

EXECUTIVE SUMMARY

Service Leadership Index[®] 2026 Annual IT Solution Provider Industry Profitability Report[™]

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2026 S-L Index®: IT Solution Provider Profitability

Five-page executive summary of the 21st edition, focused on industry profitability, value creation, MSP economics, PE-backed platforms, scale thresholds, AI, and automation implications.

Overall readout

The six-year period ending in 2025 represents the longest sustained run of strong profitability in the industry. Best-in-class (BIC) firms continue to produce roughly 2.5x higher adjusted EBITDA % than the median quartile, and BIC valuations reached near-record levels, up approximately 29% from 2024 across all predominant business models (PBMs).

Top findings

- **Profitability remains strong, but performance dispersion is widening.** BIC firms continue to outperform peers, sustaining 20–21% adjusted EBITDA margins versus 9–10% for median firms, while bottom-quartile firms remain near breakeven. This 16+ year gap across business models shows that disciplined execution—not market, size, or geography—drives results.
- **Recurring revenue is the main driver of long-term stability.** MSPs remain highly attractive because recurring revenue is now above two-thirds of revenue, supporting higher financial predictability and valuations.
- **Budget discipline is a leading indicator.** BIC MSPs over-attained 2025 revenue and profit budgets at 106.2% & 114.5% respectively, while median and bottom-quartile firms under-attained profit budgets, showing weaker control of P&L levers and both stand to gain immensely by driving improvement in their budgeting practices.
- **PE-backed MSPs are growing revenue at a significant pace.** PE-backed MSPs grew more than twice as fast as average MSPs in 2025 and achieved materially higher EBITDA, but integration approach impacts margin conversion.
- **Scale helps only when management systems mature.** Many owners sense but struggle to plan for the changes at approximately \$1M, \$6M, \$25M, and beyond \$50M in revenue.margins, SG&A efficiency, and role specialization, must fundamentally shift with different leadership, roles, and process, to break through these revenue plateaus.
- **AI amplifies operational maturity.** High operational maturity level (OML) MSPs capture more automation ROI because they operate with standardized environments, lower complexity, and more reliable, process-driven data.

Selected metrics to anchor discussion

METRIC	REPORT FINDING	EXECUTIVE MEANING
BIC vs. median EBITDA %	~2.5x higher over 16 years	Performance gap is repeatable and operational, not accidental.
Average MSP total revenue growth in 2025	9.6%	MSP growth remains steady and recurring-revenue supported.
Average MSP 2021–25 stock value CAGR	25.8%	Recurring revenue, margin and EBITDA growth compound valuation.
PE-backed MSP 2025 revenue growth	22.0% vs. 9.6% average MSP	Acquisition-driven scale is widening competitive gaps.
2026 average MSP budget	10.6% revenue growth; 34.1% profit dollar growth	Ambitious margin and SG&A discipline required.

Value Creation: PBM Matters, but OML Decides the Outcome

The report uses PBMs to make comparisons actionable, because each business model has a distinct revenue mix, utilization patterns, gross margin dynamics, and SG&A requirements.

Business model economics

PBM	FIVE-YEAR READOUT	IMPLICATION
Infra-Managed Services (MSP)	Revenue CAGR 11.2%; EBITDA \$ CAGR 17.8%; stock value from ~\$3.3M to ~\$8.2M, 25.8% CAGR.	Best 2025 value creation winner; most attractive blend of predictability, recurring revenue, and valuation multiple.
Infra-Professional Services	Revenue CAGR 18.1%; stock value CAGR 34.2%; EBITDA % declined from 17.4% to 16.1%.	High growth and value creation, but more exposed to project cycles and SG&A drag.
Product-Centric / VAR	Revenue CAGR 3.3%; EBITDA % roughly 4.2% to 4.3%; stock value CAGR 16.3%.	Large revenue base can still generate wealth, but low EBITDA % and low recurring mix increase risk.
Infra-Shared Services	Revenue CAGR 14.8%; GM % fell from ~36.4% to 30.4%.	Capital intensity and GM % pressure reduce safety despite recurring revenue.
Application-Professional Services	Revenue CAGR 8.2%; EBITDA \$ CAGR -5.1%; stock value CAGR 1.8%.	Wage pressure for desired skill set and labor intensity constrained profit conversion.

