boasting a double-digit profit margin, this newly independent managed security services provider is gunning for international growth under new private equity backer Livingbridge.
- **SICL** (*see p10*): Having been bought by MXLG Capital in 2018, this highly profitable Leeds-based Cisco partner is now part of a business gunning for £150m revenues.
- **Kick ICT** (*see p11*): Despite being less than six years old, this MSP and ERP provider already has a £16m revenue run rate, and is among the more profitable firms we track.
- **Minttulip** (*see p12*): Founded in 2011, this born-in-the-cloud Microsoft partner ranks inside the 95th percentile for profitability and grew a whopping 35 per cent in its latest year.
- **Pentesec** (*see p13*): The youngest firm featured, this

RISING STARS ON... THE KPIs THAT KEEP THEM AWAKE

☆ **"Anything that alludes to customer experience is a really important metric for us. It's actually our key focus for 2020, to the extent that we have now promoted internally a director of customer experience. One of our key measures this year is to implement the net promotor score."** *Joey Hemingbrough, SICL*

☆ **"Customer happiness and satisfaction is probably the most critical factor that I look at. That would be crystallised in things like willingness to act as case studies and references. Outside that, the most critical piece is the happiness and wellbeing of staff, because the reality is that good consultants are hard to find, and you need to keep them. Our staff turnover is pretty low. Generally in a year it's between around five and seven per cent."** *Rob Mossop, Minttulip*

☆ **"The shape of the product mix is quite important to us. It would perhaps be very easy to hit our 2020 numbers but for far too high a percentage of that to be third-party software and for us to essentially lie to ourselves about how we've grown."** *David Calder, Adarma*

☆ **"We take a long-term view on strategic engagement and customer feedback. Customer retention is a major focus for us, and a significant percentage of our new business comes from their referrals."** *Ian Turnbull, Pentesec*

Check Point partner is taking the market by storm with its technically led approach to cybersecurity and already turns over close to £10m.

■ **Sol-Tec** (*see p14*): Founded in 1992, this fast-growing, highly profitable Reading-based VAR has spent the last six years reinventing itself as a public cloud migration specialist. It counts DWP among its customers.

Silver linings playbook

Cloud computing has risen from obscurity to near ubiquity over the last decade, with the channel responsible for a whopping 30 per cent of the $80bn (£61.5bn) spent on cloud infrastructure services in 2018, according to Canalys.

Cloud has brought challenges for the channel, but has also been a big money-spinner for those who have built revenue streams – and even entire businesses – around it.

Microsoft Azure generates 74 per cent of its revenues through its channel partners, with AWS and Google Cloud relying on the channel for 15 per cent and just over a quarter of their business, respectively, Canalys estimates.

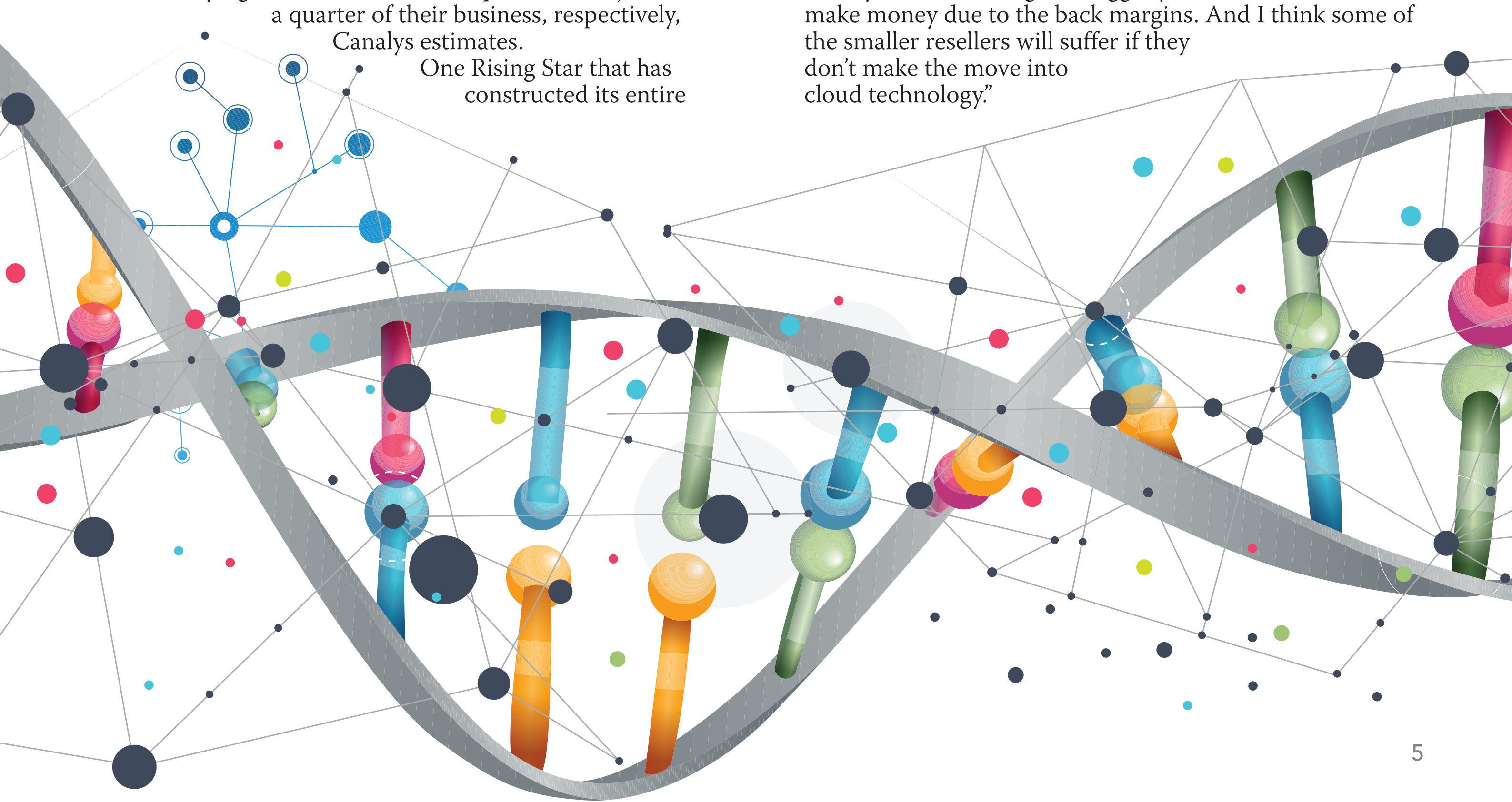
One Rising Star that has constructed its entire fortunes around Azure is Reading-based Sol-Tec, whose CEO Nik Topham told *CRN* that the firm had got in on the ground floor with Microsoft's cloud infrastructure offering in 2014 (*see interview, p14*).

In the intervening five years, Sol-Tec has transformed from a £10m business generating the majority of its revenues from reselling, to a public cloud migration specialist drawing more than 95 per cent of revenues from services.

In its fiscal 2018, Sol-Tec's revenue swelled 60 per cent to £10.1m, with net profits of £668,000 putting it inside the top quartile of *VAR 350* for profitability, relatively speaking.

Topham billed Sol-Tec, which was founded in 1992, as a "born again in the cloud" firm following its reinvention six years ago when it joined Microsoft Azure's Inner Circle programme.

"I'm just very happy we made the move when we did," Topham said. "Although there's still a lot of people making money out of reselling, the bigger you are, the easier it is to make money due to the back margins. And I think some of the smaller resellers will suffer if they don't make the move into cloud technology."



Unlike Sol-Tec, the smallest firm highlighted in this research was genuinely born in – and for – the cloud era, founded as it was in 2011 as a cloud transformation specialist.

Microsoft partner Minttulip grew revenues by 35 per cent to £2.6m in its latest fiscal year on record, with net profit margins of 15.7 per cent making it one of the most profitable firms we track. Counting REED Recruitment, Sainsbury's and HPE among its clients, it has managed programmes of transformation that have moved between three and five million seats into the cloud.

