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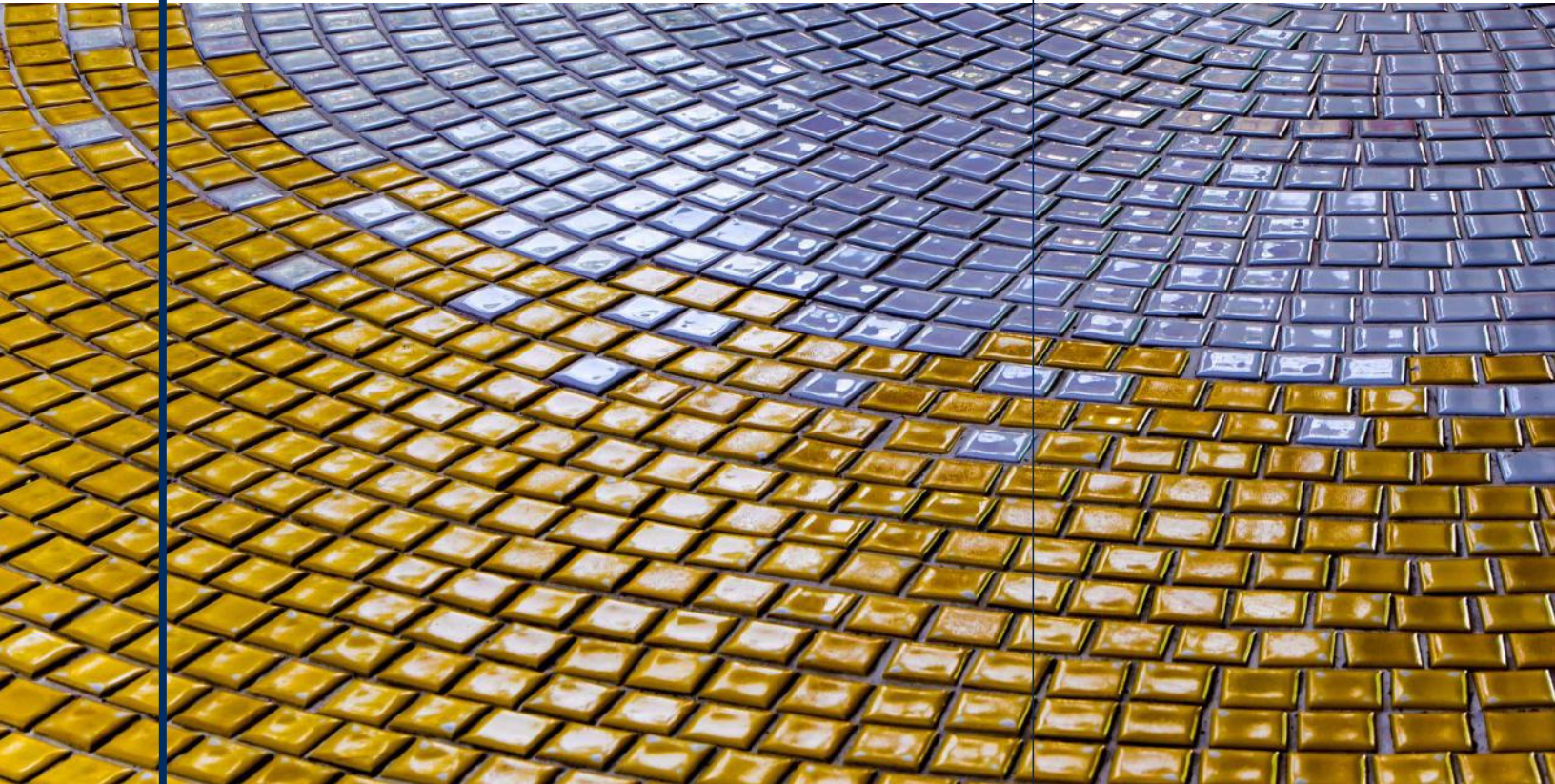
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The Golden Age of MSPs Goes Platinum

Growing Pressure to Outsource in Increasingly Complex IT Environment



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Key Findings

As a follow-up to our June 2020 report, [MSP Market: Entering the Golden Age](#), we surveyed 51 managed service provider (MSP) CEOs to gain insight into the current state of the MSP market. We include our main takeaways below.

Revenue Growth Across the Industry Remains Robust; New Growth Coming From Enterprises Transitioning From In-House Solutions

A majority of the companies we surveyed are organically growing revenue in the 11%-20% range. This 11%-20% growth range was not dependent on company size in terms of either total employees or total revenue. The largest contributor to growth was the addition of new customers (67% of MSPs stated this is the No. 1 driver of growth). Based on our discussions, MSPs are not stealing customers from other MSPs; they are convincing enterprises that an outsourced IT solution is the best long-term strategy as overall IT spending grows as a percentage of revenue and IT services become increasingly complex.

Consolidation Continues and Is Accelerating

Consolidation has accelerated across the MSP space, with further consolidation expected over the next several years as the market remains fragmented. We saw over 120 transactions in 2021 (up over 20% from 2020) and over 90 so far in 2022, a trend we do not expect to slow. Of the 51 MSP CEOs we surveyed, about 39% said they had bought another MSP in the past 12 months. Further, 65% said they plan on making an acquisition in the next 12 months, another sign that M&A in the MSP sector is continuing to accelerate. Customer growth remained the main reason for deals at 51%. Lastly, 61% of MSP CEOs expect an increase in overall M&A in the future.

Security Remains Top of Mind

While cyberattacks on major enterprises garner most of the headlines, expanding security threats and attacks on SMBs are having an equally negative impact. In particular, the shift to remote and hybrid work models brought about by the pandemic has only led to increased risk from cyberattacks, a result of more distributed IT infrastructure environments. According to data collected by MSP vendor Datto, there has been a 300% increase in reported cybercrimes since the pandemic. All of this activity had led to an even more heightened focus by MSPs (and the vendors of the MSPs) on enhancing the depth and breadth of their security capabilities and ensuring that small businesses are well protected from internal and external threats.

Competition Remains Regionally Fragmented

Over 55% of the MSPs we surveyed had either a regional or super-regional focus. Generally speaking, the larger of the MSPs, based on total employees, tended toward a national or global footprint. The market remains highly fragmented today and is attracting new entrants from adjacent segments of the IT distribution channel, such as VARs, telcos and telco agents, systems integrators and IT consultancies, and data-center hosting providers. These aspiring MSPs are attracted by the recurring revenue opportunities, healthy margins, and customer stickiness of the MSP model, where the MSP is viewed as either the SMB's actual IT department or an extension thereof.

Demand Returning to Pre-COVID Levels as Companies Deploy IT Solutions for a New, Hybrid Workforce

On a positive note, 96% of the MSPs we surveyed stated that customer demand had returned to over 75% of pre-COVID levels (65% at 100% and 31% at 75%). While the survey was largely completed in the March/April time frame, prior to recent rate hikes and stock market volatility, we view the role that the MSP plays in the IT infrastructure landscape as providing some level of resilience given the high recurring revenue business model and the need for post-COVID improvements to the IT architecture.

State of the MSP Market Today

Since we published our original report in June 2020, a lot has changed in the world of IT. The work-from-home environment caused by the pandemic in March 2020 was originally considered a temporary solution. However, WFH evolved into an acceptable practice, as many companies discovered that the benefits from either a WFH or hybrid work environment outweighed the negative impacts on employee productivity, as long as employees were given the necessary digital tools to do their jobs from any location.

One of the byproducts of a hybrid WFH environment was that many IT services, once deemed only necessary for larger enterprises, quickly moved downmarket to small and midsize businesses. This greatly enhanced the technological complexity for SMBs, which were not equipped to handle the trends given a lack of IT personnel and lack of physical IT infrastructure. The digital transformation, which started in the large enterprise space pre-pandemic, quickly shifted downmarket. In addition, as the global workforce became decentralized, security threats increased for all enterprises, small and large, as bad actors recognized the opportunity to target individuals accessing corporate networks from a more diverse set of endpoints.

Therein lies the opportunity for the MSP market as we transition to a post-pandemic world. SMBs, and even some large, less technologically savvy enterprises, lack the requisite IT resources and expertise to navigate an increasingly complex ecosystem and keep up with rapidly changing technology requirements. The MSPs we surveyed are taking advantage of this evolving landscape to grow rapidly and convince enterprises that outsourced IT services can increase employee efficiency, reduce costs, and allow management to focus on the core business, while relying on a trusted partner to keep the digital engine running well.

The other development we have seen in the past two years is a significant increase in MSP mergers. From approximately 100 deals in 2020 to over 120 in 2021, and to over 90 in the first half of 2022, consolidation continues as MSPs look to increase their customer base, improve scale efficiencies, expand geographically, and add new capabilities. Given the still fragmented MSP market, we expect M&A to continue, and even accelerate, over the next several years.

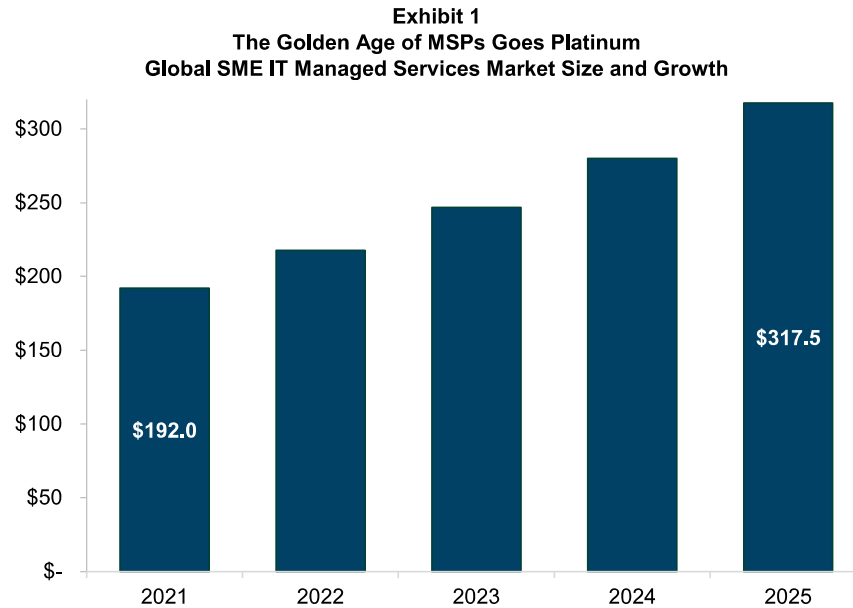
So what does the future hold? In our view, opportunity. The complexity of IT will only continue to increase as enterprises use digital services to make existing employees more productive and efficient in their current roles. MSPs are well positioned to grow as enterprises of all sizes implement an outsourced solution for services with a large and growing total addressable market. While there will remain some challenges around IT sales and engineering staffing, as well as continued competition, these challenges are not necessarily MSP specific. Based on our discussions with MSP CEOs as well as our survey data, it appears that any business slowdown associated with the pandemic is easing as many MSPs find themselves back at pre-pandemic demand levels. In fact, the post-pandemic future may prove to provide even more opportunity than the pre-pandemic past, as all enterprises rethink and re-architect how they build their IT stack.

Update on MSP Market Opportunity

According to Gartner Research, SMB IT spending was forecast to reach \$1.3 trillion in 2021, with an expected CAGR of 4.5% through 2025. Leading MSP vendor Datto, using data from Frost & Sullivan, estimates a roughly \$192 billion market attributed to MSPs in 2021, growing 13.4% through 2025. This is based on an estimated 132,000 MSPs worldwide.

These forecasts show that: 1) the annual market for SMB IT spending is very large and 2) the SMB IT market is shifting to managed services sold by MSPs. Not accounted for in this market analysis is the trend of co-managed IT, which has become increasingly popular among enterprises as they

struggle to manage the breadth of IT initiatives. Co-managed IT leverages third-party experts to run a portion of the IT footprint. Network management and security have become two key functions that enterprises are increasingly outsourcing to MSPs.



