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Buy-and-build correlates to more secondary buyouts

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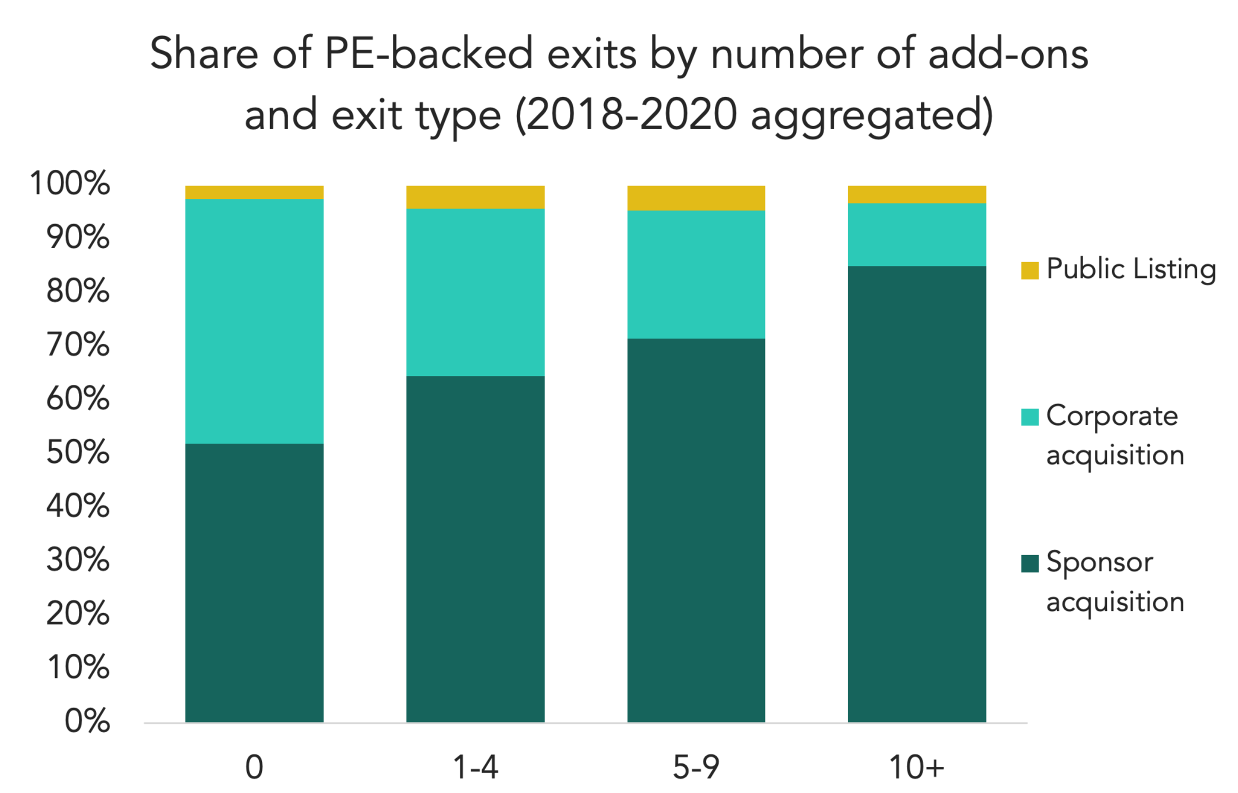

PitchBook is publishing a new analyst note next week that does a deep dive on add-ons. One of the more striking findings is a correlation between additive platforms and how they eventually exit. The more add-ons a portfolio company undergoes, the more likely it will be acquired by another PE firm. Starting with the “zero” category—portfolio companies that never added on before exiting—the split between secondary buyouts (52%) and corporate acquisitions (46%) is almost even. The odds of a secondary buyout increases as the number of add-ons do. At the furthest extreme, platform companies with 10+ add-ons are sold to other PE firms 85% of the time.

Buy-side PE firms tend to prize platforms that have M&A experience, especially if its been successful. That’s a strong selling point for a potential new sponsor, which can assume, with confidence, more additive growth down the line. Compared to strategics, other PE firms are more lenient around add-ons that haven’t been fully integrated yet. In an interview with John Stewart of MiddleGround Capital, he noted that strategic buyers prefer to buy platform companies that have standardized systems across all components, because the strategics need to integrate the acquisition before realizing any synergistic gains. PE buyers, on the other hand, can envision bigger add-ons under new sponsorship.

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