Despite its relative youth, Minttulip has been on its own journey of reinvention after spotting that the space it originally occupied was being commoditised, managing director Rob Mossop told *CRN* (*see interview, p12*).

In fact, saying you were "born in the cloud" is now passé, Mossop intimated.

"In the first couple of years we were very, very busy...but you don't stay alone in that kind of pond for very long," Mossop said.

"Very early on we said 'this isn't going to be good enough for us," he said, explaining that Minttulip then hit on the idea of focusing on "success management".

"It's about developing that shared understanding of purpose, which is almost a level beyond that trusted adviser model," he explained.

Another relatively young firm featured in this report that has opted to shun product deals is Adarma, an Edinburgh-based managed security services provider. Having grown from zero to over £30m revenues in less than a decade, it is now plotting an international expansion drive under new private equity backer Livingbridge.

Claiming to be Splunk's most accredited partner in Europe, Adarma is one of less than 10 per cent of firms we track boasting a double-digit net profit margin, which managing director David Calder attributed partly to its decision to treat product deals as an enabler (*see interview, p9*).

"The shape of the product mix is quite important to us," he said. "It would perhaps be very easy to hit our 2020 numbers but for far too high a percentage of that to be third-party software and for us to essentially lie to ourselves about how we've grown.

"One thing that has been a real benefit to us is that we started as a services company and are still a services company that does some resale. A lot of organisations started as a VAR and are now trying to pivot more into services."

"My background, and that of a lot of the management team, is walking in our customers' shoes, having held those roles"
David Calder, Adarma

The rise of Amazon Marketplace is "changing the entire dynamic" for product resale, Calder added.

"What it's done for high street shops it's now doing for buying tech," he said. "What I've said to my team is to sell third-party tech as an enabler."

'The USP is gone'

The rise of Amazon in B2B tech is symbolic of a shifting tech-buying landscape that now sees the typical buyer completing the majority of their buying journey online before engaging a supplier.

One Rising Star reshaping its business to cater for this trend is SICL, a Leeds-based Cisco, HPE, Dell, VMware and Microsoft partner that is among an exclusive group of VARs and MSPs boasting a double-digit net profit margin.

It generated a net profit of £1.7m on revenues of £16.2m in an extended 18-month fiscal period to 2018, but is now part of a wider IT services business backed by private equity house MXLG that is gunning for £150m revenues by 2022 via a buy-and-build strategy.

SICL sales director Joey Hemingbrough attributed the buoyant numbers to its focus on recurring revenue (*see interview, p10*), adding that the Leeds-based firm is now putting customer experience at the heart of what it does in response to the shift in customer buying patterns.

SICL last month appointed its first director of customer experience and will build a whole customer experience division in 2020, she revealed.

"Doing a return on Amazon is really easy," she said. "It might cost you £5 or £10 more for an item, but you don't mind paying that because the experience is so much better than dealing with somebody else.

"As buyers become more savvy, I think [purchasing decisions are now being made] around experience and value rather than price.

"I started my career at Insight, and it was all about the price, but I don't think that's what organisations that are embarking on IT projects and services are looking at anymore.

"They're genuinely looking at the experience and the ease and the simplicity of dealing with an organisation, to the point where price is much lower down the hierarchy of importance than it used to be. And as it becomes based more on recurring revenues and opex models, the price actually becomes less of an issue anyway, because it's looked at as a monthly rather than a capex."

RISING STARS ON... INTELLECTUAL PROPERTY DEVELOPMENT

☆ **"Probably the biggest piece of IP we've built is a Sol-Tec landing zone, which is a virtual datacentre. When people look at moving their workloads, infrastructure, VMs etc into the public cloud, it needs to land in a landing zone. And within that landing zone, it will have the security, it will have the networking, the firewalls etc. We do a lot of work with the public sector. So there's a lot of security aspects around that. We have three models of that IP going from one that sits completely on its own without being connected to anything, going all the way through to some major public sectors where we've done completely bespoke landing zones for them."** *Nik Topham, Sol-Tec*

☆ **"We've invested in our consultative IP. We've got frameworks – ways of pulling this stuff together reliably and regularly so customers don't have to reinvent the wheel each time. That's expertise you do have to pay for, and all goes towards justifying that value that we ask for."** *Rob Mossop, Minttulip*

Fresh ideas

It is telling that more than one of this year's Rising Stars is run by former end users or independent technical staff who have shaped their businesses based on the frustrations they experienced in their previous careers.

This includes the youngest firm in this report, Pentesec, a Check Point Gold partner that was launched as recently as 2014 by a group of independent consultants and technical experts.

Despite its relative youth, Pentesec is already closing in on the £10m revenue mark after swelling its top line 42 per cent in its fiscal 2019 (*see interview, p13*). Net profit margins of 6.9 per cent also put it in the top quartile of the firms we track when it comes to profitability.

Pentesec was set up "to deliver what the channel lacked", said managing director Ian Turnbull, whose CV includes a stint at foreign exchange company Travelex.

"Approaching things from a technical perspective gave us the ability to show customers where their investments overlapped, and how adjustments could be made that not only improved their posture but also saved them money that could be invested in further business transformation," he said.

"This approach meant we weren't trying to service multiple existing contracts to hit a target. We were wiping the slate clean and helping our customers to achieve more with fewer contracts, using new technology that could proactively secure against unknown threats using modern techniques."

KPIs on the prize

This year's Rising Stars were selected based on their growth and profits, but beyond the top and bottom line, what are the metrics and KPIs that point to a successful business in the channel in 2020?

One Rising Star that claims it owes its success to the KPIs and metrics it adheres to is Kick ICT, a Glasgow-headquartered MSP and ERP provider.

Founded in 2014 by Tom O'Hara, and built on four acquisitions in the shape of Talon, Roxxap, Voerzo and – most recently – Castle Computer Services (*see interview, p11*), Kick ICT already boasts a revenue run rate of £16m. Net profit margins of 7.8 per cent in its financial 2018 rank it among the more profitable firms we track.

Kick ICT boosted Castle's EBITDA margin from four to 15 per cent simply by applying its business model to the acquired business, O'Hara claimed.

The Microsoft and Infor partner has the outlook of a professional services firm rather than a traditional IT company, he told *CRN*.

"We have a different and very focused business model which covers all aspects of what we're doing around selling, consulting and supporting. There are KPI metrics for all of that," he explained.

"To achieve the utilisation levels of a professional services company, we need to be on time and on budget, or else overruns or non-chargeables will kill you. Our consultant utilisation target is 65 per cent. I've taken that with me from Ernst & Young, where I worked in the early days. That's just one of the key components that are sacrosanct here which underpin the business. There's never a scenario where people are just carrying on regardless of over-runs."

O'Hara added: "If I look at support, again, there are a very formalised set of KPIs around there that look at contract values to the number of people we need, and we work very closely to those metrics. And again, there's a lot of 21st-century support objectives in there – so it's all about monitoring and making the platform as resilient as possible to minimise the number of calls."