All numbers in billions

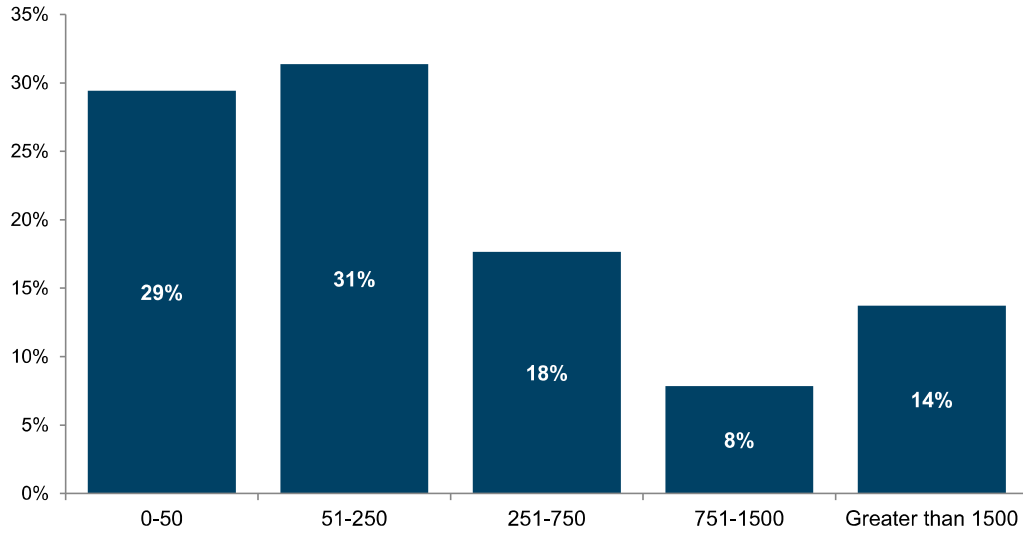
Data from Frost & Sullivan "Total Addressable Market for SMB IT Managed Service Providers," February 2021

Sources: Datto Holding Corp. and William Blair Equity Research

MSP Survey

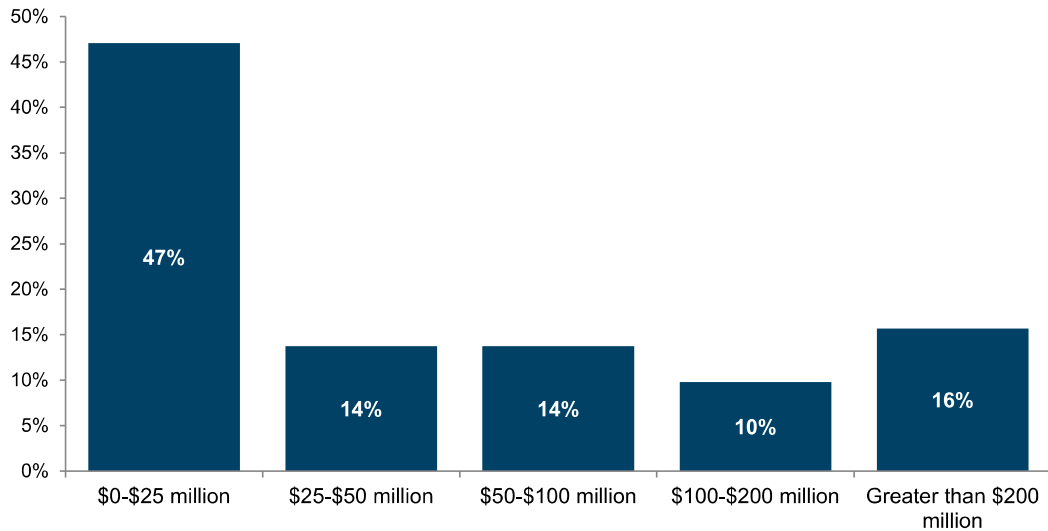
As part of our update on the MSP sector, we surveyed 51 MSP CEOs to glean trends within the MSP market on growth rates, strategies, product offerings, etc. About one-third of the companies had 0-50 employees, one-third had 51-250, and one-third had greater than 250. Exhibit 3 shows the annual revenue breakdown across all 51 participants.

Exhibit 2
The Golden Age of MSPs Goes Platinum
How Many Employees Are in Your Company?



n = 51
 Source: William Blair Equity Research

Exhibit 3
The Golden Age of MSPs Goes Platinum
How Much Annual Revenue Does Your Company Generate?

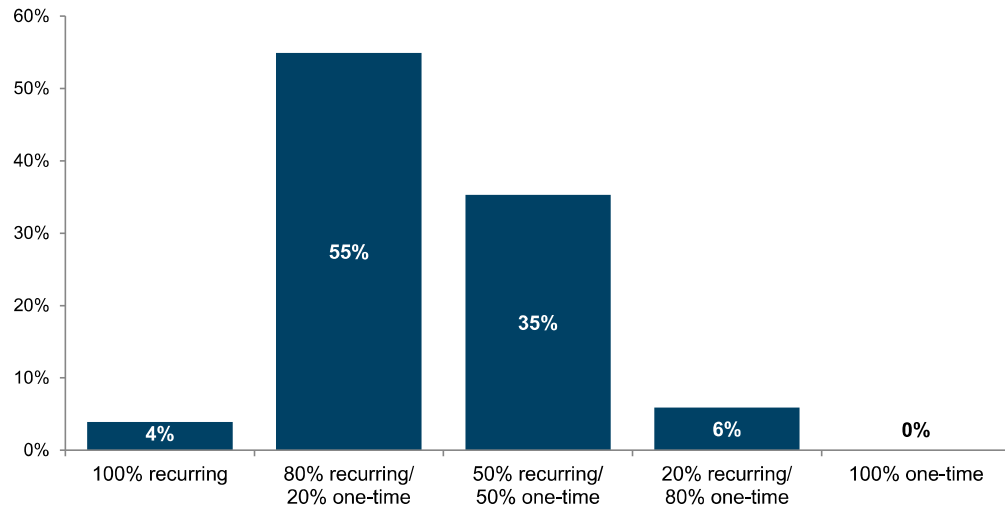


n = 51
 Source: William Blair Equity Research

With respect to recurring versus nonrecurring revenue mix, approximately 55% reported an 80%/20% recurring/nonrecurring revenue split, while 35% reported a 50%/50% split. The majority of the MSPs we spoke with are working to move toward a larger recurring revenue percentage, as incremental SaaS offerings provide better overall margins with lower capital investment. We estimate that over 75% of the MSPs surveyed will have greater than 80% of revenue recurring

over the next few years. While there is a direct correlation between the number of employees at an MSP and the annual revenue generated, the amount of recurring revenue as a percentage of the total does not seem to be dependent on the size of the MSP.

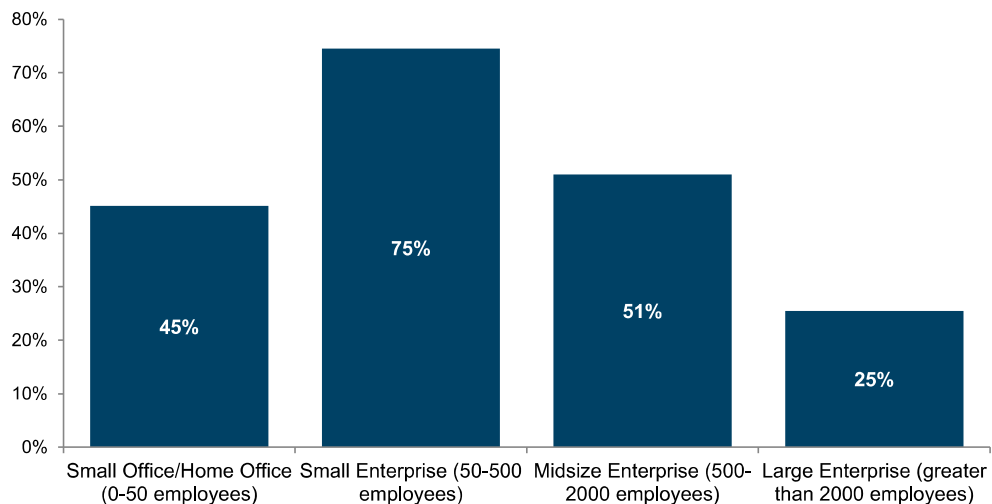
Exhibit 4
The Golden Age of MSPs Goes Platinum
What Percentage of Your Annual Revenue Is Recurring Versus One-Time in Nature (choose closest)?



n = 51
 Source: William Blair Equity Research

Over 75% of the MSPs surveyed focus on the small office/home office (SOHO) to midsize enterprise market. The 25% of respondents targeting large enterprise also tend to have over 100 employees. The MSPs we spoke with have found that larger enterprises tend to have a more robust internal IT group, lessening the need for outside assistance and the one-stop shopping that the MSPs provide.

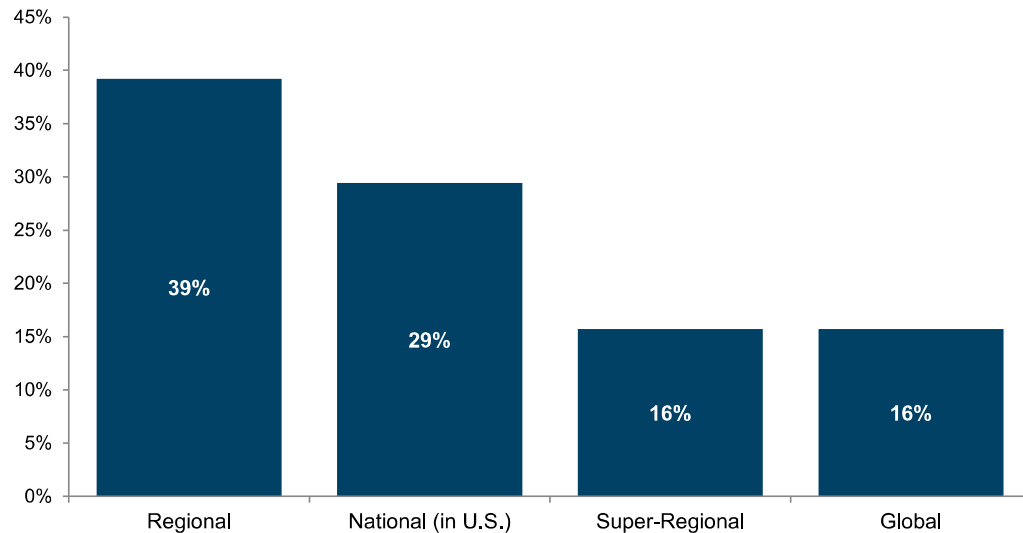
Exhibit 5
The Golden Age of MSPs Goes Platinum
What Is Your Customer Size Target (choose all that apply)?



n = 51
 Source: William Blair Equity Research

Similar to the customer target breakdown, the MSPs that categorized themselves as nationally focused also tend to be larger companies with greater than 250 employees. Based on our discussions, this is largely a result of a broader geographic sales organization. While many CEOs stressed the need to have a common sales and technology platform across all regions, the sales motion remains local as sales professionals gain a deeper understanding of their target customer base's needs by supporting customers at a local level.

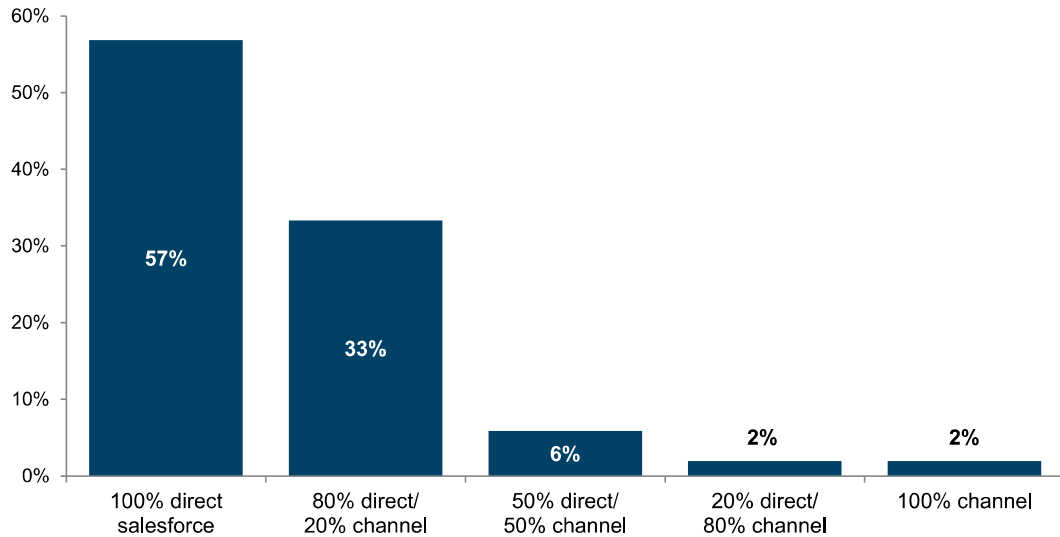
Exhibit 6
The Golden Age of MSPs Goes Platinum
How Would You Characterize Your Geographic Focus?



n = 51
Source: William Blair Equity Research

We believe the responses to our survey about MSPs' go-to-market strategy further support the focus on local sales, as 90% of MSPs we surveyed had greater than 80% of sales coming from their direct salesforce. We also believe this focus on direct sales is a result of the broad set of services and products that MSPs provide and the need for service-level agreements and ongoing support throughout the life of the contract.

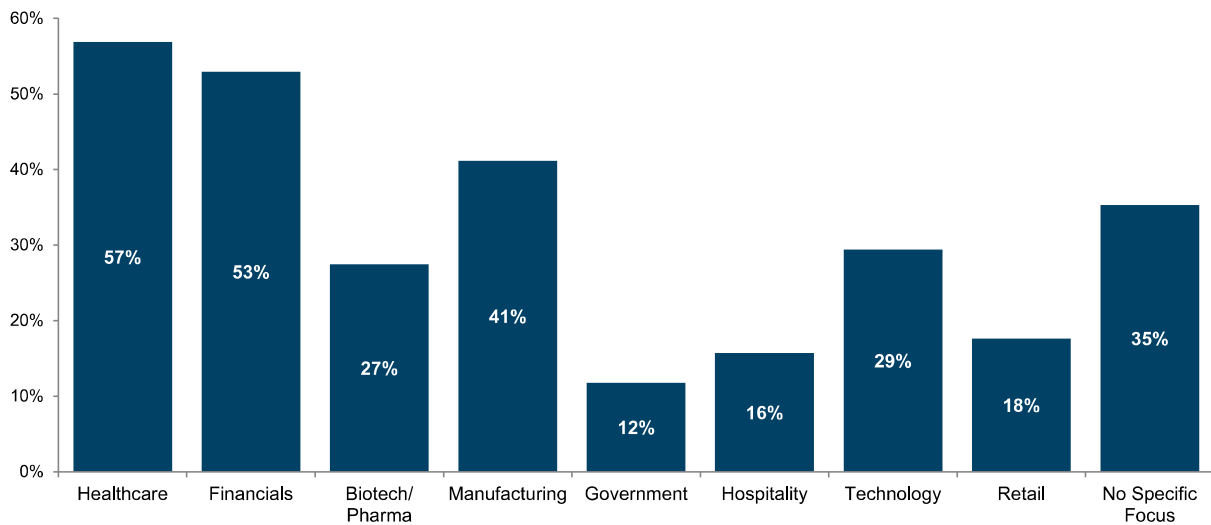
Exhibit 7
The Golden Age of MSPs Goes Platinum
What Would Best Characterize Your Go-to-Market/Sales Strategy?



n = 51
 Source: William Blair Equity Research

While the majority of MSPs serve customers across multiple verticals, healthcare (57%) and financials (53%) stand out, followed by manufacturing (41%), technology (29%), and biotech/pharma (27%); 35% of respondents said they have no specific vertical focus. It is logical that the top five verticals listed above would need support from an MSP given those industries tend to need a more robust IT infrastructure to support the underlying business.

