



BUY AND BUILD

# ALL YOU NEED TO KNOW ABOUT BUY & BUILD STRATEGY







## What is a buy and build strategy?

Buy and build strategies are an increasingly popular route to growing a business. An investor or company begins with a well-positioned single entity ('platform company') and then seeks to grow the overall value of their business or investment through a series of additional (typically smaller) acquisitions. It works on the premise that the whole is greater than the sum of its parts.

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The initial platform company is typically an established business with proven management, systems and support functions. This enables the buyer to use its infrastructure as a foundation from which to grow and realise synergistic benefits.

A buy and build approach contrasts with an organic growth strategy, where you grow your business by leveraging and expanding existing resources.

## Why choose a buy and build strategy?

Executed well, a buy and build strategy can create substantial value for the combined group and these results can be achieved much more rapidly than they can via the organic route.



### Capture new customers in a crowded market

Perhaps the market or sector in which you currently operate is mature or congested. When there is a high level of competition for new customers, there are very few opportunities to grow organically at scale.



### Enter new markets or expand internationally

With a ready-made platform from which to grow, acquisitions can be bolted on to create an immediate presence in new markets or geographies that would typically necessitate a great deal of time, expense and risk to build on their own.



### Diversify and expand your product range or services

Add complementary products or services to enhance the resilience of your business or broaden your customer reach from improved market positioning. Benefit from increased scale and cross-selling opportunities in your chosen markets.



### Add new skills and capabilities

Buy in new specialist skills or knowledge or add expertise in certain areas. You might be buying a smaller business that brings strong digital know-how, for example, so you can rapidly integrate that capability for maximum benefit. Alternatively, perhaps the target company already has a sales and distribution platform in a particular marketplace that you can leverage to increase existing sales without having to build from scratch.





### Achieve economies of scale

Duplicate costs can be removed and shared support functions, such as marketing and HR, can be optimised. On the buying side, greater purchasing power can reduce unit costs and support rapid margin improvements.



### Attain higher multiples

Executed well, 1+1 can equal 3, leading to a more robust and valuable business. Increased scale into a larger entity also supports this enhanced valuation metric and higher internal rates of return.



### Meet objectives at speed

The opportunity for step-change growth leads to size and value creation opportunities at a much faster rate than if attempted organically.



### Private equity appeal

Buy and build strategies are particularly attractive to private equity buyers due to their relatively short investment horizon. Traditional organic growth typically takes longer to achieve the same results while certain buy and build gains can be monetised almost instantaneously.

Private equity firms appreciate these fast gains and want to turbo-charge their investment returns. Multiple (valuation) arbitrage can support this objective if the acquirer trades at a higher price-to-earnings (P/E) ratio than the acquiree. Including the acquiree's earnings and valuing using the acquirer's P/E ratio will immediately boost the combined value.



## Which businesses are the most suited?

Buy and build can be an effective acquisition strategy in any industry although broader themes are driving increased take-up in certain areas. Many companies in industries undergoing technological transformation, for example, are struggling to keep up with the pace of change. It can make sense to acquire a company that already has that digital capability. It can also be beneficial from an economies of scale perspective – with the investment in technology spread across a larger business it can pave the way to greater value creation.

Industries that present the opportunity to expand internationally are also prime buy and build targets, with cross-border acquisitions particularly appealing.

But all effective buy-and-build strategies typically share these two important characteristics:



### 1. An established platform company as a base

The success of a buy and build strategy relies heavily on the stability of the platform company. A core company should have an established market position, stable management and robust systems and infrastructure in place, making it a good base from which to scale and achieve synergies.



### 2. A focus on sectors with room to grow

Buy and build strategies tend to be more effective in fragmented markets where there is less consolidation and therefore no clear dominant players. This means there are more potential targets for the buyer.

The IFA market is a good example – it is well-populated with players of different sizes. Business services is also prime buy and build territory. The sector covers such a broad market - from facilities management to outsourcing of occupational therapy - and has hundreds of thousands of mid-sized companies serving it in the UK so there are plenty of opportunities to consolidate, as our client Croft Communications has proven (see case study opposite).

For a consolidation play within a fragmented sector, it is really important to have good visibility of the potential long-term acquisition pipeline. With this style of buy and build strategy, you do not want to be one of five businesses in your size range thinking that you need to buy the other four irrespective of what they look like. The more choice you have, the better, because you can be more selective. It is not just about the profit number but finding the right overall fit, as we discuss in more detail below.

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## Does size matter?

Mid-cap companies are the most likely to adopt a buy and build approach. They can be big enough to take the financial and integration risk, yet nimble enough to maximise the opportunities. They could buy a series of smaller companies and bolt them on, for example, subsequently merging with a larger player once they have reached critical mass.

Big players rarely buy much smaller players due to the small deal size and limited impact. Instead, they would normally target more mid-sized players, which would deliver more meaningful results for the time and money spent.



## Buy & build success in the unified communications industry

ThinCats helped unified communications business Croft achieve phenomenal growth through an ambitious buy and build strategy designed to broaden its sector expertise and expand its service offering.