RISING STARS ON... PRIVATE EQUITY

☆ **"ECS had been a bit of an incubator for us and helped us understand how to sell, how to run finance etc, so I saw [Livingbridge] as a natural continuation of that into a bigger scale. They've got X number of CMOs and X number of other experts in their growth acceleration team that we had access to."** *David Calder, Adarma*

☆ **"The advantage to [MSPs] going down [the private equity] route is that there is a massive need at the minute to be more competitive. Having strong financial backing makes a world of difference in a competitive landscape. Gone are the days where you could find business easily. It's all about being innovative and bleeding-edge. We have a saying in the office that the USP has gone. It absolutely has. It's all about the customer experience. Often the things that provide good customer experience – accreditations and systems – are quite high-ticket items, so funding becomes key at that point."** *Joey Hemingbrough, SICL*

☆ **"There's an interesting conversation to be had around private equity. We have some elements of IP and those are the sorts of things that typically you get an investment for, but we're not a software-developing, solutions-selling organisation. So the right kind of growth model for Minttulip is one that it can sustain through growth of customer base, rather than necessarily grabbing millions of pounds, pumping it into creating space for people to be paid, and then looking for the work off the back of that."** *Rob Mossop, Minttulip*

☆ **"The main reason [we haven't gone down the private equity route] is because we haven't had to. And the second reason is cultural. I'm not sure that we as a set of individuals could work within a set-up of an external chairman, having to ask permission, which you'd have in the private equity world. And obviously private equity will be driving towards an exit, which isn't a focus."** *Tom O'Hara, Kick ICT*

☆ **"I'm fairly risk adverse. We're 28 years in business and are very cash stable, so we're able to do all the growth off our own funds."** *Nik Topham, Sol-Tec*

THE AMBITIOUS MSSP: ADARMA

Founded: 2009
Key vendors: Splunk, ServiceNow, Tenable, Crowdstrike
VAR 350 ranking: 130
Revenue: £32.6m (+24%)
Net profit margin: 10%

Bullish Adarma is plotting international expansion under new private equity backer Livingbridge. MD David Calder opens up on his growth plans for the Edinburgh-based MSSP

What would you attribute your growth and profitability to?
I think our secret is being really close to our customers. I've worked for a raft of different banks as head of security, so I understand their pain points quite well. My background, and that of a lot of the management team, is walking in our customers' shoes, having held those roles.

Another massive difference is that we are not primarily a VAR. We do resell licences and subscriptions, but only for technology in which we are truly expert, and just as an enabler for us to get really close to those vendors to drive that expertise. The software component of our revenue is around 10 per cent, and the rest of it is professional and managed services. That helps drive up that margin.

Private equity house Livingbridge is aiming to build a cybersecurity business "of real scale" after backing your MBO from Scottish IT services business ECS in June 2019. What is the plan?
We are very focused on internationalisation. We don't want to change the business model of being very close to customers, but our plan is to establish a footprint in Europe and the US over the next 12 to 24 months. We also want to continue to scale up in terms of our managed security services. We do three types of managed service: wholly onsite; on our own site in Edinburgh (we have a multi-tenant SOC there with about 15 customers in it); and a hybrid between engineer on-site and using the SOC for volume. Scaling that investment is really important for us.

Under ECS, your business grew from £1.4m to £32m revenue. Why was it the right time to pursue a private equity-backed MBO last year, and why Livingbridge?
We were sharing group resources and were like the grown-up child who consumes the contents of the fridge. So I agreed a strategy with them to look for alternative investment. I looked at trade but it was just too early in our journey to realise the opportunity we had.

We must have met with 20 private equity companies as part of the journey. I met Livingbridge fairly early on, and was really struck by its approach to investments. ECS had been a bit of an incubator for us and helped us understand how to sell, how to run finance and so on, so I saw [Livingbridge] as a natural continuation of that into a bigger scale. They have X number of CMOs and X number of other experts in their growth acceleration team that we had access to. Private equity seemed a natural fit for us and when going through the due diligence I learned a huge amount about both my own business – because you've got all these experts applying different lenses and asking all these questions – and myself as well.

How will successful cybersecurity providers need to reshape their businesses in the 2020s?
Fortunately for us, I came from building SOCs on the customer side, as did a lot of my colleagues. We also had a lot of experience of outsourcing them as well, so we had frustrations about SOC 1.0 when it was outsourced. The worst experience I had was phoning a large MSSP when we had an issue and saying 'hello it's David Calder from X organisation', and they said 'what's that'? They didn't even know the company name. So we've been focused on whatever we built we would want to consume ourselves.

Our intention was never to build a call centre where you raise a ticket and someone might get back to you after a four-hour SLA with a carefully crafted report or message. Our customers each have their own instances of Splunk, so they can see the events coming in, the alerts being created, the tickets being cut, the analysts typing.

I think that's a move the industry as a whole will need to make.

> **"I came from building SOCs on the customer side, as did a lot of my colleagues"**

THE BUY AND BUILD: SICL

Founded: 1995
VAR 350 ranking: 276
Key vendor: Cisco, HPE, Dell, VMware, Microsoft
Revenue: £10.8m (+19%)
Net profit margin: 10.5%

Leeds-based SICL recently joined a private equity-backed buy-and-build venture that is gunning for £150m revenues. Sales director Joey Hemingbrough sets out its growth plans

What would you attribute your growth and high profitability to?
We don't shift tin. Everything we do is a recurring revenue or project based. And we really hone in on just a handful of partners with which we try to hold as many accreditations as we can to bolster our credibility. We're not in the stack it high, sell it cheap arena, which is probably why our profit margins are so good.

What does recurring revenue stand at as a percentage of the total and how is that changing?
Roughly 40 per cent of our business is recurring revenue. That's steadily on the increase. I imagine that's the case for most businesses in the channel, but we're probably early adopters.

Since MXLG acquired SICL in 2018 it has acquired two other MSPs, namely 365 ITMS and Koris. Will they be integrated?
They probably will be in the next 12 months. That's only a probably at this stage. But our model around the M&A is a little different. It isn't to centralise services; that's not what we do. Our model is to add additional heads and funding rather than strip stuff out. There's a reason these businesses are successful, and we want to continue that success.

What is the long-term growth plan for SICL and the wider group?
For SICL it's just double-digit organic growth. For the group structure, it's the same, but in terms of the M&A piece the ultimate goal is to get the collective group of businesses to a turnover of circa £150m. As a group, We're probably around £37m at the minute.

What are the advantages of an MSP working with private equity, and MXLG specifically?
MXC [joint owner of MXLG alongside Liberty Global] specialises in backing companies in our channel. The guys from MXC are all originally from IT-related companies, so offer the experience of running similar businesses. That's an advantage compared with other companies out there that offer similar funding.

The advantage to [MSPs] going down [the private equity] route is that there is a massive need at the moment to be more competitive. Having strong financial backing makes a world of difference in a competitive landscape. Gone are the days when you could find business easily. It's all about being innovative and bleeding-edge. We have a saying in the office that the USP has gone. It absolutely has. It's about being customer focused. It's all about the customer experience. Often, things that provide good customer experience – accreditations and systems – are quite high-ticket items, so funding becomes key at that point.

What are the benchmarks or metrics a good businesses in your sector should be aiming for?
A recent stat showed customers are already 60 to 70 per cent of the way through a buying decision before they even approach someone in our industry. Certainly when I started in the industry that was a much smaller number. So anything that alludes to customer experience is a really important metric for us. It's actually our key focus for 2020, to the extent that we have now promoted internally a director of customer experience. One of our key measures this year is to implement the net promotor score.

What other major trends will hit tech providers in the 2020s?
The simplification of AI. It's a bit like when cloud first came out, when everything was termed as cloud. I think over the next three years AI will be on a similar journey to cloud and it will become very clear what AI is and what it can do for respective businesses. At the minute it's still just a phrase that's thrown about.

"The ultimate goal is to get to a turnover of circa £150m"

THE ACQUISITIVE MSP: KICK ICT

Founded: 2014
Key vendors: Infor, Microsoft, SolarWinds, Veeam
VAR 350 ranking: 311
Revenue: £7.1m (+197%)
Net profit margin: 7.8%

Despite being founded less than six years ago, this Glasgow-based MSP and ERP provider already has a £16m revenue run rate. It is also highly profitable. Founder Tom O'Hara reveals its secret sauce

Kick ICT was only launched in 2014 but is one of the fastest-growing and most profitable firms we track. What would you attribute that to?
The big differentiator within the business model is that we have a professional services outlook, as opposed to a traditional IT company outlook. There's a focus on on-time and on-budget delivery to customers, as opposed to some other competitors who are just looking to complete the job.