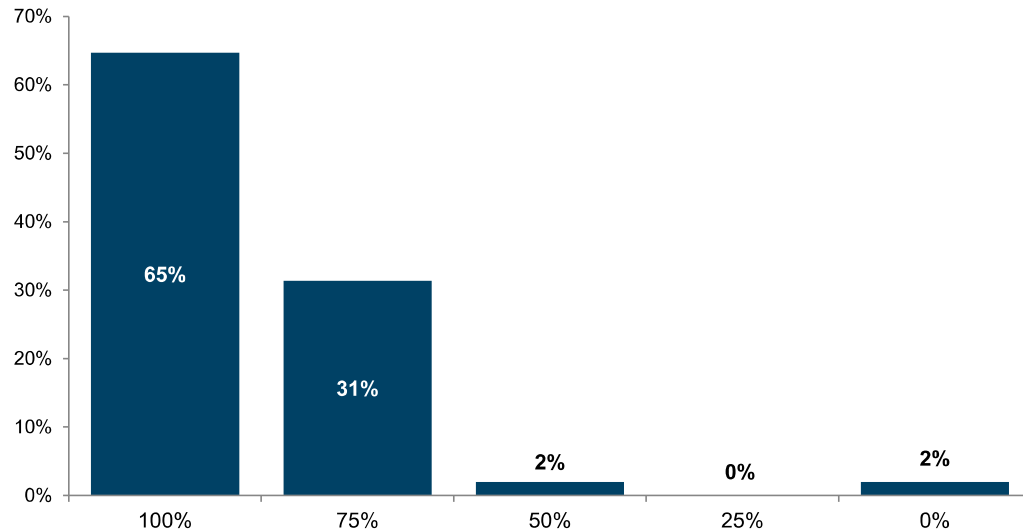
Exhibit 8
The Golden Age of MSPs Goes Platinum
Do You Focus on Any Particular Enterprise Verticals (choose all that apply)?



n = 51
 Source: William Blair Equity Research

On a positive note, 96% the MSPs we surveyed stated that customer demand had returned to over 75% of pre-COVID levels. While the survey was largely completed in the March/April time frame, prior to recent rate hikes and stock market volatility, we view the role that the MSPs plays in the IT infrastructure landscape as providing some level of resilience given the high recurring revenue business model and the need for enterprises to provide an efficient IT platform. In addition, in some cases, IT costs for a company can decline when working with an MSP; furthermore, the productivity of employees can be enhanced when given the right set of tools and solutions fully integrated by a single provider of services. If the economy were to slip into a recession, we believe the majority of MSPs can continue to grow at historical levels. Potential weakness could come from the very low end of the SOHO segment as the cost to start and run a small business increases with inflation and increased funding costs.

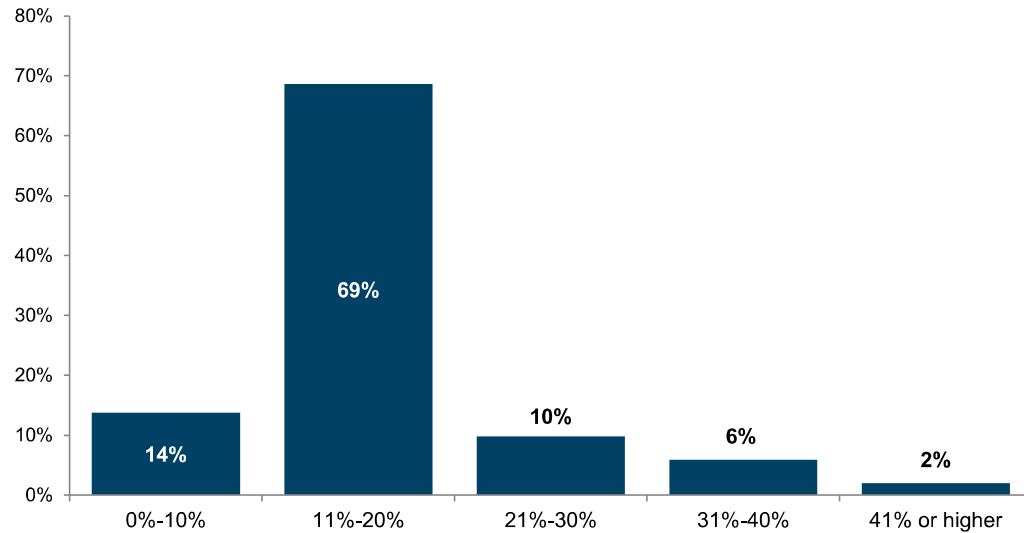
Exhibit 9
The Golden Age of MSPs Goes Platinum
How Much Has Customer Demand Returned to Pre-COVID Levels (choose closest)?



n = 51
 Source: William Blair Equity Research

Generally speaking, the companies we surveyed grow revenue in the 11%-20% range on average, absent any M&A activity. This 11%-20% growth range was not dependent on company size in terms of either total employees or total revenue. We view this range as one where most MSPs can grow while improving margins and not needing significant incremental funding.

Exhibit 10
The Golden Age of MSPs Goes Platinum
How Fast Do You Expect Your Business to Grow Organically in the Next 12 Months?

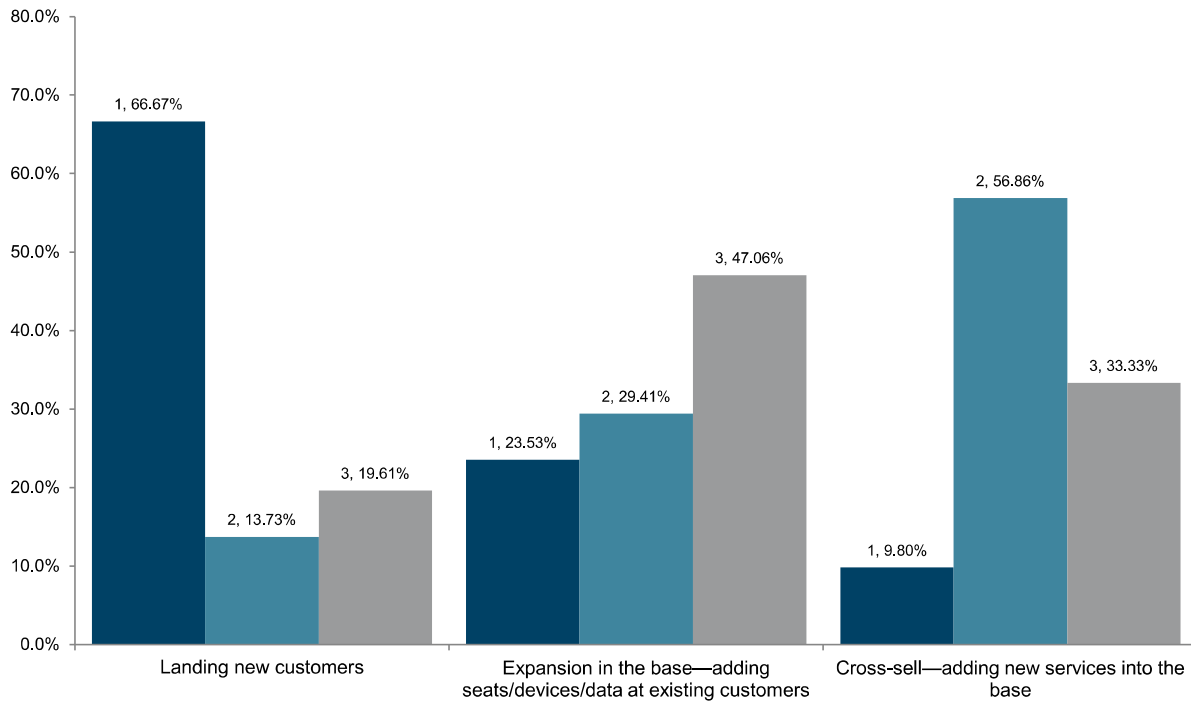


n = 51

Source: William Blair Equity Research

Far and away the largest contributor to growth was the addition of new customers (67% of MSPs stated this is the No. 1 driver of growth), with cross-selling (adding new services to the base) second at 57%, and existing customers expanding at 47%. With the majority of enterprises having IT mainly managed in-house today, we see a large greenfield opportunity for MSPs to continue growing and gaining share within the multi-hundred-billion-dollar IT industry. Generally speaking, MSPs are not stealing customers from other MSPs to grow; rather, they are convincing enterprises that an outsourced IT solution is the best strategy long term as overall IT spending grows as a percentage of revenue inside the enterprise and the process of integrating multiple vendors and services becomes increasingly complex.

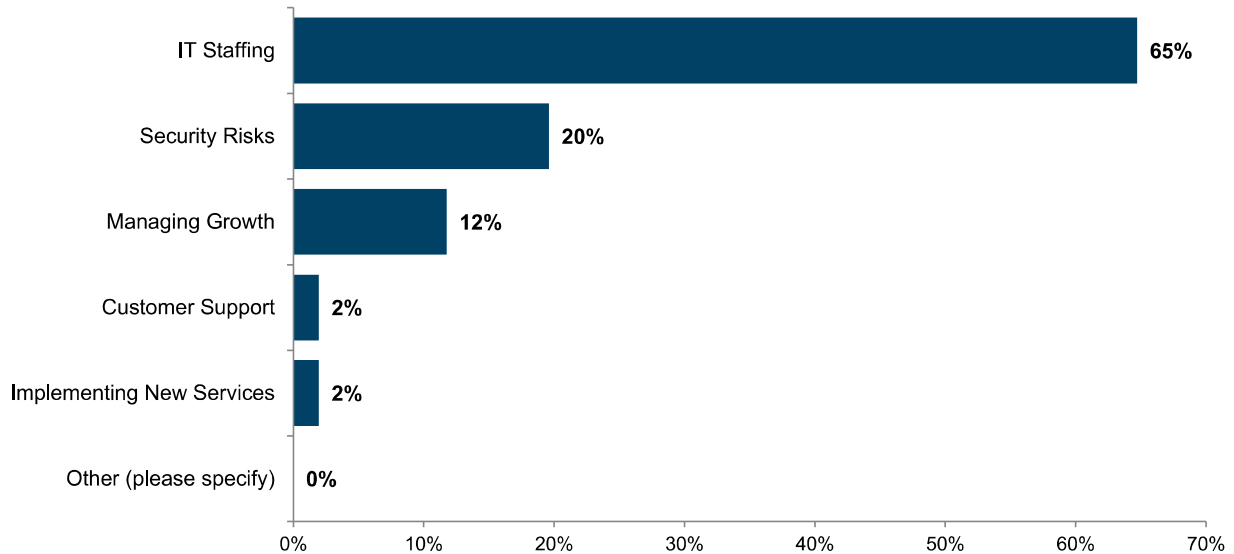
Exhibit 11
The Golden Age of MSPs Goes Platinum
What Are the Key Demand Drivers Behind This Growth? (rank from 1 to 3, with 1 being the highest)



n = 51
Source: William Blair Equity Research

When asked their biggest concern over the next 12 months, IT staffing was by far the largest at 65%. Given the tight labor markets, which are even tighter in the IT services industry, finding good salespeople, engineers, and computer scientists remains the biggest challenge.

Exhibit 12
The Golden Age of MSPs Goes Platinum
What Is Your Biggest Concern Over the Next 12 Months?



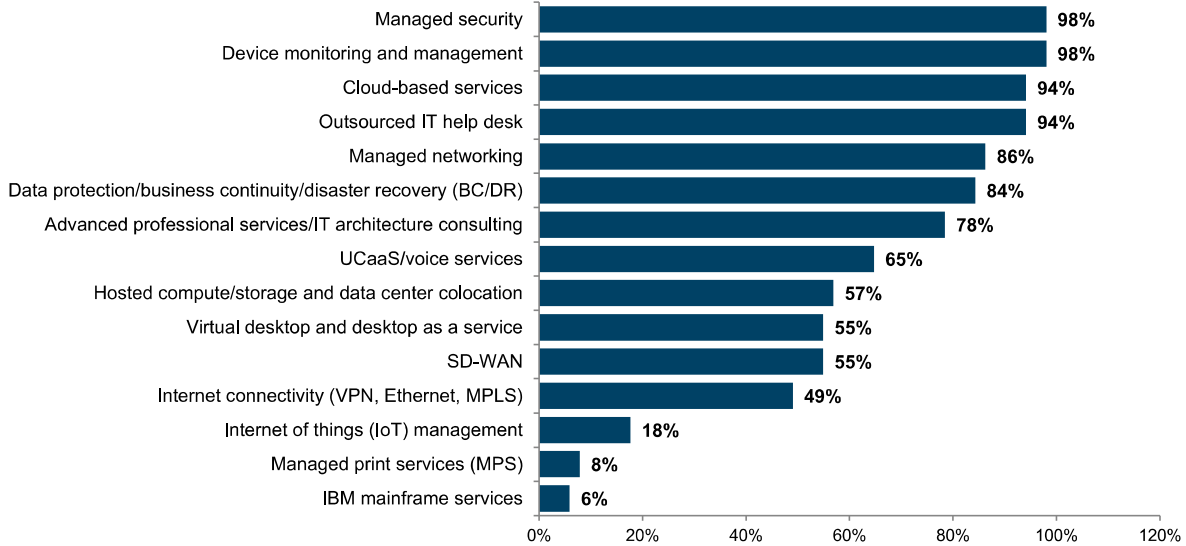
n = 51

Source: William Blair Equity Research

Over the next several questions, we asked MSP CEOs what services they offer, what is driving demand, and what services they plan to add. In addition, we dive deeper, asking which vendors they use for a variety of services.

