COMMENT

Laying the foundations for a buy-and-build strategy

Armstrong director Simon Hemsley discusses how to successfully execute a buy-and-build, from origination of targets, research requirements and avoiding the potential pitfalls of these deals.

At Armstrong, we have supported a number of successful buy-and-build acquisitions and are seeing more funds using this approach. In a buy-and-build play, more capital can be put to work through the hold period by making bolt-ons and driving down the average multiple.

Platform opportunities for 'traditional' roll-ups are getting hard to find, meaning funds will need to think about how they create value using buy-and-build.

A successful buy-and-build strategy will optimise the 'sum of the parts' by adding new geographies, services, cross-selling, and creating efficiencies to reduce costs; all of which contribute to the bottom line.

Finding your platform company

The foundation of a successful buy-and-build is acquiring the right platform company.

A platform company needs to have the maturity (i.e., IT, sales, operations, finance) to support bolt-on acquisitions and a management team with both the ambition and ability to execute the buy-and-build strategy and ideally a pipeline of bolt-on opportunities. These factors are far more important than platform scale alone, witness August Equity's investment in AirIT where a top-class team with well invested technology has enabled an M&A led regional expansion with six acquisitions so far.

A platform company that meets those criteria is not easy to find. GPs need to know how much work is needed on the platform company to get it ready for the buy-and-build. It's a simple equation; the longer it takes, the slower the buy-and-build. It takes several years to execute a transaction, integrate it and realise synergies; action in the first few years of the hold period is critical.

Assess the suitability and availability of acquisitions

For a successful buy-and-build you need to target companies that are small enough to integrate and be bought at a low enough multiple for arbitrage to work; increasingly tricky in some segments as high valuation expectations trickle down and PE backed consolidators compete for targets.

They also need to be big enough to justify the cost and workload of making a deal happen, and add value to the platform and drive the strategy. You will need to carefully consider:

- What is the availability of target companies?
- How many other strategic buyers/PE backed consolidators are there, how competitive is the market for acquisitions, and is that affecting prices?
- Can value be retained post-acquisition (e.g. retaining key staff, key clients)?
- What is your exit strategy? Do you know who will want to buy it?

Know your sector

Understanding the dynamics of the market you are building in is critical. At Armstrong, we help GPs to understand whether the sector is attractive for a buy-and-build strategy. That can include; existence of suitable platform companies, fragmented competitive landscape, supply of suitable targeted companies, and scope for operational and commercial synergies. We can also assist in riskier, but potentially more lucrative plays – e.g. those where tech disruption or cyclicality are potential opportunities (or indeed, problems), or where a platform is being built 'on the fly'.

We have recently worked on buy-and-builds in wealth management, IT managed services, telecoms/connectivity, TICC, car parking and European fund services sectors.

Key considerations before you buy-and-build

What are we buying – scale? Product/service offering? People? Access to technology, customer segments or geographies? Is there a strategic fit between the platform and the target companies?

Quantifying the extent of potential synergies, and the risk entailed in realising them is critical to understand where to target origination efforts and what you can pay.

Does the management team have the expertise and bandwidth to integrate businesses?

Integrating businesses is tough, management teams will need time and support from the investment team and their advisors.

Is the platform company ready to support a buy-and-build strategy?

Unresolved issues, including immature technology and operating models at the platform company will hinder the target company's integration.

Do you have the right people on board? Who has done it before? Is there an explicit strategy to integrate?

Without leadership and an explicit strategy to generate savings across the target companies, integration is very hard. A commitment to a common platform, technology and moving customers to common processes will all aid integration.

Who is involved?

Do your research. In some sectors personalities matter and everyone knows everyone!

There's no doubt buy-and-build can be a hard strategy to execute, but done well brings significant returns.

Please contact myself, or a member of the Armstrong team, to discuss how we can help support your next buy-and-build strategy.