Why MSPs remain the strategic center of gravity

- MSPs benefit from a high recurring revenue mix, which supports fixed expense coverage, predictability, and valuation durability.
- The 10-year MSP view showed revenue CAGR of 13.6%, recurring revenue CAGR of 18.7%, EBITDA \$ CAGR of 20.9%, and approximate company valuation CAGR of 20.4%.
- VARs can still create substantial owner wealth because the average VAR is much larger than the average MSP, but the model carries lower EBITDA % and more CapEx-cycle exposure.

Strategic takeaway

Executive implication

The best strategy is not simply "become an MSP." It is to know the firm's PBM, manage to the economic laws of that PBM, and raise OML in the specific traits that drive gross margin, SG&A leverage, customer fit, pricing discipline, and sales productivity.

Growth Discipline Is Becoming More Important Than Growth Ambition

The 2026 budget data suggests stronger planning realism on revenue, but aggressive profit expansion depends on gross margin improvement and SG&A control.

2026 MSP budget: ambitious profit leverage

- **Average MSPs budget 10.6% revenue growth and 34.1% profit dollar growth.** This assumes GM \$ growth of 14.2% while SG&A grows only 6.2%.
- **Budgeted EBITDA % improves from 12.8% to 15.1%.** The plan depends on service gross margin rising from 44.4% to 46.8% and SG&A falling as a share of gross margin from 69.7% to 63.1%.
- **Budgeting maturity separates quartiles.** BIC MSPs attained 106.2% of 2025 revenue budget and 114.5% of profit dollar budget; median firms reached only 89.1% of profit budget, and bottom-quartile firms showed even weaker control at 55.3%.

Geographic results: management maturity beats market excuses

REGION LENS	FINDING	MEANING
Revenue growth	NA MSPs had the highest 8-quarter revenue growth at 10.1%; ANZ was 8.5%; EU was 7.5%.	M&A activity lifts NA growth, but differences are not enough to override management execution.
EBITDA \$ growth	EU MSPs had the strongest 8-quarter adjusted EBITDA \$ growth at 36.1%. NA was 15.5%; ANZ was 13.1%.	Expense control and gross margin conversion matter more than headline revenue growth.
Profitability	2025 regional comparison identified NA as best on adjusted EBITDA % at 12.2%, while EU led many supporting categories.	Regions differ, but OML is the more actionable lever.

Sales and marketing productivity

- High-OML MSPs sell higher-value, more complete managed services bundles, align deals to a defined target customer profile, avoid low-profit clients, and raise prices consistently.
- BIC MSPs added the most contract value on average from 2021- 2025, averaging roughly \$49K QRR added per quarter versus \$38K for median and \$30K for bottom-quartile firms.
- The report reinforces that not all revenue is good revenue: profitable MRR, low attrition, customer fit, and standards adherence matter more than raw contract counts as that provides the ability to attain high service margins and high profit.

Operating model implication

Go forward planning should emphasize forecast discipline, service GM % expansion, sales productivity, and selective customer acquisition, not just bookings volume.

PE, Scale, and AI Are Raising the Bar for MSP Execution

The report's special sections point to a common theme: scale and automation create maximum value when operating standards, integration, data, and management cadence mature at the same pace.