Not surprisingly, managed security and device monitoring and management (an extension of security, in our view) were offered by nearly every MSP we surveyed. This also echoes the fact that security risks were the second-greatest concern behind staffing over the next 12 months. As we discuss later in the report, security is not just a focus of the *Fortune* 2000 anymore, as many MSPs serve the small to midsize enterprise market.

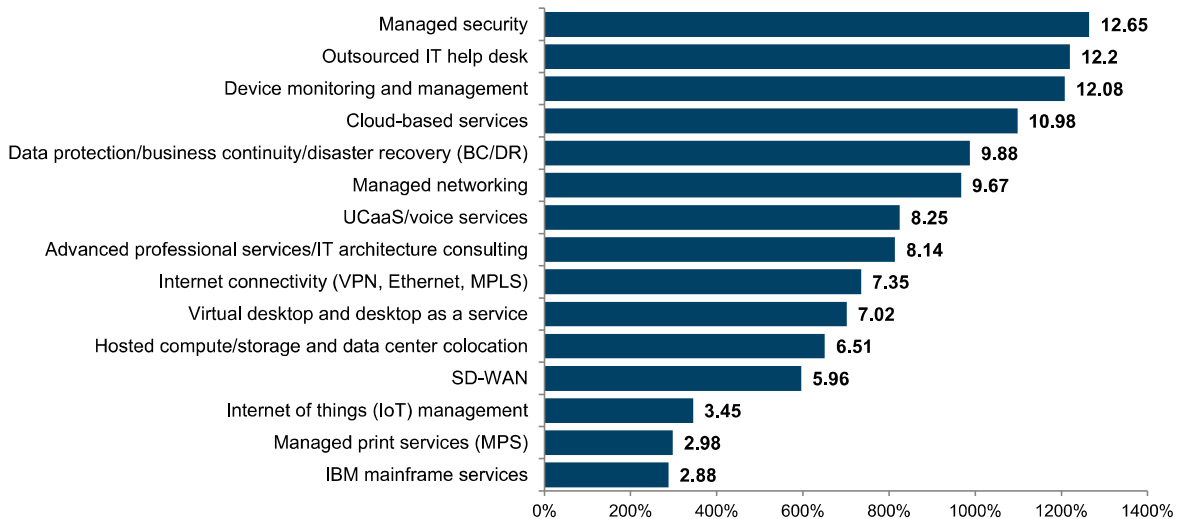
Exhibit 13
The Golden Age of MSPs Goes Platinum
Which of the Following Services Do You Provide to Your Customers (choose all that apply)?



n = 51
 Source: William Blair Equity Research

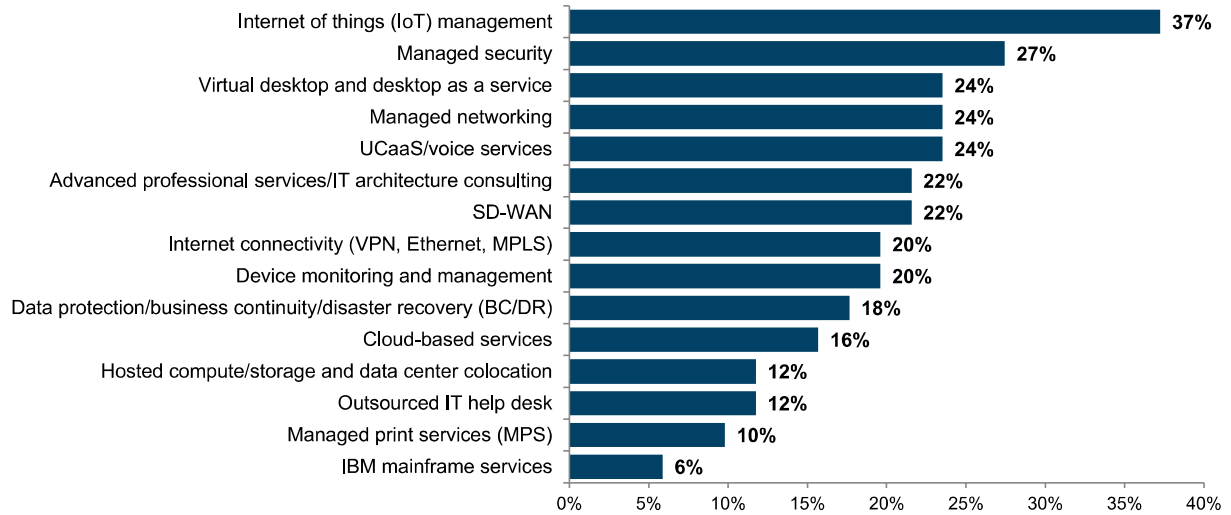
Managed security, outsourced IT help desk, and device monitoring and management were the top three demand drivers over the past 12 months, followed closely by cloud-based services, data protection/disaster recovery, and managed networking. Interestingly, IoT management was near the bottom of demand over the past 12 months but ranked at the top when asked which services the MSPs would be adding.

Exhibit 14
The Golden Age of MSPs Goes Platinum
In the Past 12 Months, Which of the Following Services Have Generated the Greatest Demand From Your Customers (rank least important 1 to most important 15) ?



n = 51
 Source: William Blair Equity Research

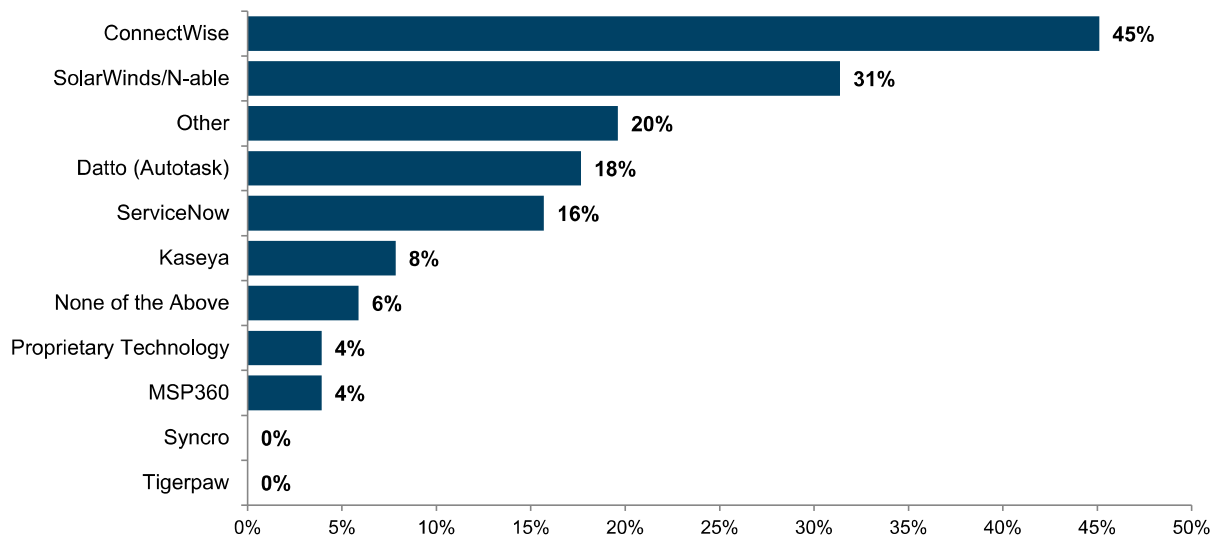
Exhibit 15
The Golden Age of MSPs Goes Platinum
Over the Next 12 Months, Which of the Following Services Do You Plan to Provide to Your Customers That You Don't Today (choose all that apply)?



n = 51
 Source: William Blair Equity Research

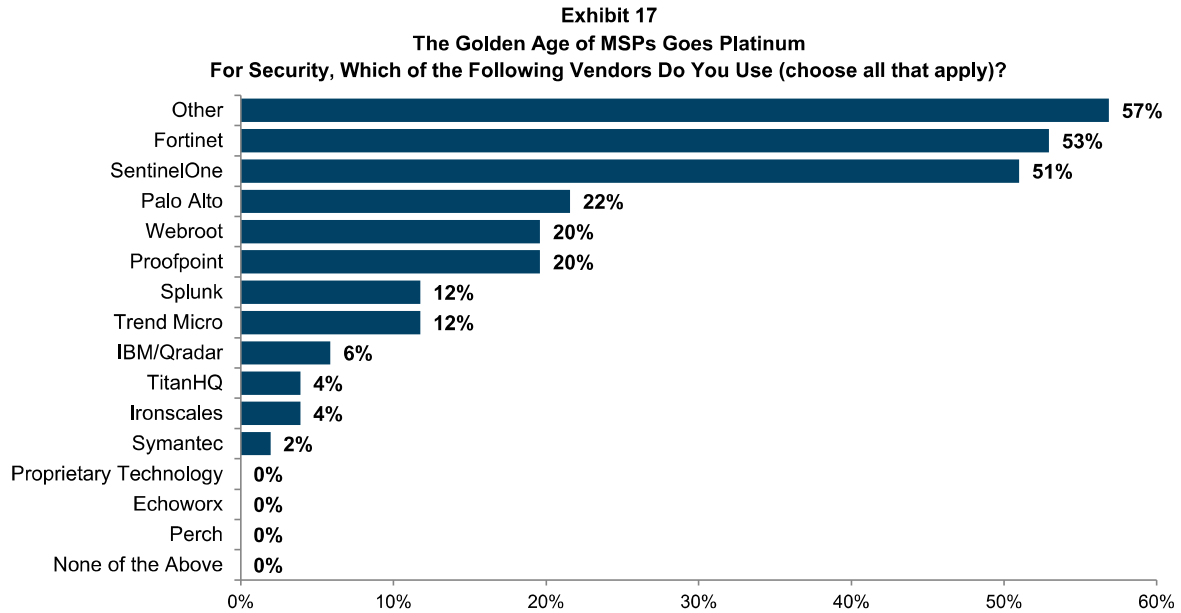
ConnectWise and SolarWinds/N-able were the two top vendors in the PSA category. Names mentioned for the 20% of MSPs who chose “other” include Dynamics 365, Q360, OQS Boss, OpenAir, BMC Helix, Sunrise, and Arctic Wolf.

Exhibit 16
The Golden Age of MSPs Goes Platinum
For Professional Services Automation (PSA), Which of the Following Vendors Do You Use (choose all that apply)?



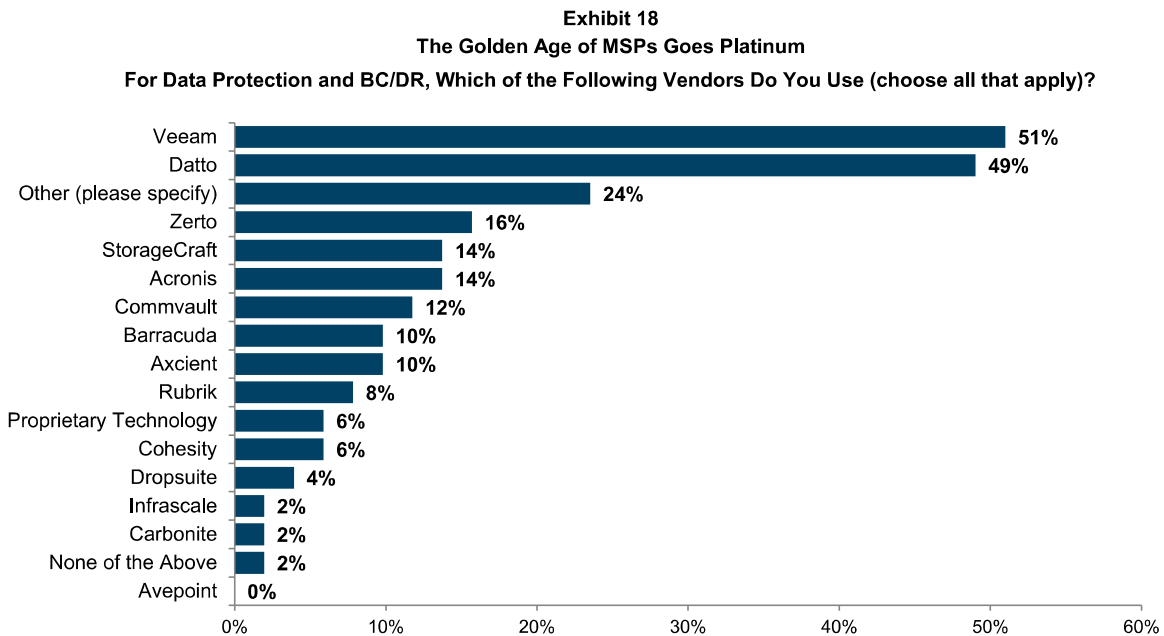
n = 51
 Source: William Blair Equity Research

For security, nearly 60% of MSPs chose “other,” followed by Fortinet and SentinelOne. When asked which “other” vendors were deployed, vendors included Cisco Umbrella/AMP, Alert Logic, Sophos, Panda, Arctic Wolf, AlienVault, SonicWall, and CrowdStrike.