What's the story behind your growth?
I was MD of TSG Scotland and sat on the UK board until 2013. I worked for a charity for a year with the view that I'd always come back and build another IT company. In April 2014, Kick was born when it acquired its first business, Talon, an £800,000 Navision consultancy. Essentially we did an acquisition each year and by the time we did Castle in 2018, the combined Navision business was about £3.5m and Castle was £9m.

The group now has three formal divisions: Infor, which is primarily Sun Systems and Pegasus; Microsoft, which is Dynamics and Business Central; and technical, which is essentially the provision of servers and hosting. There are strategic acquisition plans across all those divisions but primarily technical and Dynamics, as Infor is quite a settled market within the UK. Will we acquire in 2020? It's likely. We did £4m in Q1. All the indications are that we will be £16m-plus and if we layer in one of the two acquisition possibilities we're looking at, it will take us to £20m.

Most firms you compete with are either MSPs or ERP consultancies – not both. Why do both?
If you're going to implement an ERP, or accounting or business systems, you need to understand the platform that it's going to run on. And there are still scenarios where you see people implementing systems but the server environment it's running is either not configured appropriately or too old.

What's the ultimate ambition for the company?
We're not private equity linked, and there is no external finance other than the bank loans to buy Castle, which we've paid back a chunk of already. So there is no real pressure for us to sell. That supports the objective we went into this project with, which is to build a legacy business of scale.

What's the biggest shift you're seeing in how technology is procured?
There is no doubt that more people, certainly in the accounting world, know what they want to buy just by doing their research online. For a lot of our wins, the customer has decided they want to buy Business Central, for example, and then done further research and come to us and said 'you look like the partner we want to work with in this area'. That is definitely a trend I see continuing, which puts pressure on how good your website is.

I think we can do more work around differentiation. If you look at [*CRN*'s] one to 350 it's probably actually one to 35,000 in the UK. And I think the larger organisations – and I would put us as one that's getting larger – need to invest in ensuring that we're differentiating ourselves.

How will successful firms in your sector need to reshape their businesses for the 2020s?
Reshaping for us means getting bigger. We believe we have a good blueprint for buying businesses and improving the profitability of not only the company, but the group.

Everyone's going to have to look at the stack of products and services they are taking to market and have the processes in place to assess them and make sure they are continually evolving. Microsoft is spending billions around Power Platform and Power Apps. And everyone is going to have to go along with the momentum of that, especially if you are in the Dynamics space, so the time of just moseying along isn't going to work.

"We believe that we have a good blueprint for buying businesses"

THE BORN-IN-THE-CLOUD START-UP: MINTTULIP

Founded: 2011
VAR 350 ranking: 343
Key vendor: Microsoft
Revenue: £2.6m (+35%)
Net profit margin: 15.7%

A focus on "success management" has helped cloud migration specialist Minttulip record lightning revenue and profit growth, MD Rob Mossop explains

Has being a start-up without any baggage allowed you to approach the market differently from more established Microsoft partners?
We were very much a born-in-the-cloud consultancy and came in from day one with a transformative objective and transformative mandate from the customer.

Certainly in the early days that really helped us stand out. But we realised if we didn't shift gears quickly, the core technical transformation part of it was likely to become commoditised.

And the thing we hit upon then, which is still very much true today, is that when I go and see a new customer for the first time, the first and – to be honest – only question I'm interested in is where they are trying to grow to as an organisation, and working back from that.

We have evolved our consultative capabilities towards more of a focus on what we call success management, but also sustainable value realisation: making sure that in five years' time, they're not sitting there saying, 'why on earth did we buy this particular set of licences', but, actually, 'we achieved everything that we thought we were going to'.

Minttulip is among the 15 most profitable firms we track, and is growing swiftly. To what do you attribute that?
I think it's because our message and commitment to customers is that we're actually going to help them deliver measurable value from what we do. We don't just sit there and turn things on. Because that is, as I say, a pretty commoditised service.

How are you planning to scale the business?
We have a sweet spot around how big we should get – I don't think we're necessarily destined to push somebody out of the big five arena. We're small, agile and reactive, and we're trying to build those relationships on an individual basis as well as a company. We're 40-odd people and our ideal size is probably 60 to 80 consultants, plus, the usual wraparounds.

Minttulip was acquired by IT services firm Sword in 2017. Why did you opt to join forces with a larger firm?
It was a bigger story to tell our customers. We're always keen to leverage that relationship as often as we can. And we do that quite frequently because they're bigger than us – they're global. They have a diversity of capabilities. They have some capabilities which are very similar, which is great because it means we can draw on a larger resource pool in certain contexts where we need a bit of backup and a bit of extra support. And it gives customers confidence that we're not just one organisation living and dying by itself.

What metrics do you look at outside growth and profits?
Customer happiness and satisfaction is probably the most critical factor that I look at. That would be crystallised in things like willingness to act as case studies and references.

Outside that, the most critical piece is the happiness and wellbeing of staff, because the reality is that good consultants are hard to find, and you need to keep them. Our staff turnover is pretty low. Generally in a year it's between around five and seven per cent.

How will successful firms in the channel need to reshape their businesses in the 2020s?
One is understanding the kind of relationship that I think customers want from their suppliers. And that's very much the model of long-term, shared purpose. So not just coming in from the perspective of the salesperson trying to hit a quota on a target, but from a perspective of 'OK, we're going to have peaks and troughs over a period of time, but we'll always make the effort to understand what the longer-term story is'.

The second element is co-opetition. And that's the recognition that customers probably don't want you to do everything for them. They probably expect you to work with your competitors to find the best solution for them.

"We have a sweet spot around how big we should get"

THE CYBERSECURITY START-UP: PENTESEC

Founded: 2014
VAR 350 ranking: 294
Key vendor: Check Point
Revenue: £9.7m (+42%)
Net profit margin: 6.9%

Pentesec claims it broke the mould when it launched in 2014 with a "technically led" approach to the market. It is now a near £10m-revenue firm, as MD Ian Turnbull explains

Pentesec's launch in 2014 was predicated on frustrations you had with "fundamental flaws" you'd encountered within the security reseller channel. How does Pentesec do things differently?
Before Pentesec, our directors had decades of experience working at the forefront of the security industry as independent consultants and technical experts for major security organisations. We experienced a lack of consistency when it came to technical knowledge and capability. Many partners were behind the curve on how the landscape was evolving, and relationships seemed heavily focused on brokering business, and less concerned about maintaining technical expertise and meeting customer needs.

We set up Pentesec to deliver what we thought the channel lacked. A technically led, specialist consultancy that resells, and maintains a high standard of knowledge across all staff. We engage with vendors at a much deeper level, interacting behind the scenes with product architects and designers to actively drive changes that better meet our customer's needs.

What would you attribute your growth and profitability to?
We feel there is a genuine gap in the channel for a strategic and technically led sales process. In our experience, vendors are keen to work with capable partners. We listen to what the customer needs and propose a solution that focuses on delivering that well into the future.

Our growth has come from heavy investments in our managed service platform, our customer portal, emerging technologies and opening our own training centre. We've trailblazed a wide range of solutions, dispatching our consultants to learn and work on projects that make them outstanding experts in their field. They engage with vendors, proposing updates and giving feedback that shapes their work and affects what we sell moving forward. This all feeds in to the message that we deliver to our customers and the work we do, and it helps us to continue to break the mould of the traditional reseller.

What are your long-term ambitions for Pentesec?
We want to be considered a top security partner worldwide. To that end, we would like to see continued growth in the UK and are also seeing interest in other regions, which we are pursuing.

We've increased our service portfolio over the past 12 months and aim to become a top partner for more tier-one vendors.

Is there a new trend or requirement you have spotted that you are fulfilling, or a new approach to the market that you're taking that is novel or marks you out in some way?
We integrate ourselves with the vendors we work with, suggesting product changes and providing constant feedback to help them improve on things that our customers find difficult or frustrating. Acting as an extension of their team gives us an edge on looking ahead to the future. Knowing the people who build the products we work with improves the support and the advice we provide.