Private equity-backed MSPs

DIMENSION	SEMI-INTEGRATED PE MSPS	FULLY INTEGRATED PE MSPS
Growth	Faster top-line growth: 26.3% vs. 20.6% due to less integration-related disruption.	Slower top-line growth but stronger conversion into gross margin.
Gross margin	Lower blended gross margin at 42.9%; multiple delivery models reduce standardization.	Higher total GM % around 45.9%, reflecting standardized pricing, procurement, and delivery.
SG&A	Higher sales and G&A intensity, often due to parallel structures and localized decision-making.	Lower total expenses as % of GM \$, indicating centralization and reduced duplication.
EBITDA	Growth-first, slightly lower EBITDA % performance at 20.8%.	Slightly higher adjusted EBITDA at 21.5%, better scalability and predictability.

Scale thresholds: where economics break or improve

- Growth is uneven, with a clear disruption at \$6M–\$10M where growth slows (~6.3%) and EBITDA compresses (~10–11%) as firms outgrow founder-led models without yet achieving scalable structure.
- Performance improves after this inflection, but only with investment, as firms in the \$15M–\$25M and \$50M+ bands return to ~14%+ growth while absorbing higher SG&A (~70%+ of GM in earlier scaling phases) to build leadership, sales, and operating maturity.
- Top-performing MSPs translate scale into value by redesigning their model, shifting from founder-heavy management under \$1M to professionally managed organizations at scale, driving stronger margins instead of erosion.

AI and automation: leverage follows standardization

- AI ROI depends on implementation cost, ease of AI tool adoption, process definition, training, scale of customer/device base, adoption, and retaining the labor savings rather than giving them away in price reductions.
- High-OML MSPs are better positioned because they tend to operate a narrower target customer profiles (TCP), a more standardized tech stack, lower complexity, and cleaner process/data environments.

Executive implication

Every MSP must understand how to leverage the AI opportunity as it is rapidly changing the economics of the industry, but AI will not automatically close the gap between weak and strong operators. It is more likely to widen the gap by giving standardized, high-OML firms more operating leverage.

What Executives Should Do With This Report

The report's core message is that the highest performers do not win because of market luck. They win through disciplined management systems applied to the correct PBM economics.

Implications for IT Solution Providers

- **Identify company by PBM and OML, not generic labels.** MSP, VAR, and services firm are not enough. Each PBM requires different best practices, pricing logic, incentives, and vendor value propositions.
- **Make budget attainment a core metric.** High-OML firms use budgets, forecasts, and executive incentives to create control. This is a high-leverage enablement opportunity.
- **Plan accordingly to cross scale thresholds.** The \$6M-\$10M transition is a critical inflection point where leadership structure, service management, financial cadence, and sales productivity need targeted support.
- **Treat AI as an OML accelerator.** Automation offers the most value when partners have defined TCPs, standardized stacks, documented processes, and measurable service outcomes.

Recommended executive actions

PRIORITY	ACTION	OUTCOME SOUGHT
1	Increase OML as the core lever.	Top performers win through repeatable execution systems, not one-off improvements that produce sustainable value.
2	Fix what actually drives profit (not just revenue growth).	BIC firms win with more selectivity, not volume, that creates the profit model.
3	Launch an AI-readiness diagnostic based on standardization, process maturity, data quality, and service factory complexity.	Prioritize the ability for a company to achieve measurable automation ROI.
4	Use BIC benchmarks as the aspiration: gross margin control, pricing discipline, TCP fit, standards adherence, and forecast cadence.	Move organization from growth ambition to value creation control.

Bottom line

The executive takeaway

The market remains healthy and profitable, but the next phase will reward partners that combine recurring revenue, disciplined PBM-specific management, budget control, scalable SG&A, and automation-ready operations. The gap between BIC and median performers is likely to persist, and AI may make operational maturity even more valuable.

About the Report

The full Service Leadership Index 2026 Annual IT Solution Provider Industry Profitability Report is recognized worldwide as the "IT solution provider industry's encyclopedia of performance." The report provides a wealth of information about top performance in the IT solution provider industry, by 10 PBMs such as MSP and VARs.

No other report has the insights and analysis into how the top-performing IT solution providers in your business model are growing, changing and profiting.

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