n = 51
Source: William Blair Equity Research

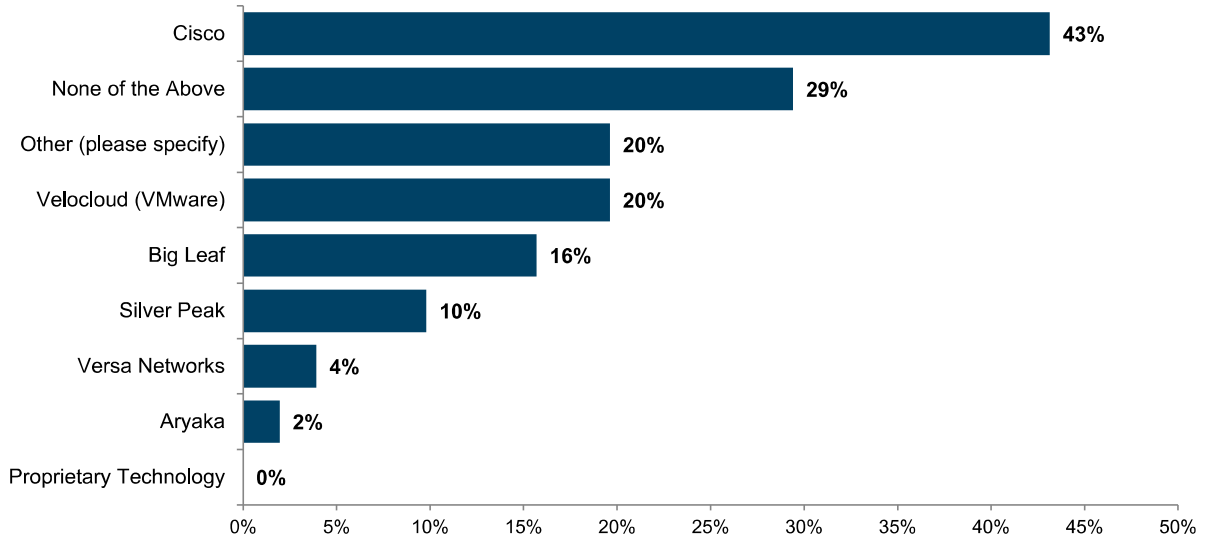
Veeam and Datto led the data protection/BC/DR category, with N-able mentioned most frequently by those who chose “other.”



n = 51
Source: William Blair Equity Research

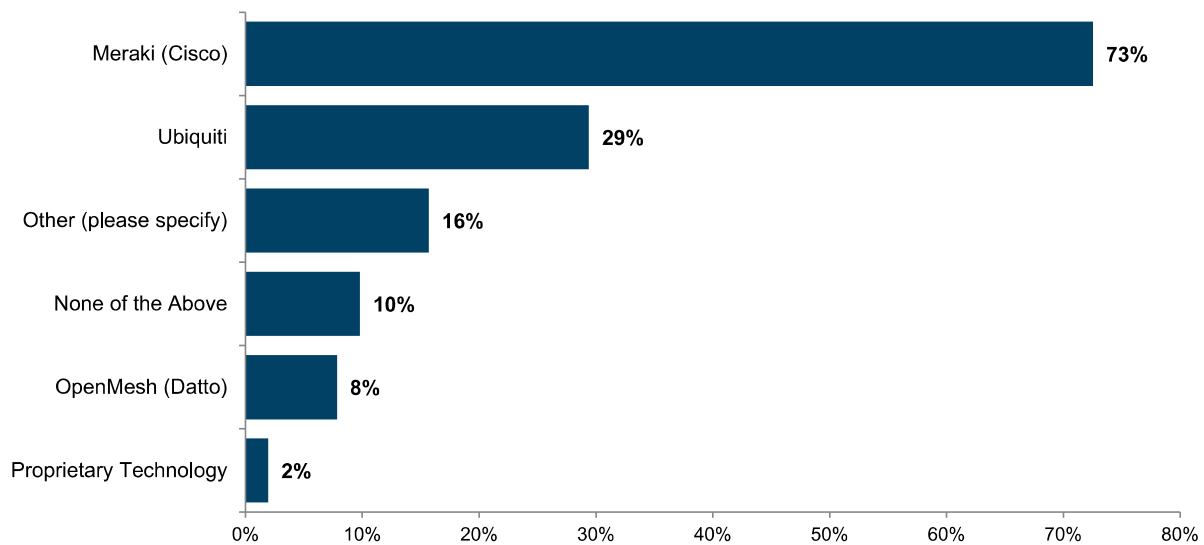
Cisco was the clear leader in both the SD-WAN and managed networking segments.

Exhibit 19
The Golden Age of MSPs Goes Platinum
For SD-WAN, Which of the Following Vendors Do You Use (choose all that apply)?



n = 51
 Source: William Blair Equity Research

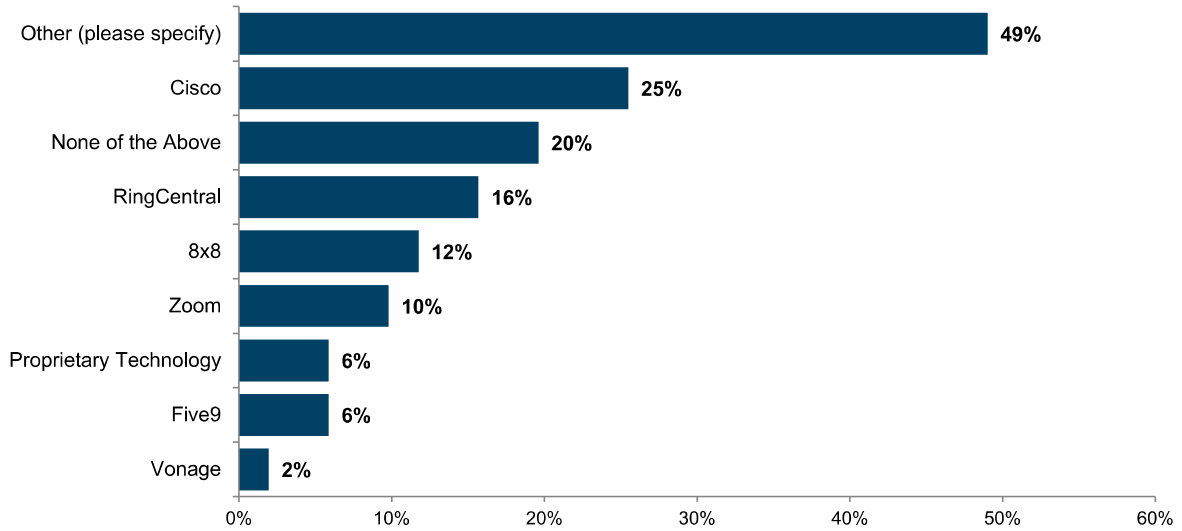
Exhibit 20
The Golden Age of MSPs Goes Platinum
For Managed Networking, Which of the Following Vendors Do You Use (choose all that apply)?



n = 51
 Source: William Blair Equity Research

For MSPs offering UCaaS services, several of the companies deployed home-grown solutions or Microsoft Teams, with Cisco, RingCentral, and 8x8 making up the majority of the rest.

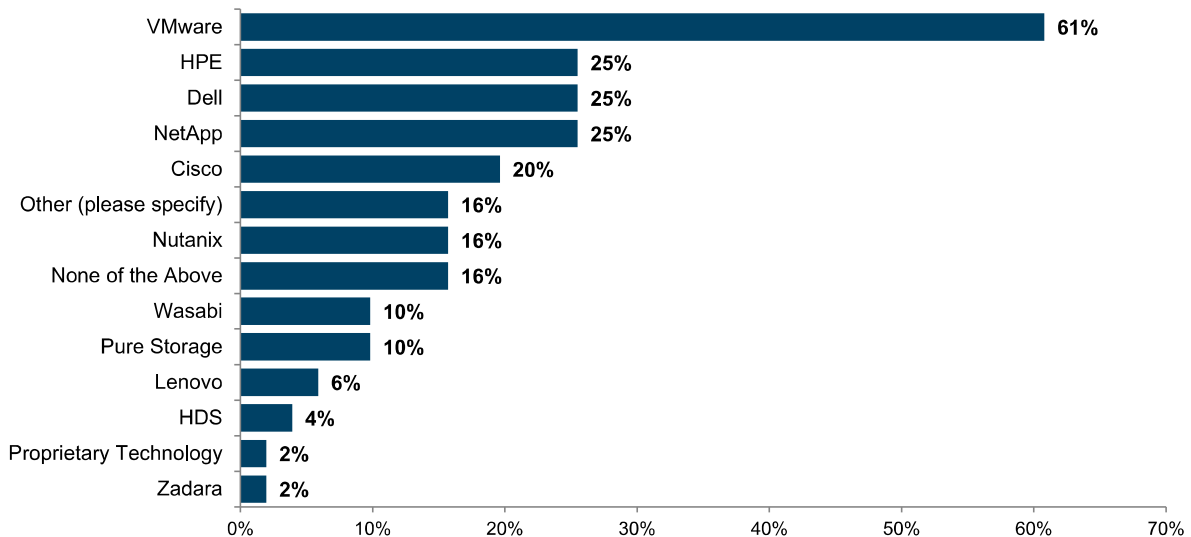
Exhibit 21
The Golden Age of MSPs Goes Platinum
For UCaaS, Which of the Following Vendors Do You Use (choose all that apply)?



n = 51
 Source: William Blair Equity Research

For hosted compute and storage, VMware was the overwhelming choice, followed by HPE, Dell, NetApp, and Cisco.

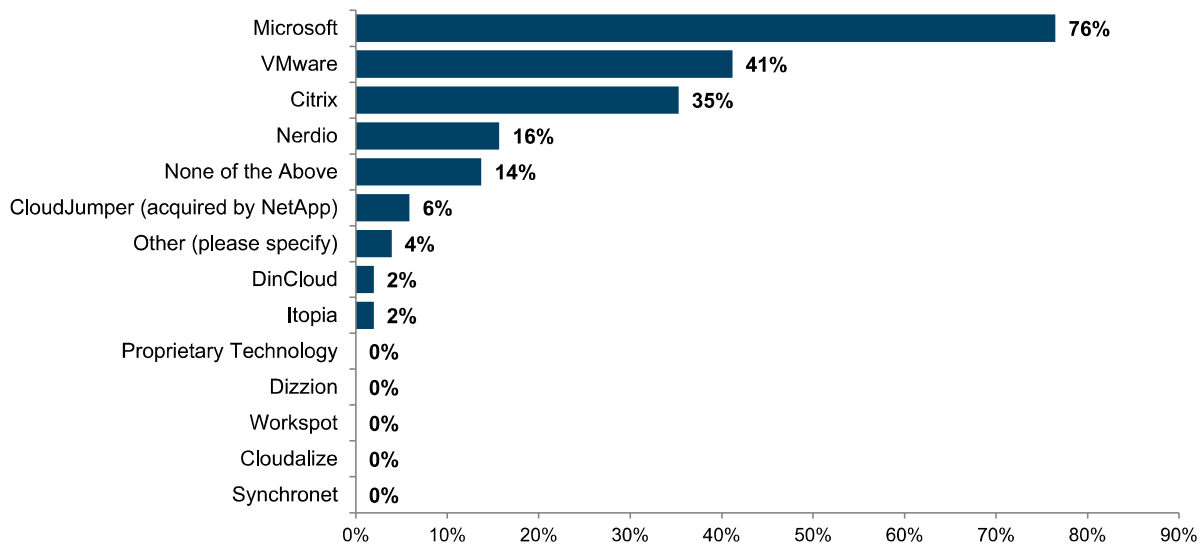
Exhibit 22
The Golden Age of MSPs Goes Platinum
For Hosted Compute and Storage, Which of the Following Vendors Do You Use (choose all that apply)?



n = 51
 Source: William Blair Equity Research

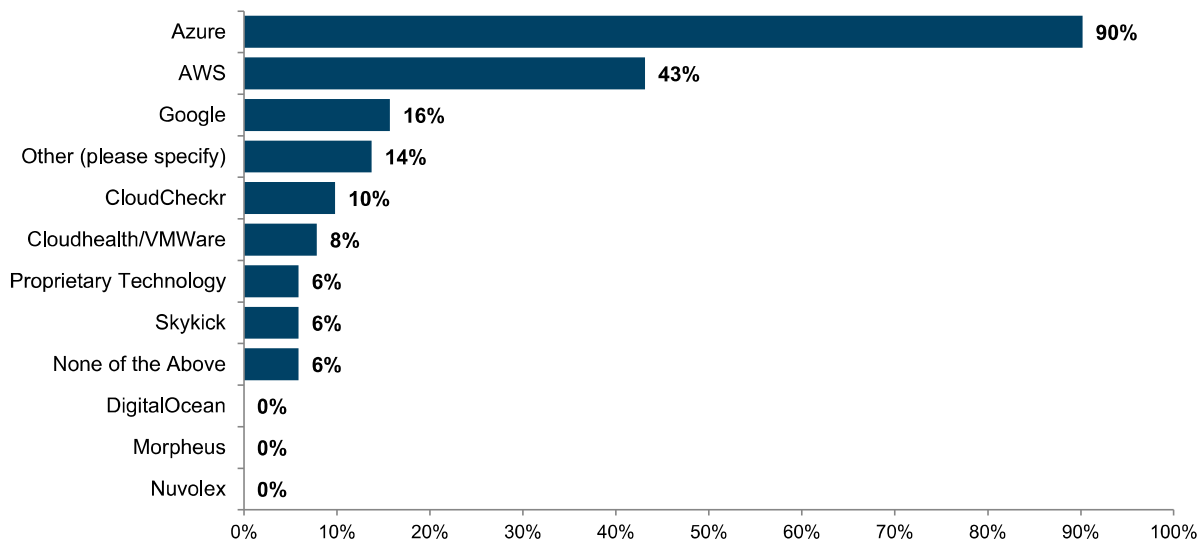
Microsoft, VMware, and Citrix were used by the majority of MSPs for VDI and end-user computing. The big three, Azure, AWS, and Google, dominated the cloud management, migration, and provisioning segment.