We've invested heavily in our training centre, which we offer to vendors, customers and other channel members alike, in an attempt to raise technical standards across the industry. Training is a great supplement to what we do, as our consultants are constantly learning new and interesting skills which they are then feeding back through our courses.

How will successful channel firms need to reshape their businesses in the 2020s?
Non-technical resellers will struggle to keep up with new technology and new vendors entering the market. It is hard to maintain focus within an environment that endures constant change.

There will be a lot of opportunities to reinvent across the next 10 years and there is always something new to keep on top of. Many customers expect deep expert advice from the suppliers and as a channel we need to keep each other 'honest' by challenging thought processes and outdated approaches.

"We want to be considered a top security partner worldwide"

THE BORN-(AGAIN)-IN-THE-CLOUD CONSULTANCY: SOL-TEC

Founded: 1992
Key vendor: Microsoft
VAR 350 ranking: 288
Revenue: £10.1m (+60%)
Net profit margin: 6.6%

Reading-based Sol-Tec's growth and high profits can be traced back to its decision six years ago to ditch reselling and get in on the ground floor with Microsoft Azure, CEO Nik Topham tells CRN

Sol-Tec has morphed from a reseller into a public cloud migration specialist. What prompted the shift?
IT companies have to redesign themselves every so often, and we've had four major re-scopes.

Probably the most interesting one was six years ago. Although we were quite a technically led company, we found our margins were being squashed on the resale part of the business. We were struggling to compete against some of the big resellers due to the big vendors doing back-margin deals.

We went to Microsoft and spoke to them about coming out of our private datacentre and going into Azure when Azure was right in incubation, and joined something called the Azure Inner Circle, which was a number of technical people getting together and talking about the prospects of what Azure could do. So we bought an EA from Microsoft, moved our customers from private cloud into public cloud, and then really started to skill up our workforce around Azure.

Over the last five to six years the business has grown massively. We've had to put in a middle management layer as the company grew in people and engineers, and we've put in a recruitment arm to get the skill sets in because we very quickly found that [although] a lot of people say they're experts in Azure [they aren't]. We integrated an academy into the business. And that doesn't just take graduates from universities; it goes all the way through to everybody who works within Sol-Tec.

We've also built an amount of IP over the last few years to help us do the business better, easier and more quickly, but also to make sure the cloud is right for the customer. This way they fully realise the benefits and also sometimes the negatives of moving to the public cloud.

What do you feel you have done differently from your peers to achieve your strong growth and profitability?
Investing in technology and looking at where the world is going tomorrow. The birth and take-off of cloud over the last six years has really set the scene about how the modern partner needs to do business, and look after their customers.

We've modelled ourselves on a particular vendor. We've looked at where and how Microsoft does business, and have very much tried to model ourselves on that and made it very easy for Microsoft to work with us.

Where next for Sol-Tec?
Probably the biggest thing for us is looking at the next phase of what happens once people are in Azure, or in the public cloud. And then make sure we align ourselves to not just moving them there, but modernising them once they're there – looking at support over the environment, at how they can make the most out of the data, and at how the individual user, not just the IT department, is fully brought into the public cloud.

What are your long-term ambitions for the company?
To keep on this path. Whether to get involved in a multi-cloud strategy is something that we will always bear in mind. But at the moment building our Microsoft capabilities are paramount for us.

How evangelical are you about moving workloads to the cloud?
We're born again in the cloud – that's the best way to describe us. We've come from the other side. We've seen the benefits of the cloud. We've also seen that there are certain aspects that don't work for certain areas. Our consultants are looking to give an honest view of whether it works in the cloud. Cloud isn't perfect for everything. It's not always cheaper for everything. It's about sitting with the customer and working out what's best for them financially and from a security perspective.

Although we were quite a technically led company, we found our margins were being squashed on the resale part of the business. We were struggling to compete against some of the big resellers due to the big vendors doing back-margin deals."

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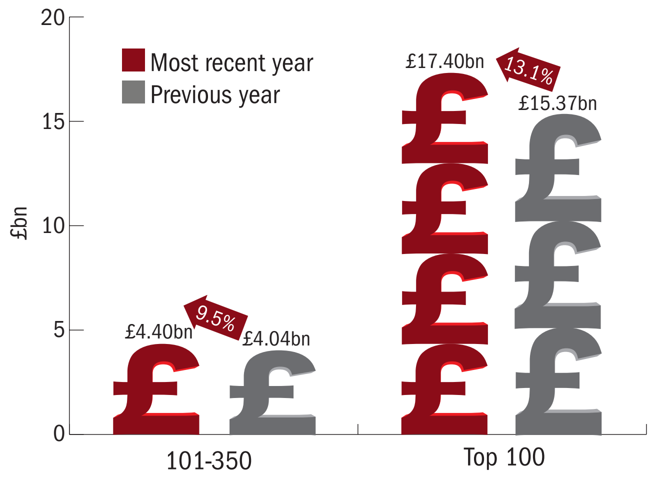
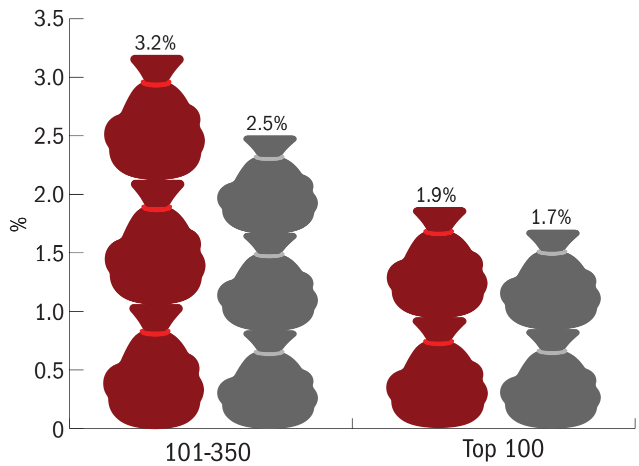
Big isn't always beautiful

This year's Rising Stars were drawn from the firms ranked between 101 and 350 in the CRN VAR 350. Despite their smaller stature, relatively speaking they are significantly more profitable than their top-100 counterparts are

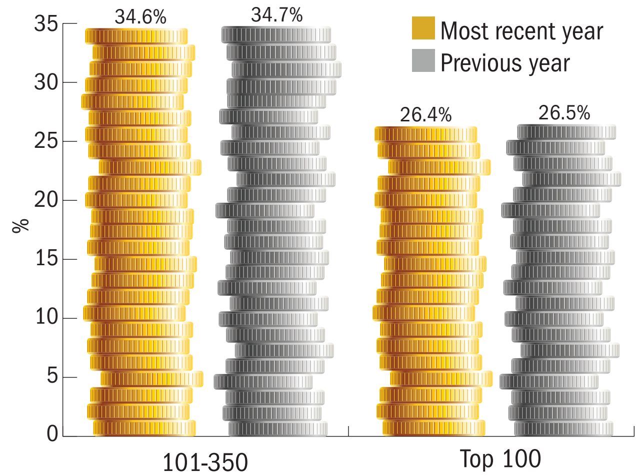
Revenues



Median net profit margins



Mean gross profit margins

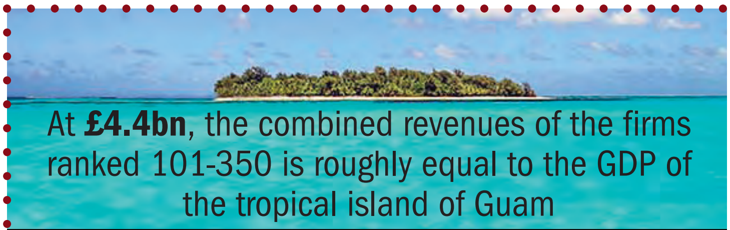


Five most profitable firms: Top 100

		Net profit margin
1	Egton	18.6%
2	Capita Workspace Technology	17.4%
3	Avanade	16.1%
4	ANS	13.4%
5	Node4	12.7%

Five most profitable firms: 101-350

		Net profit margin
1	Bistech	29.4%
2	Lombard Technology Services	25.4%
3	D4t4 Solutions	23.1%
4	Invenio Business Solutions	21.7%
5	Pinnacle	21.3%



The 10 per cent club

When it comes to profitability, the firms ranked outside the top 100 are the pocket dynamos of the channel, making up in bottom-line buoyancy what they lack in scale. Relatively speaking, these sub-£40m-revenue firms are more profitable than their larger peers, boasting median net profit margins of 3.2 per cent in their latest financial years on record, up significantly on the 2.5 per cent average recorded the previous year.