Exhibit 23
The Golden Age of MSPs Goes Platinum
For VDI and End-User Computing, Which of the Following Vendors Do You Use (choose all that apply)?



n = 51
 Source: William Blair Equity Research

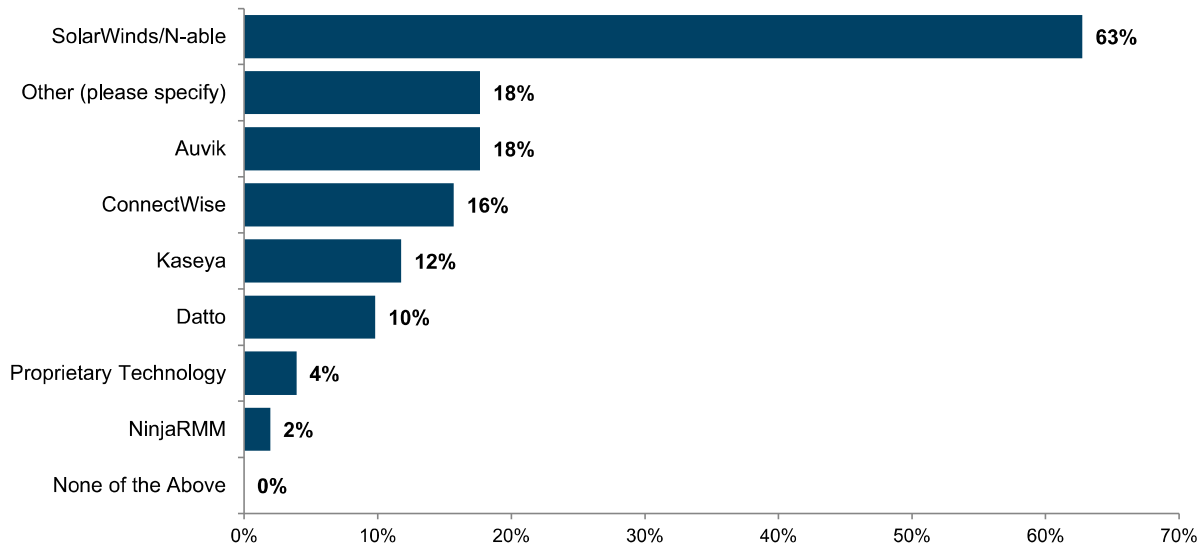
Exhibit 24
The Golden Age of MSPs Goes Platinum
For Cloud Management, Migration, Provisioning, and Optimization Tools, Which of the Following Vendors Do You Use (choose all that apply)?



n = 51
 Source: William Blair Equity Research

Lastly, SolarWinds/N-able led the RMM vendor list. Other names mentioned but not listed in the survey choices included Optanix, LogicMonitor, ScienceLogic, Addigy, Zabbix, and OpsRamp.

Exhibit 25
The Golden Age of MSPs Goes Platinum
For Remote Monitoring and Management (RMM), Which of the Following Vendors Do You Use (choose all that apply)?



n = 51
Source: William Blair Equity Research

Consolidation Update

Since our last report, consolidation has accelerated across the MSP space, with further consolidation expected over the next several years as the market remains fairly fragmented. We saw over 120 transactions in 2021 and over 90 so far in 2022, a trend we do not expect to slow (see exhibits 26 and 27).

As outlined in our original report, we view three main factors driving further consolidation:

- **MSP market fragmentation and scaling challenges.** The rising complexity of IT and fast-evolving security risks are making it harder for subscale MSPs to service their clients effectively (and with the same profit margins they are used to generating). As MSPs struggle to meet the full range of customer requirements (such as 24/7 support) and attain technical expertise in increasingly critical areas like cloud and security, they are looking outward, which has created fertile ground for M&A.
- **Expanding set of acquirers.** VARs, SIs, consultants, telcos and telco agents, and copier companies are pushing into the MSP space, attracted by its secular growth trends and strong business fundamentals.
- **PE influence.** Private equity players with abundant capital are also pushing into the MSP space, attracted by the market fragmentation and a business model characterized by recurring revenue, high EBITDA margins, and customer stickiness. In several cases, these PE firms

are pursuing national or super-regional rollup strategies, though as discussed below there are some pitfalls to consider with the rollup approach given MSP market idiosyncrasies. The challenge for PE buyers is to find MSPs that are not overvalued, have long-term backlog under contract (take-or-pay contracts), and possess engineering talent in strategic practice areas (e.g., security and cloud).

Differing Consolidation Strategies

We continue to see MSP consolidators pursue multiple rollup strategies. As face-to-face interaction remains highly valued by the end-customer both in the initial sales process and on an ongoing basis to fix problems and consult on IT strategy, sales motions of the MSPs we talked to remain largely localized, even among firms pursuing super-regional and national expansion. The MSPs that are expanding into larger geographic areas begin by standardizing as much of the underlying service delivery practices as possible.

Strategies include:

- **Regional focus.** These MSPs aim to achieve greater scale and services scope in a given geographic region by acquiring MSPs or consultants in that region with quality operations, strong customer bases, and/or expertise in strategic practice areas, applications, or verticals.
- **Vertical or application focus.** These MSPs aim to achieve greater scale in a given vertical market or application specialization by acquiring MSPs or consultants around the world with similar capabilities.
- **National/global focus, fully centralized model.** These MSP rollups aim to maintain a local presence but fully standardize and centralize MSP operations, where every local operation looks and acts almost exactly the same.
- **National/global focus, fully decentralized model.** These MSP rollups aim to create a national (or global) brand but keep local MSP operations decentralized and relatively untouched.
- **National/global focus, hybrid model.** These MSP rollups aim to centralize and automate certain high-level functions (e.g., back-end IT platform and core services) to gain economies of scale but strive to maintain the local touch and feel of a regional MSP. More specifically, these MSPs see significant value in cultivating and preserving in-region customer relationships with high-end engineers, solutions architects, and account managers.
- **Franchise model.** These MSPs aim to create a national brand through a local franchising model.

Datto-Kaseya Merger

One of the biggest headlines to hit the MSP market came in April 2022 when Datto announced its plans to be acquired by private competitor Kaseya for \$6.2 billion, with funding from Insight Partners, TPG, Temasek, and Sixth Street. The combined company will create the largest MSP-focused software vendor by revenue, with plans to continue to invest in growth and maintain both brands and product portfolios (despite a fair degree of overlap). We believe this combination speaks to continued momentum toward consolidation in the vendor landscape (e.g., Datto-Autotask, ConnectWise-Continuum) as investors look to gain scale and footprint. The deal also reflects, in our view, a lack of appreciation at this point in the public markets for the secular growth tailwinds and attractive margin profiles in the MSP end-market.

**Exhibit 26
The Golden Age of MSPs Goes Platinum
2021 MSP M&A**

Buyer/Investor	Acquired	PE Backer
Jan-21 Viasat	RigNet	NA
Jan-21 Converge Technology Solutions	Vicom Computer Services	NA
Jan-21 Computer Design & Integration LLC (CDI)	High Availability (H.A.)	One Equity Partners
Jan-21 ATN International and Freedom 3 Capital	Alaska Communications Systems Group	Freedom 3 Capital
Jan-21 Navisite	Velocity Technology Solutions	Madison Dearborn Partners
Jan-21 ICS	Akuity Technologies	Clearlight Partners
Jan-21 BCM One	LincLogix	Thompson Street Capital Partners (TSCP)
Jan-21 Renovus Capital Partners	Inflow Communications	Renovus Capital Partners
Jan-21 Application Specialist Kompany (ASK)	Convergence Networks/Grade A	Riverside Partners
Jan-21 AccountabilIT	Enterprise Technology Services (ETS)	NA
Jan-21 August Equity	Business Systems UK Limited	August Equity
Jan-21 Smartronix	Datastrong	OceanSound Partners
Jan-21 First Focus IT	Ordys	NA
Jan-21 Evergreen Services Group	Arnet Technologies and LK Tech	Alpine Investors
Jan-21 Logically	NG2 (Network Guidance 2.0)	NA
Jan-21 Thrive	Apex IT Group	M/C Partners
Jan-21 NuMSP	Business Network Solutions and K-Tech	NA
Jan-21 Communication Technology Services (CTS)	ClearSky Technologies	Astra Capital Management
Jan-21 Logically	Network Support Co	The Riverside Co
Jan-21 i3 Business Solutions	Computer Alliance	NA
Jan-21 Court Square Capital Partners	Thrive	Court Square Capital Partners and M/C Partners
Jan-21 Network Solutions Technology (NST)	Certus Technologies	NA
Feb-21 ConnectWise	Service Leadership Inc.	Thoma Bravo
Feb-21 ATSG	MS AIP	Runtide Capital
Feb-21 CompassMSP	IT Direct	NA
Feb-21 Evergreen Services Group	Bradford-Scott Data Corp.	Evergreen Services Group
Feb-21 EFEX	BMS Group	NA
Feb-21 Calligo	Decisive Data	Investcorp Technology Partners
Feb-21 Kaseya	RocketCyber	Insight Partners and TPG
Feb-21 Converge Technology Solutions	Accudata Systems	NA
Feb-21 New Charter Technologies	Stronghold Data	Oval Partners
Mar-21 Providence Equity Partners	Node4	Providence Equity
Mar-21 Node4	Starcom Technologies	Providence Equity Partners,
Mar-21 Thrive	Howard Tech Advisors	Court Square Capital Partners
Mar-21 Atmosera	Wintellect	NA
Mar-21 Meriplex	HBR Technologies	NA
Mar-21 Instacluster	Credativ	NA
Mar-21 NuMSP	Realize Information Technology	NA
Mar-21 Combat Networks	Duologik and GDL	NA
Mar-21 Bluff Point Associates	True North Networks	Bluff Point Associates
Mar-21 Dynamic Quest	BoxMeta	Spire Capital
Mar-21 New Charter Technologies	Braver Technology	Oval Partners
Mar-21 Inflow Communications	PeakView	Renovus Capital Partners
Apr-21 WingSwept	SolutionWorx	NA
Apr-21 KKR	Ensono	M/C Partners
Apr-21 Dynamic Quest	Integrated Solutions	Spire Capital
Apr-21 ECS/My IT	The Purple Guys	Kian Capital and ParkSouth Ventures
Apr-21 Connectus	YouCloud Solutions	Northern Powerhouse Investment Fund (NPIF)
May-21 Evergreen Services Group	Starport Managed Services	Alpine Investors
May-21 F12.net Inc.	Xylotek Solutions	Clairvest
May-21 LNS Solutions	Tampa Bay Business Solutions Inc. (TBBSI)	NA
May-21 Ascend Technologies	Switchfast Technologies	M/C Partners
May-21 Medicus IT	Health Information Technology Care (HITCare)	NA
May-21 NWN Corporation	Carousel Industries	New State Capital Partners
May-21 Carbon60	OpsGuru	M/C Partners
May-21 Accenture	Linkbynet	NA
May-21 RIA in a Box	Itegria	NA
May-21 Magna5	SpinnerTech	NewSpring Holdings
Jun-21 Thrive	ONI	Court Square Capital Partners
Jun-21 Cerberus Capital Management	Red River Technology	Cerberus Capital Management
Jun-21 ECS/MyIT	Network Technologies	Kian Capital and ParkSouth Ventures
Jun-21 Meriplex	Enhanced Technologies	NA
Jun-21 Apax Partners	Infogain	Apax Partners
Jun-21 Flex Equity	Logical Maintenance Solutions (LMS)	Flex Equity (Multi-Family Office)
Jun-21 Cerberus Sentinel	Ground Control IT	NA
Jun-21 Converge Technology Solutions	ExactlyIT	NA
Jun-21 EagleTree Capital	Integreon	EagleTree Capital

Sources: channel2e and William Blair Equity Research

Exhibit 26, cont.
The Golden Age of MSPs Goes Platinum
2021 MSP M&A

Buyer/Investor	Acquired	PE Backer
Jul-21 New Charter Technologies	I.T. Responsive	Oval Partners
Jul-21 Orro Group	Comscentre, CustomTec, Correct Solutions, Mach Tech Grp	Liverpool Partners and Parc Capital
Jul-21 Expereo	Brodynt	Vitruvian Partners and Apax Partners SAS
Jul-21 HCTec	Talon Healthy IT Services	NA
Jul-21 Netrix	MSP business unit of Contegix	OceanSound Partners
Jul-21 Frontline Managed Services	InvoicePrep	NA
Jul-21 CompassMSP	Tarrytech Computer Consultants	NA
Jul-21 Frontline Managed Services	Glasser Tech	NA
Jul-21 Dataprise	Wireless Watchdogs	Trinity Hunt Partners
Jul-21 Bytecafe Consulting	Monon Technology Group	NA
Jul-21 Fully Managed	Quartet Services	Multiple backers
Aug-21 NetGain Technologies	TruTechnology	Evergreen Services Group
Aug-21 Telefónica Tech	Cancom UK&I	NA
Aug-21 Brennan IT	Forsythes Technology	NA
Aug-21 Evergreen Services Group, NetGain Technologies	4EOS	Alpine Investors
Aug-21 Meriplex	GNT Solutions	NA
Aug-21 Executech	Nucleus	Evergreen Services Group
Sep-21 Air IT	MFG UK Ltd and Infinity IT Solutions	August Equity
Sep-21 KPMG	Certus APAC	NA
Sep-21 DSM	Cipher Integrations	NA
Sep-21 Frontline Managed Services	LogicForce	NA
Sep-21 HBK CPAs	Vertical Solutions	NA
Sep-21 Netrix	PSC Group	OceanSound Partners
Sep-21 Electric	Techvera	NA
Sep-21 New Charter Technologies	Adnet Technologies	Oval Partners
Sep-21 Modern Networks	Bridge Fiber and Response IT	Horizon Capital
Sep-21 Integris	Domain Tech Partners, Compudyne, ProviDyn, MyITpros	Frontenac
Oct-21 WidePoint Corp.	IT Authorities	NA
Oct-21 Visual Edge Technology	Brayton Associates	NA
Oct-21 Aabyss Ltd.	Netcom Technologies	NA
Oct-21 Lindentech	Spinoff Digital	NA
Oct-21 FlexTy Solutions	MSP business unit of Rally Enterprises	NA
Oct-21 Modern Managed IT	Vertical Technologies	NA
Oct-21 Ntiva	Navakai	Southfield Capital
Oct-21 Meriplex	Reliable IT	NA
Oct-21 IMP Group Ltd.	Eclipse Technology	IMP Group Ltd.
Oct-21 CDW	Sirius Computer Solutions	NA
Oct-21 Ntiva Inc.	NetLogicDC	Southfield Capital
Oct-21 Network Solutions & Technology	Ash Creek Enterprises	NA
Oct-21 Norwest Equity Partners (NEP)	Coretelligent	Norwest Equity Partners (NEP)
Oct-21 Fraser Advanced Information Systems	AAxios Technologies	NA
Oct-21 Xperience	Green Duck	NA
Oct-21 All Mountain Technologies	Yarmony Technologies	NA
Nov-21 Abacus Group	Echo Technology Solutions	NA
Nov-21 Logically	Halski Systems	The Riverside Company
Nov-21 Datavalet Technologies	Managed WiFi Business Unit from SecurEdge Networks	NA
Nov-21 DSP-Explorer	JoraPh	NA
Nov-21 CompassMSP	MRW Systems Inc.	NA
Nov-21 Fastek Services	Integranetics	NA
Nov-21 General Informatics	Versiant	Rosewood Private Investments (RPI)
Nov-21 Meriplex	Optimum Networking	NA
Dec-21 ConnectWise	SmileBack	Thoma Bravo
Dec-21 Accenture	Headspring	NA
Dec-21 Network Doctor	SNC Squared	Mizzan Capital
Dec-21 Synoptek	Rapid Technologies	NA
Dec-21 Advania	Content+Cloud Ltd	Goldman Sachs
Dec-21 The Network Pro	Nextrio	NA
Dec-21 ATSG	Optanix	Runtide Capital
Dec-21 Prodapt	SLR	NA
Dec-21 Precisely	CEDAR CX Technologie	Clearlake Capital & TA Associates
Dec-21 Telent	Harlequin Group	NA