In contrast, the median net profit margin of the top-100-ranked firms stood at 1.9 per cent, compared with 1.7 per cent the previous year. Of those ranked 101st to 350th, 199 made a net profit and 49 a net loss, which compares favourably with a 188:60 ratio the previous year.

Some 26 firms outside the top 100 achieved double-digit net profit margins in their latest financial years, compared with only eight (Egton, Capita Workspace Technology, Avanade, ANS, Solid Solutions, Node4, NCC and Ampito) in the top 100. We profile each below.

1. Bistech Group
Net profit: 29.4%
Revenue: £16.5m (+7%)

Ranked 217th in VAR 350, this highly profitable networking and comms VAR expanded its Dorset HQ last year after logging a ninth consecutive year of growth in the 12 months to 31 July 2018. The Mitel, Cisco, Microsoft and Juniper partner's swish website features an array of video case studies from customers including Reading Buses. Founded in 1988, it is one of a minority VAR 350 firms to have a female MD, in the form of Jocelyn Brown.

2. Lombard Technology Services
Net profit: 25.4%
Revenue: £32.9m (+13%)

A subsidiary of RBS, this technology leasing specialist saw revenues bulge by 13 per cent in its year to 31 December 2018, ranking it 129th in VAR 350. Net profits were roughly flat at £8.4m. The Dell EMC partner's product offering spans PCs, servers, comms, printers, telephony, AV, datacentre and software. It also offers procurement, deployment and IT disposal services.

3. D4t4 Solutions
Net profit: 23.1%
Revenue: £25.2m (+37%)

Starting life in 1985 as a hardware reseller under the IS Solutions brand, today D4t4 is a data analytics specialist that touts its own 'Celebrus' software alongside solutions from Dell EMC, Teradata, Microsoft and Adobe. Ranked 158th in *VAR 350*, the AIM-listed firm proclaimed its fiscal 2019 ending 31 March "another excellent year", with net profits doubling to £5.8m on revenues that soared 37 per cent to £25.2m, £18.8m of which was generated in the US.

4. Invenio Business Solutions
Net profit: 21.7%
Revenue: £25.5m (+51%)

Headquartered in Reading, this geographically diverse, highly profitable SAP partner recently completed the implementation of a new VAT system in the Kingdom of Bahrain. A lack of fresh accounts means we've had to fall back on numbers for its year to 31 March 2018, which show net profits doubling to £5.5m on revenues of £25.5m. Ranking 156th in *VAR 350*, Invenio employs 950 staff in the UK, Germany, Mauritius, Saudi Arabia, Dubai, Fiji, India and the US.

5. Pinnacle
Net profit: 21.3%
Revenue: £3.7m (-3%)

Despite seeing revenue shrink three per cent in its year to 30 September 2018, this London-based fixed and mobile comms specialist is one of the most profitable firms we track. Having merged with Mac Consultants in 2013, Pinnacle counts Apple among its key vendors alongside Avaya, Vodafone and Microsoft. Ranked 337th in *VAR 350*, it recently formally merged with mobile arm The Word Telecom.

6. Network Telecom
Net profit: 19%
Revenue: £11.7m (+4%)

Ranked 266th in *VAR 350*, this comms provider assured its clients in September that "business will continue as usual" as it sold up to 750-employe Dutch telecoms and IT group Enreach. Founded in 1997, the Telford-based Gamma, Microsoft and Panasonic partner boasts more than 2,000 customers. Net profits for calendar 2018 were flat at £2.2m, making it one of the most profitable firms in this entire report, relatively speaking.

7. Codestone
Net profit: 19%
Revenue: £12.7m (+13.1%)

Ranked 250th in *VAR 350*, this Poole-based consultancy recently won recognition from SAP for generating the most Business One revenue of any UK partner in 2018. Its website features case studies with diamond company Graff and e-cigarette maker Totally Wicked. Organic growth underpinned a 13 per cent revenue hike in its year to 30 September 2018. Net profits of £2.4m, meanwhile, make it one of the most profitable firms in this report.

8. DMW Group
Net profit: 18.7%
Revenue: £19m (+29%)

With offices in London, Leeds and Manchester, this independent tech consultancy claims it has managed over £1bn of cloud projects and migrated more than 250,000 workloads to the cloud over "the last few years". In line with expectations, DMP grew revenues by over a quarter in its year to 31 March 2018 – ranking it 205th in *VAR 350* – with net profits of £3.5m making it among the industry's most profitable outfits.

9. Aspire Technology
Net profit: 18%
Revenue: £20.2m (+26%)

This Gateshead-based managed services provider enjoyed a barnstorming year to 28 February 2019, with revenues powering up by more than a quarter and net profits bouncing from £2.5m to £3.6m. A project to install a Mitel telephony system and IT infrastructure for a distillery in the Lake District is among the case studies trumpeted on its website. Ranking 194th in *VAR 350*, its portfolio spans hosted services, datacentre solutions, communications and IT support.

10. Edenhouse Solutions
Net profit: 16%
Revenue: £38.2m (-3%)

A lack of fresh accounts for this Birmingham-based SAP consultancy means we have had to recycle numbers for its year to 31 March 2018, which show net profits of £6.1m on revenues that dipped three per cent to £38.2m. This ranked it 110th in *VAR 350*. Edenhouse launched an office in Toronto in October 2019 as part of an international expansion drive. Its clients include baking duo Hovis and Warburtons.

11. Minttulip
Net profit: 15.7%
Revenue: £2.6m (+35%)

Founded in 2011, this Microsoft Gold partner's impressive client roster includes REED Recruitment, Sainsbury's and HPE (*see interview, p12, for more*). Specialising in helping organisations grow through investment in Microsoft technology, Minttulip enjoyed a barnstorming calendar 2018, logging a £407,000 net profit on revenues that vaulted 35 per cent to £2.6m. This ranked it 343 in *VAR 350*. It claims its secret weapon is Sally, a Labrador who regularly visits its London WeWork office.

12. Castleton Technology
Net profit: 15.5%
Revenue: £26.4m (+13%)

The chairman of this AIM-listed supplier of software and managed services to the public and not-for-profit sectors admitted in November that the first half of its fiscal 2020 had been "challenging", with lower one-off sales and an unexpectedly disruptive reorganisation pushing it into the red. Its last full-year accounts, however, are a picture of buoyancy, with net profits roughly flat at £4.1m on revenues that ramped up 13 per cent to £26.3m, ranking it 151st in *VAR 350*.

13. Atlas Business Group of Companies
Net profit: 15.2%
Revenue: £1.1m (+4%)

Operating its own datacentre from a former nuclear bunker, this Cheshire-based managed IT and infrastructure services outfit's year to 31 March 2018 went off with a bang as net profits almost trebled to £169,000. Revenue topped £1.1m, ranking it 349th in *VAR 350*. With a second office in Leeds and operating units in Manchester and London, Atlas partners with an array of technology and telecoms vendors, including HP, Cisco, Datto and Openreach.

14. Certus Solutions
Net profit: 14.9%
Revenue: £10.3m (+39%)

Having been gobbled up by Accenture in October 2018, this Guildford-based Oracle consultancy was recently liquidated following the transfer of its trade and assets to its new owner. For what it's worth, the now defunct G-Cloud specialist enjoyed a bravura 15 months to 31 August 2018, hitting a £1.9m net profit on revenues of £12.9m, ranking it 284th in *VAR 350*.