Sources: channele2e and William Blair Equity Research

**Exhibit 27
The Golden Age of MSPs Goes Platinum
Year-to-Date 2022 MSP M&A**

Buyer/Investor	Acquired	PE Backer
Jan-22 M/C Partners	Edafio Technology Partners	M/C Partners
Jan-22 Opti9 Technologies	Webair & Jejecos merger	Crest Rock Partners
Jan-22 prototype:IT	Prodigi Network Solutions	NA
Jan-22 Executech	Dyrand Systems	Evergreen Services Group
Jan-22 Thrive	InCare Technologies	Court Square Capital Partners
Jan-22 ACP CreativIT	Citon	NA
Jan-22 Delta Capita Group	JDX Consulting	NA
Jan-22 H.I.G. Capital	General Datatech (GDT)	H.I.G. Capital
Jan-22 VC3	CW Technology	NA
Jan-22 Xperience	Riverlite	NA
Jan-22 Ensono	ExperSolve	KKR
Jan-22 Ergo	Asystec	NA
Jan-22 Charles IT	NST Systems Inc.	NA
Jan-22 AngelCom IT Services	Archangel Computers	NA
Jan-22 Converge Technology Solutions	Paragon Development Systems Inc. (PDS)	NA
Jan-22 Applied Connective Technology	Megavision	NA
Jan-22 The Viatel Group	ActionPoint	NA
Jan-22 Centaris	VisiCom Services Inc.	NA
Jan-22 OST	Stratum Technology	NA
Jan-22 Computer Design & Integration (CDI)	Clearpath Solutions Group	One Equity Partners
Jan-22 Morgan Stanley	Fusion Connect	Morgan Stanley Private Credit
Jan-22 The Purple Guys	Technology Pointe	NA
Jan-22 Marketopia	Continuity Marketing	NA
Jan-22 Inteltechs	Total Cloud IT	NA
Jan-22 Ascend Technologies	Stratosphere Networks' MSP & Security Division	M/C partners
Jan-22 MITSG (Managed IT Services Group)	CSS Group	NA
Jan-22 Brennan IT	Clade Solutions	NA
Jan-22 efex	Logic Plus	NA
Jan-22 Integris	Iconic IT	Frontenac
Jan-22 VC3	CompuVision	NA
Jan-22 InTec Group	Provident Technology & Firefly	Duke Royalty
Jan-22 PSP Capital	Ntiva	PSP Capital
Jan-22 Calian Group	Computex Technology Solutions	NA
Jan-22 Canon Business Services	Satalyst	NA
Jan-22 Entech	ITVantage	NA
Jan-22 General Informatics	Unicom	Rosewood Private Investments
Jan-22 Prosource	PBSI Technology Solutions	NA
Feb-22 Thrive	Preemo	Court Square Capital Partners
Feb-22 Telus	Fully Managed	NA
Feb-22 Aligned Holdings	Keep IT Simple	Aligned Holdings
Feb-22 Vector Choice Technology Solutions	Jobecca Technology Group	NA
Feb-22 Executech	California Computer Options Inc. (CCO)	Evergreen Services Group (ESG) and Alpine Investors
Feb-22 Evergreen Services Group	Global Tech Solutions LLC	Alpine Investors
Feb-22 ProArch	Enhops	MSouth Capital
Mar-22 Exigent Technologies	SimpleFly Tech	NA
Mar-22 Sangoma	NetFortris	NA
Mar-22 E78 Partners	Cadilus	Further Global Capital Management
Mar-22 SourcePass	Network Solutions and Technology Inc. (NST)	NA
Mar-22 Magna5	TCG Network Services	NewSpring Capital
Mar-22 Executech	Flagstaff IT	Evergreen Services Group
Mar-22 Exigent Technologies	Realtime Technologies	NA
Mar-22 Thrive	SouthTech	Court Square Capital Partners
Mar-22 cloudIT	AllPro Technologies	NA
Mar-22 Saalex	Netsimco	NA
Mar-22 ICS	Unified Networking Solutions (UNS)	ClearLight Partners
Mar-22 Netrix	Edtrans	OceanSound Partners
Mar-22 Redcentric	7 Elements	NA
Mar-22 New Charter Technologies	Systems Solutions	Oval Partners
Mar-22 Perfect Image, owned by Pixel Group	Technique Ltd.	NA
Mar-22 Mission Critical Partners (MCP)	RKV Technologies	NA
Mar-22 Scantron Technology Solutions	ServRight	Tansom Capital Group
Mar-22 Advantex	Round Rock Solutions	NA
Mar-22 Sourcepass	Suite3	NA
Apr-22 Ascend Technologies	Peters & Associates	NA
Apr-22 Arianm	MePush, Indigo Beam, LOGIC, Syntervision & Transcendent	NA
Apr-22 Miii MSP	Triella	NA
Apr-22 GAM Tech	Microlan Computer Centre	NA
Apr-22 NetGain Technologies	Cyber Solutions	Evergreen Services Group and Alpine Investors
Apr-22 Hubify	Connected Intelligence	NA
Apr-22 Kaseya	Datto	Insight Partners, TPG Capital, Temasek and Sixth Str
Apr-22 Omega Systems	ACE IT Solutions	Pfingsten Partners
Apr-22 LeadingIT	Dura-Tech Enterprises	NA
Apr-22 XL Axiata	Hypermet Technologies	NA
Apr-22 Meriplex	Cyberian Technologies	NA
Apr-22 CTI Technology	MacHero	NA
May-22 eGroup Holding Company	Enabling Technologies Crop.	Evolvate Capital and Hunt Technology Ventures
May-22 Pax8	Sea-Level Operations APAC	NA
May-22 The Purple Guys	Accelerate	Kian Capital and ParkSouth Ventures
May-22 NTT Data	NTT Ltd.	NA
May-22 New Charter Technologies	Strategic Solutions	Oval Partners
May-22 Magna5	StableNet	NewSpring Capital
May-22 StoredTech	Noah IT	NA
May-22 Valeo Networks	Next IT	NA
May-22 Clark Computer Services	A-1 Telecommunications	NA
May-22 Corelligent	Lighthouse Technology Partners	Norwest Equity Partners
May-22 Superloop	Acurus	NA
May-22 Atech	IMEX Technical Services	Pelican Capital
Jun-22 Total Secure Technology	Computer Technical Specialists (CTS)	NA
Jun-22 Dynamic Quest	MSP division of Hargray	Spire Capital Partners
Jun-22 Fully Managed	OOK Enterprises	NA
Jun-22 Centre Technologies	Commercial IT Solutions (CIT)	NA
Jun-22 Mode Solutions	Eacs	Connection Capital
Jun-22 ECI Partners	BCN Group	ECI Partners

Sources: channel2e and William Blair Equity Research

Survey Results Imply Consolidation to Continue

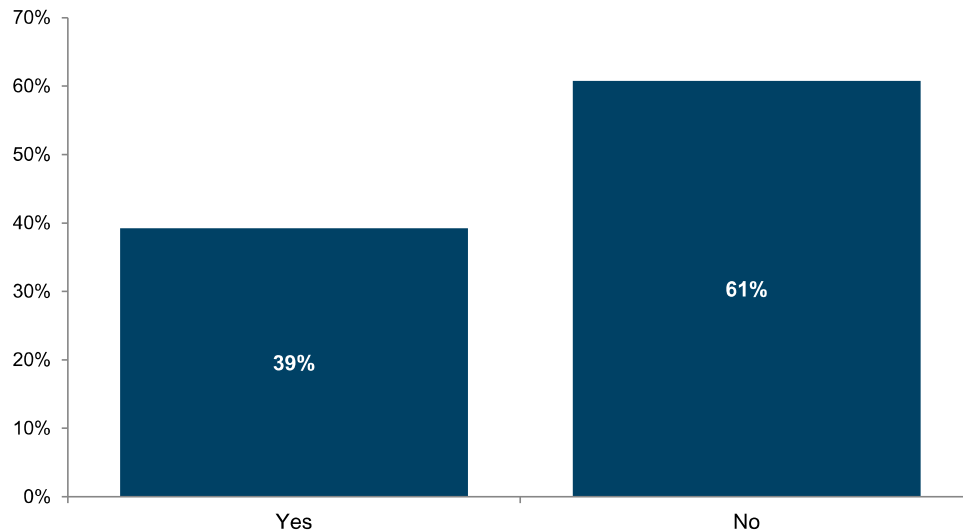
Of the 51 MSP CEOs we surveyed, about 39% said they had bought another MSP in the past 12 months. While this number may seem low given the large absolute number of deals done in 2021 and so far in 2022, we believe it reflects a highly fragmented MSP market, where the minority of companies are consolidators and the majority targets.

Of the 39% who made a purchase, over 62% were motivated by an increased customer base and greater scale, with 29% for geographic expansion and 10% to enhance the product portfolio. The majority of funding came from cash on hand and new debt at 62%, and the remaining 38% was equity funded. In our view, this ratio could change as we move through the remainder of 2022 given the widening spreads in the debt markets and lower comps across equity markets.

Interestingly, when asked about future M&A, 65% of CEOs said they planned on making an acquisition in the next 12 months, versus the 39% that had made an acquisition in the prior 12 months, another sign that M&A in the MSP sector is continuing to accelerate. Customer growth remained the main reason for deals, at 51%.

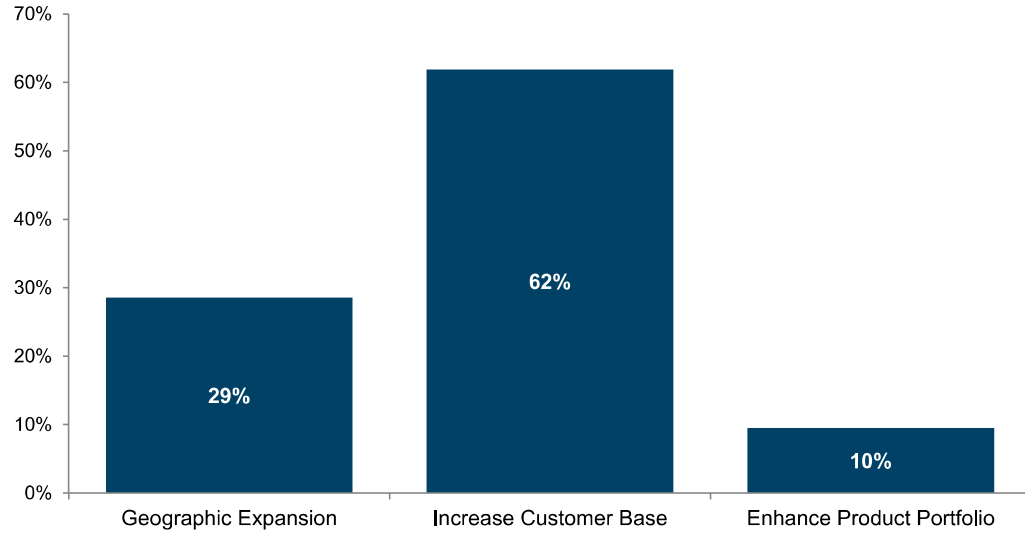
Lastly, 61% of MSP CEOs expect an increase in overall M&A, 31% thought it would stay the same, and 8% expect a slowdown.

Exhibit 28
The Golden Age of MSPs Goes Platinum
In the Past 12 Months, Have You Purchased Another MSP?



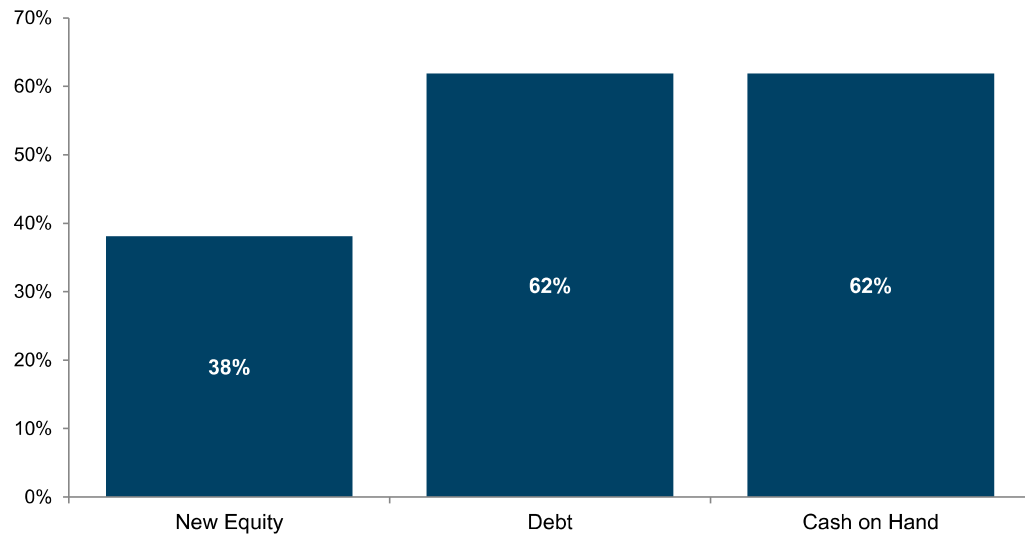
n = 51
Source: William Blair Equity Research

Exhibit 29
The Golden Age of MSPs Goes Platinum
If Yes, What Was the Main Reason for the Purchase?



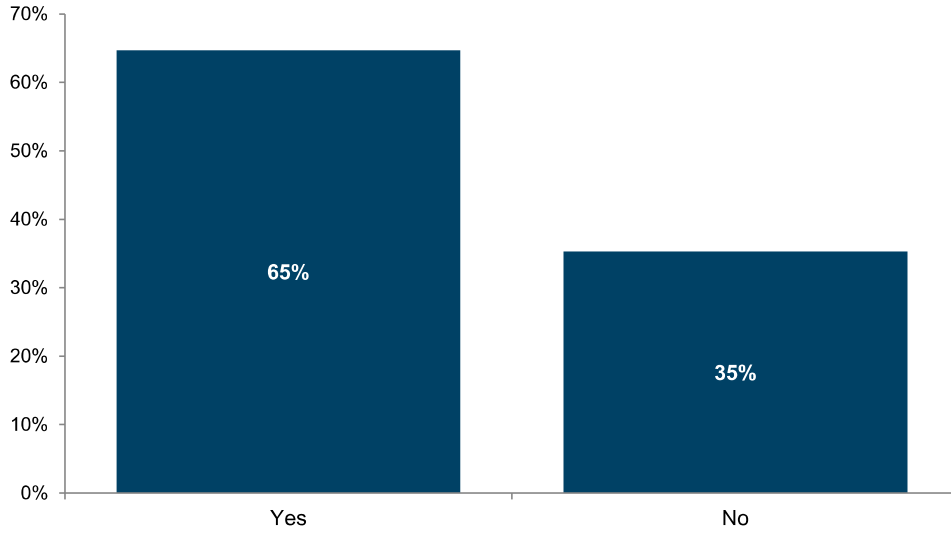
n = 21
Source: William Blair Equity Research

Exhibit 30
The Golden Age of MSPs Goes Platinum
If Yes, How Did You Fund the Purchase (choose all that apply)?



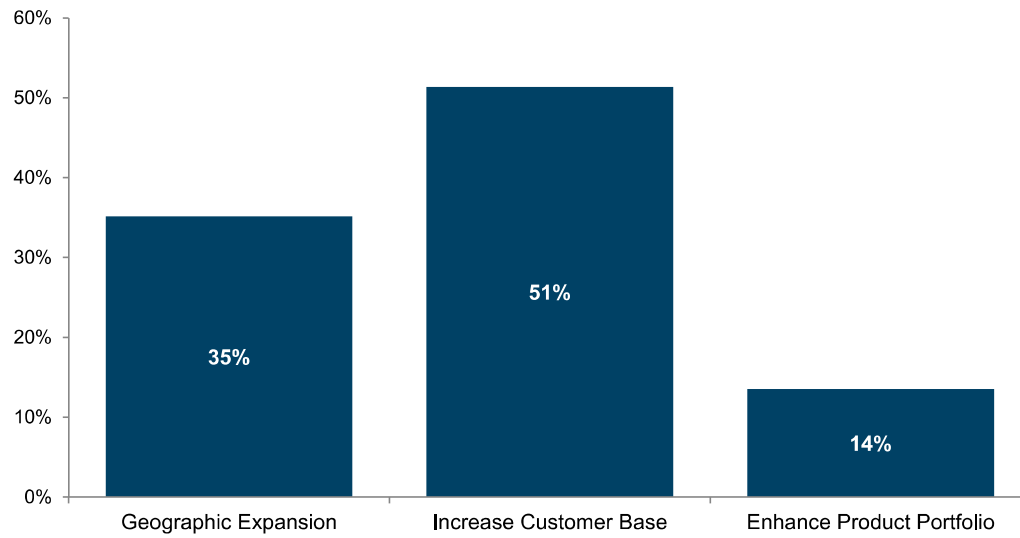
n = 21
Source: William Blair Equity Research

Exhibit 31
The Golden Age of MSPs Goes Platinum
In the Next 12 Months, Do You Plan to Purchase Another MSP?



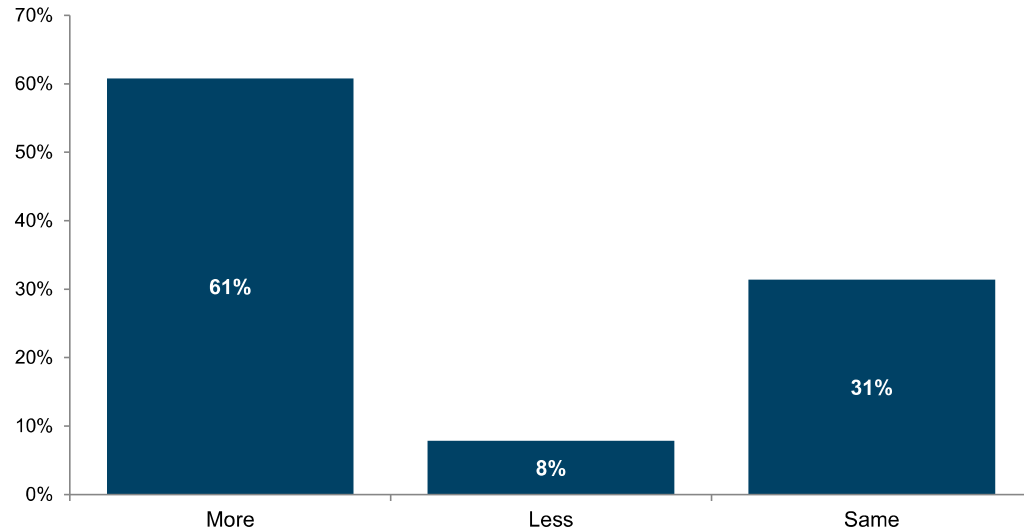
n = 51
 Source: William Blair Equity Research

Exhibit 32
The Golden Age of MSPs Goes Platinum
If Yes, What Will Likely Be the Main Reason for the Purchase?



n = 37
 Source: William Blair Equity Research

Exhibit 33
The Golden Age of MSPs Goes Platinum
In Your Opinion, Will There Be More, Less, or the Same Level of MSP Consolidation in the Next 12 Months?



n = 51

Source: William Blair Equity Research

Security Continues to Be Top Priority of MSPs

While cyberattacks on major enterprises garner most of the headlines, expanding security threats and attacks on SMBs are having an equally negative impact. In particular, the shift to remote and hybrid work models brought about by the pandemic has led to increased risk from cyberattacks as a result of more distributed IT infrastructure environments, and looking ahead, many small businesses believe that the war in Ukraine will serve to exacerbate the overall cyberthreat landscape.

It is well understood that the impact of cyberattacks can be detrimental to SMBs and in some cases fatal to a business. Data from a recent Vistage report estimated that successful cyberattacks were responsible for more than 60% of SMB closures. In addition, the same report estimated that 82% of MSP customers (i.e., the SMBs that leverage MSP solutions) have seen an increase in attempted cyberattacks (up to 14 average attacks prevented, compared to 8 prior to the pandemic). According to data collected by MSP vendor Datto, there has been a 300% increase in reported cybercrimes since the pandemic. When successful, these attacks can have devastating impacts that result in loss of customers, financial losses, and reputational damage.

All of this activity has led to an even more heightened focus by MSPs (and the vendors of the MSPs) on enhancing the depth and breadth of their security capabilities and ensuring that small businesses are well-protected from internal and external threats. This includes not only a focus on prevention and detection of attacks but also remediation. A key advantage many MSPs have is the ability to integrate security functions within existing service offerings, including data protection and remote monitoring and management (RMM). This enables a more holistic approach to security that should conceptually offer more layered protection.

MSP vendors have generally taken two paths to integrating security into their portfolios, the first being to internally build or acquire security functionality and natively integrate it into their platform, and the second to build deep integration relationships with best-in-class security vendors. The first approach has been taken by vendors like Datto and Kaseya, which both have been busy on the acquisition trail. For example, Datto has acquired two small security companies since its IPO in October 2020—BitDam and Infocyte. BitDam has been integrated into Datto's SaaS Defense solution (which aims to prevent email ransomware and phishing attacks), while Infocyte is being integrated into Datto's platform (providing the vendor with endpoint detection and response capabilities that include a full-time security operations center to address customer remediation needs).

Alternatively, vendors like N-able have tended toward a partnership-focused approach to security. Notably, N-able has developed deep integrations with SentinelOne for endpoint and detection and response (EDR) and DNSfilter for network traffic security. These integrations have the advantage of folding in robust, enterprise-grade security solutions into the MSP's service offerings and making them available to small customers that might normally not have access to them. The disadvantage is the risk of disintermediation by these third-party vendors that could over time decide to enter the MSP/SMB space directly.

Beyond the leading MSP vendors, we see a growing crop of security-focused vendors aptly named MSSPs (for managed security service providers) that have emerged to provide best-in-class security offerings to SMB customers. These are MSPs squarely focused on cybersecurity technologies, offering a deep and wide range of managed security services and constant assessment and monitoring (and increasingly remediation) of customer networks and applications via advanced tools and around-the-clock security operations centers (SOCs). Leading MSSPs include Alert Logic, Armor, Optiv, AlienVault (AT&T), WhiteHat (NTT), Trustwave, and Nuspire.

Supply Chain Attacks

As more SMBs outsource some or all of their IT management needs to third-party specialists (i.e., MSPs), the MSPs themselves have become attack targets for malicious actors. Data from a N-able-sponsored study titled "State of the Market: The New Threat Landscape" (published in March 2022) reveals that MSPs are fast becoming prime targets of cyberattacks (with almost all MSPs surveyed having suffered a successful cyberattack in the last 18 months). The cyberattack on Kaseya's VSA RMM software was one of the most well-publicized incidents in recent memory, directly impacting its MSP customers and, in turn, their customers. REvil, the Russia-based group behind the attack, was able to leverage a vulnerability in the RMM code to push ransomware to Kaseya's MSP customers, which then spread the ransomware downstream to their customers, impacting well over a thousand businesses across at least 17 countries.

Supply chain attacks like this are designed to insert malicious code into the earliest stages of the application development lifecycle. This malicious code is typically appended to popular packages that feature a vulnerability such that when the source code is executed and the application packages are put together, it becomes part of the final deployed application. MSPs have become prime targets for these types of attacks given the proliferation of their software across hundreds of thousands of businesses, which could grant malicious actors access to wide range of targets through a single attack—i.e., the one-to-many go-to-market approach flipped on its head to hurt SMB customers.

The prices of the common stock of other public companies mentioned in this report follow:

8x8, Inc. (Outperform)	\$4.90
Alphabet Inc. (Outperform)	\$2296.99
Amazon.com, Inc. (Outperform)	\$109.22
AT&T Inc. (Market Perform)	\$20.60
Cisco Systems, Inc. (Market Perform)	\$42.86
Citrix Systems, Inc. (Market Perform)	\$102.08
CrowdStrike Holdings Inc.	\$174.39
Dell Technologies	\$43.05
DigitalOcean Holdings Inc. (Outperform)	\$38.46
Five9, Inc. (Outperform)	\$92.64
Fortinet, Inc. (Outperform)	\$59.62
Hewlett Packard Enterprise Co.	\$13.12
International Business Machines Corporation	\$139.18
Microsoft Corporation (Outperform)	\$253.67
N-able, Inc. (Outperform)	\$8.96
NetApp, Inc. (Outperform)	\$64.32
Nutanix, Inc. (Market Perform)	\$14.78
Pure Storage, Inc. (Outperform)	\$25.52
RingCentral, Inc. (Outperform)	\$51.14
SentinelOne, Inc.	\$23.81
ServiceNow, Inc. (Outperform)	\$427.94
SolarWinds Corp.	\$10.85
Splunk Inc. (Outperform)	\$91.69
VMware, Inc. (Market Perform)	\$110.66
Vonage Holdings (Market Perform)	\$19.00
Zoom Video Communications, Inc. (Outperform)	\$107.99

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DOW JONES: 31173.80

S&P 500: 3854.43

NASDAQ: 11372.60

Additional information is available upon request.

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Coverage Universe	Percent	Inv. Banking Relationships *	Percent
Outperform (Buy)	75	Outperform (Buy)	20
Market Perform (Hold)	24	Market Perform (Hold)	4
Underperform (Sell)	1	Underperform (Sell)	0

*Percentage of companies in each rating category that are investment banking clients, defined as companies for which William Blair has received compensation for investment banking services within the past 12 months.

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