15. United Carlton
Net profit: 14.3%
Revenue: £16.5m (+1%)

This Gateshead-based managed print provider was snapped up by southern rival DMC Canotech in June, creating a 250-employee outfit with 4,500 customers, seven offices and major partnerships with Sharp, Toshiba and Canon. United Carlton's holding company generated £2.4m net profits on revenues of £16.5m in the year to 30 June 2018, ranking it 15th in *VAR 350* and making it one of the most profitable firms we track.

16. Nettitude
Net profit: 13.2%
Revenue: £15m (+20%)

Rowland Johnson, founder of this highly profitable, Leamington Spa-based penetration testing specialist, is also a director of not-for-profit cybersecurity certification body Crest. Nettitude sold up to professional services giant Lloyd's Register in March 2018 in a move Johnson said would "supercharge" its growth. Revenues for its year to 31 March 2018 vaulted by a fifth, ranking it 226th in *VAR 350*, with net profits nearly quadrupling to £2m. Last May it opened a Singapore office.

17. Deans Computer Services
Net profit: 12.2%
Revenue: £3.3m (+7%)

Bolstered by the contribution of 2017 acquisition Leckhampton Computers, this profit-heavy, Wetherby-based IT support and accounting software specialist grew seven per cent in calendar 2018, ranking it 340th in *VAR 350*. Targeting owner-managed SMEs, the Sage and Pegasus partner said it is generating a "growing proportion" of sales from bespoke software. Weaker hardware and software sales moderated its growth during the period, however.

18. Transparity
Net profit: 12.2%
Revenue: £4.8m (+47%)

Dorset-based Transparity's ploy of focusing solely on Microsoft Cloud appears to be paying dividends as it logged a fourth straight year of "significant growth" in the 12 months ending 28 February 2019, ranking it 325th in *VAR 350*. Impacted by investments in people, skills, systems and processes, net profits rose by a more modest six per cent to £588,000. It claims to be among a "small number" of UK partners that hold 10 Gold Partner accreditations.

19. Microtech Group
Net profit: 11.9%
Revenue: £5.8m (+11%)

Starting life in 1986 as an IT and telecoms support outfit, Kilmarnock-based Microtech broadened its repertoire in 2015 when it acquired a failing digital marketing agency, alongside e-health specialist Telehealth Solutions. Net profits of £695,000 on revenues that rose by a tenth to £5.8m in its year to 30 April 2018 put the Avaya and Microsoft partner in an elite pack of *VAR 350* firms commanding a double-digit margin.

20. Fitzrovia IT
Net profit: 11.9%
Revenue: £5.8m (+18%)

Taking its name from the district of central London in which it is situated, this managed services provider last year celebrated 20 years in business. Revenues pogoed by nearly a fifth in its year to 31 May 2018, ranking it 220th in *VAR 350*, with net profits of £616,000 putting it in a select squad of VARs with a double-digit bottom line. Fitzrovia's vendor partners include Microsoft, Mimecast, HP, Custodian360, VMware and Cisco Meraki.

21. EOS IT Solutions
Net profit: 10.9%
Revenue: £30.8m (+85%)

A specialist in video comms, this Cisco Gold partner is headquartered in Banbridge, Northern Ireland, and boasts operational offices in the US, Ireland, Singapore, Australia, Brazil, Germany, India and Japan. UK arm EOS IT Management Solutions (UK) posted an impressive £3.3m net profit on revenues that nearly doubled to £30.8m in its year to 30 June 2018, ranking it 135th in *VAR 350*. EOS' clients include Google, BT, Vodafone and Apple.

22. Datcom LLP
Net profit: 10.8%
Revenue: £1.9m (+3%)

Part of accountant and tax adviser Duncan & Toplis, Datcom provides IT support, solutions and services to 150 SMEs in the Midlands from offices in Lincoln and Grantham. Calendar 2018 saw it treble net profits to £208,000 on roughly flat revenues of £1.9m, ranking it 346th in *VAR 350*. It recently renewed its Premier status with Cisco and also partners with the likes of Veeam, Microsoft, VMware, Symantec, Citrix and Sage.

23. SICL
Net profit: 10.5%
Revenue: £10.8m (+19%)

Counting Chester Zoo and Nisa Retail among its clients, Leeds-based SICL claims it was one of Cisco's first ever partners, and remains a Premier partner of the networking giant to this day. Net profits of £1.7m on revenues of £16.2m in its 18-month fiscal period to 31 December 2018 rank 276th in Nisa Retail. Having acquired SICL in 2018, owner MXLG last year bought two other VARs, including 256th-ranked 365 ITMS (*see interview, p10, for more*).

24. Wanstor
Net profit: 10.1%
Revenue: £12.4m (+11%)

Counting restaurant chain Wagamama among its long-standing customers, this highly profitable, London-based MSP aims to provide a single service desk for clients in the retail, hospitality, finance, education and not-for-profit sectors. It banked flat net profits of £1.2m in its year to 30 September 2018 on revenues that rose 11 per cent to £12.4m, ranking it 257th in *VAR 350*.

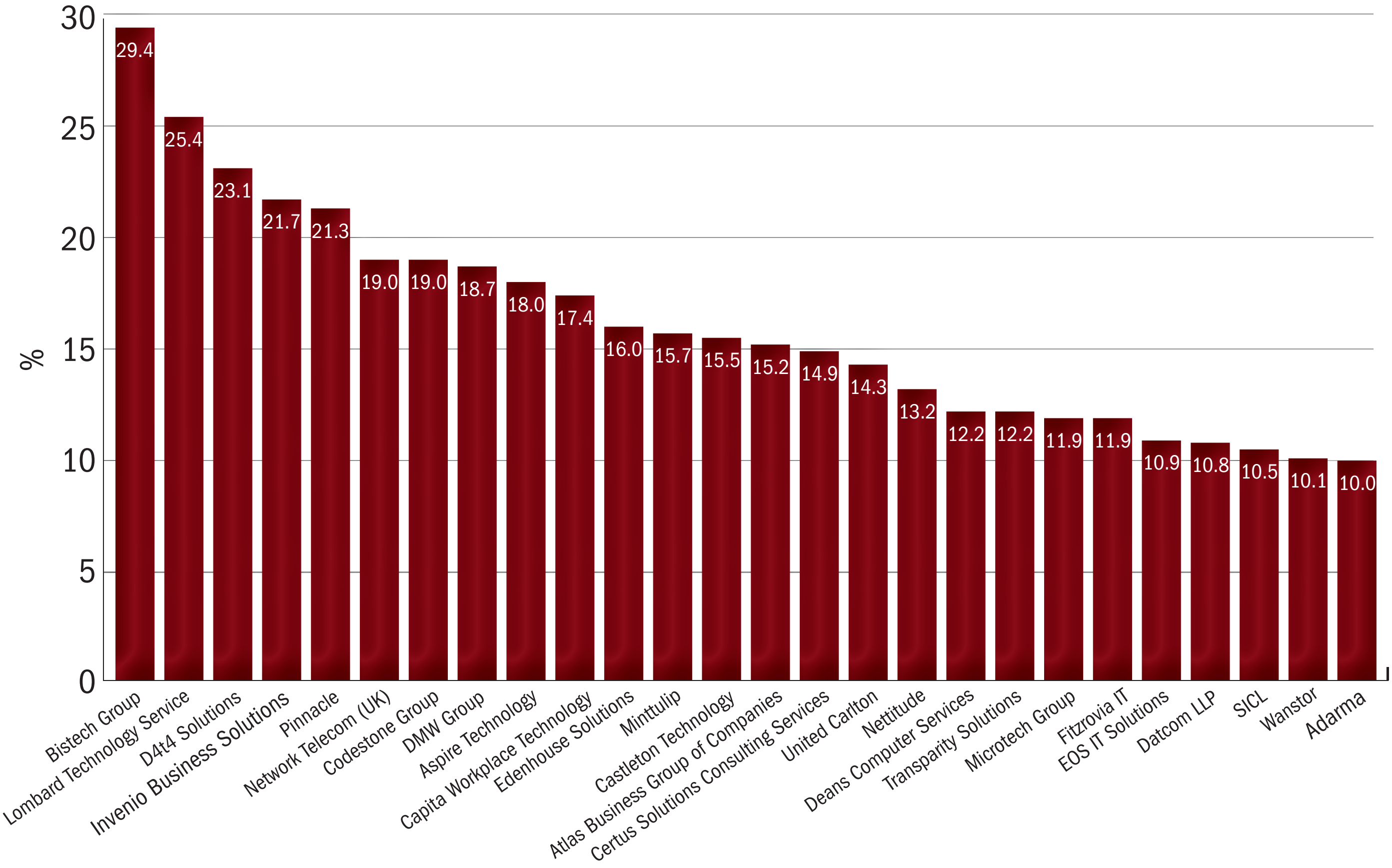
25. Adarma
Net profit: 10%
Revenue: £32.6m (+24%)

Private equity house Livingbridge is aiming to build a cybersecurity business "of real scale" after backing an MBO at this Edinburgh-based managed security services provider – previously known as ECS Security – in June 2019 (*see interview, p9, for more*). The Splunk, ServiceNow and Tenable partner, which has its own security operations centre, racked up net profits of £3.3m on revenues that surged 24 per cent to £32.6m in its year to 31 December 2018, ranking it 130th in *VAR 350*.

26. Britannic Technologies
Net profit: 10%
Revenue: £13.9m (-4%)

Despite recording its first annual revenue dip for six years, this Surrey-based comms VAR grew net profits from £1.3m to £1.4m in its year to 31 March 2019. During the period, it extended its software development to include DevOps. A Mitel Platinum, Avaya Sapphire and Skype for Business partner, Britannic recently rolled out a cloud-hosted Mitel contact centre platform and new voice infrastructure for the Kennel Club. It ranked 236th in *VAR 350*.

VAR 350 most profitable firms' net profit percentages



A PE-eye's view

Apiary's Nicki Boyd and August Equity's Mickey Patel lay out the top health barometers that attract them to invest in tech businesses

Private equity has long been attracted to investing in tech businesses, and never more so than now, given the expansion and evolution of the role of technology in our lives. Each PE firm will have specific requirements around size, location and ownership; Apiary invests in UK and Ireland-headquartered businesses with enterprise values of £10m to £75m, and with our partnership approach we seek to take a significant minority or majority stake.

There are a number of characteristics that make a tech business attractive to investors and will increase value in a successful sale to private equity.

We look for a high-quality management team who really know their business. It is common for there to be augmentation to the team and perhaps even a full transition over a period of time, but unlike trade buyers, financial investors need to back one or more experienced and talented executives to run and drive a business forward.

The quality of earnings is a critical metric. We look for a high proportion of recurring and repeating revenue, long-term relationships with customers (indicating high quality or a critical service), and a strong bias towards software and services, rather than hardware.

Similarly, the financial characteristics and the quality of information is important. Investing in a good CFO may seem like a luxury to owner managers, but it is not. Strong margins and cash generation are key metrics.

Demonstrable sustained growth is significantly value enhancing. For a platform asset, we seek at least mid-single-digit revenue growth rates. The opportunity for acquisitive growth is also attractive and even if not executed, it is beneficial to have reviewed the market and identified potential targets as part of the next sale story.

Given the dynamic nature of the market, we look for knowledge of and alignment with technology trends. It is important for businesses to be agile and predict customer needs, so as not to become obsolete. The best teams will have a view that has informed their strategy, but with sufficient connection with their customers and the flexibility to adjust if the market changes.

We recognise that no business is perfectly formed and each will be stronger in some areas than others. Indeed, it is often the right PE partner that can unlock the drivers for the next phase of growth and optimisation.

■ *Nicki Boyd is a partner at Apiary Capital LLP*

Broadly, we examine four aspects of a business when we are looking to invest. They are the quality of the management team, the market they compete within, the business model they operate, and the financial metrics.

The management team must have a clear three to five-year plan around where they want to spend the limiting factors of time and capital resource that will lead to organic growth that achieves or beats the market growth. This could include introducing new or refining existing products and services, expanding into new geographies, building expertise through appointing further to the management team and addressing new adjacent markets.

Some of these strategic options can be achieved by inorganic growth through acquiring companies which August can help them originate.

We typically look for new platforms in adjacent markets to our portfolio companies, as we use the transferable market knowledge, network and learning points to add value to the new plan. We look for markets where there are clear macroeconomic shifts, such as the move to multi/hybrid public cloud; or customers beginning to embrace newer concepts such as AI. We must be able to create a leading business within the sub-sector with three to five years and we must find some edge over other PE-backed investments in the sector.

The targets we back must fare well against the competitive environment – typically they are punching above their weight. In order for us to complete a buy and build, there must be readily available targets across the UK and we typically would have qualified this while we were mapping the sector before approaching targets.

The business models we typically invest in would have high quality of earnings and that means one to five-year contracts, low customer concentration, less than five per cent negative customer churn and customers buying more products and services over time.

The financial metrics are the by-product of all the above. Generally, we would expect an exceptional managed services target to be delivering revenue growth above the average market growth and at least 30 per cent and normalised EBITDA margins of 20 per cent. If the quality of earnings are high then we would expect high EBITDA to cash generation, with recurring revenue growing each year. This informs us that the strategy devised and executed by the management team is working in the market and therefore we have a platform on which to build.

■ *Mickey Patel is a partner at August Equity*

Five key takeaways

1 The six Rising Stars profiled in this report mirror a wider pattern among the firms ranked outside the top 100 in the *CRN VAR 350*.

Although the bigger resellers are growing at an almost record pace, the sub-£42m-revenue firms positioned from 101st to 350th are more profitable and – arguably – better able to pivot in response to changing market demands. As our profit index on p19 shows, some 26 of them boast a double-digit net profit margin.

2 Like different breeds of pedigree dog, this year's Rising Stars share little in common at first glance. But despite their obvious differences in size and shape, they are – ultimately – cut from the same cloth, with their most fundamental common trait being their ability to build businesses that reflect new technology and purchasing trends.

Some are young firms set up specifically to capture new opportunities around cloud and managed services, while others are established firms that have turned their previous business models on their head. In each case, adaptability and transformation are their watchwords.

3 The internal KPIs and benchmarks these firms adhere to also reflect the changing technology and buyer landscape.

Although we selected this year's Rising Stars based on their profitable growth, these firms often emphasise staff and customer retention/experience when it comes to the metrics that underpin their financial success, with technology being secondary to customer requirement. Indeed, one is setting up a whole division based around customer experience in 2020.

It is also telling how several now sell product as an enabler only, with one MD telling us he keeps a close eye on product resale as a percentage of overall revenues to ensure margins aren't diluted.

4 Funding is obviously crucial to the success of any channel business, but, arguably, the necessity for deep-pocketed investors – whether internal or external – has never been greater. It is therefore not a surprise that two of the six Rising Stars have recently taken on private equity backers to help fulfil their ambitions. Again, this reflects a wider trend in the channel as PE houses are drawn towards high-growth MSPs with strong recurring revenue streams and – in turn – MSPs hunt for backers to help bolster investment in systems, M&A and international growth.

5 Rising Stars are on a journey of continual change and transformation. Some are only five years old, while others have recently overhauled the nature of what they do. Either way, it is clear from the interviews on pages 8-13 that they are already looking at how they will need to reshape their businesses for the next decade and beyond.

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Incisive Media, New London House, 172 Drury Lane, London WC2B 5QR Tel: (020) 7484 9000

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