The Hertfordshire-based business, accredited on the UK Government's Crown Commercial Service Framework, delivers next-generation technology and managed services, streamlining communications for organisations across a number of commercial sectors. It offers a one-stop-shop for its customers, from super-fast broadband to business phones and hosted telephony, supporting an impressive portfolio of clients including Hilton Hotel, Ikea, Transport for London, and NSPCC.

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Following a successful MBO in 2019, shareholders Ben Page (Founder), Mark Bramley (CEO) and Phil Waters (CFO) sought to take advantage of a highly fragmented market and implement a growth plan primarily centred around strategic acquisition.

Since then, the company has successfully integrated eight smaller businesses, realising cost synergies and enhancing revenue by cross-selling to its acquired companies' client bases.

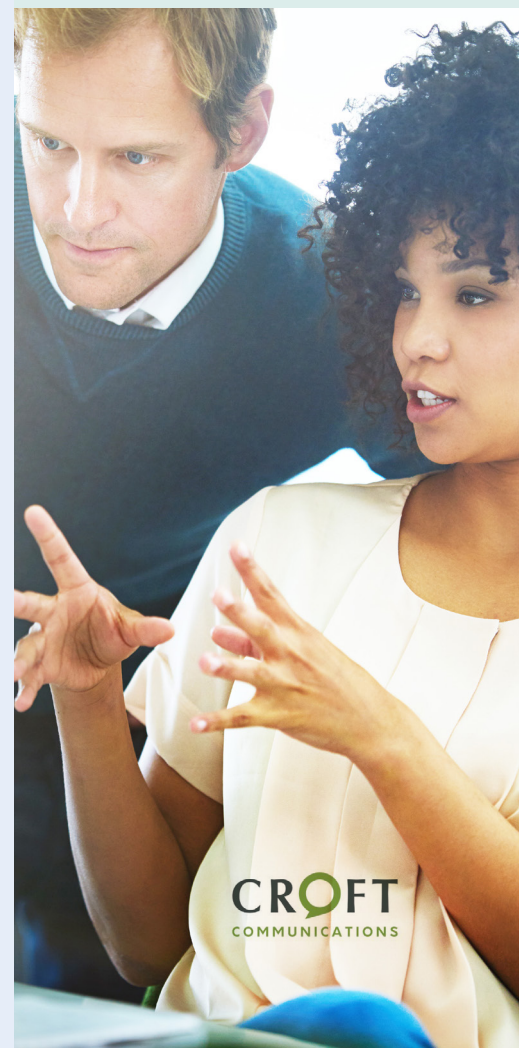
"With each acquisition, we are enhancing and diversifying our offering," explains **Mark Bramley, CEO**. "In order to expedite the integration of new businesses we implement a 7-point plan to ensure that merged companies and subsidiaries are aligned with the wider group."

Working closely with ThinCats' relationship team, the business has secured a multi-million pound facility to support future acquisitions, which will focus on IT and cyber security targets.

"The company has so many smaller businesses that they can acquire, and they've knitted these businesses together very well," says Greg Beamish, ThinCats Head of Credit. "Their buy and build strategy is a success because they appreciate the importance of culture, look for synergistic acquisitions and pursue deals where they can see exactly where they can add value in terms of their product suite and the target's. In that way, they can already see incremental revenue from the business combinations."

OVER £20  
MILLION+  
FUNDING

ACROSS 11  
ACQUISITIONS  
ACROSS 3 YEARS



## Common pitfalls

While buy and build has many advantages, there are some key challenges that can prevent a successful result. Ultimately, the acquired companies must perform and mesh effectively when they become part of the larger group.



### Negative synergies

Being conscious of the risk that 1+1 can equal 1.5 if negative synergies end up disrupting both existing businesses to the detriment of financial performance. This could be caused by a poor quality and lengthy integration process, for example, leading to duplication of efforts and a lack of accountability.



### Lack of stable management

A stable management team at the platform company is key to success. They need to be able to integrate the new additions and capture the opportunities for value creation. Strong acquisition and integration experience is the best mitigation tool.



### Poor leadership

Strong and visible leadership is crucial in this respect. Employees will be apprehensive about the structural change and the risk to their own position in the larger group so the communications must be managed very sensitively. A clear and inspiring leadership team can help win hearts and minds and convince all stakeholders of the brighter future. Similarly, a supportive HR function can be invaluable in navigating the human experience and retaining key personnel.



### Integration issues

Buy and build strategies bring about significant change for both the acquirer and the acquiree(s) so it is crucial they are handled correctly. Otherwise, the resulting effects can jeopardise the value of the existing businesses. Key management need experience in risk management, operational metrics, and change management. This is especially valid when the acquired companies are competitors and supply chains need to be vertically integrated.







### Clash of cultures

The successful blending of company cultures remains one of the biggest challenges when executing a buy and build strategy. Cultures need to be complementary, and the integration process is more straightforward if they are predisposed to collaboration.

On paper, the tie-up could look perfect but in practice, you really need to get under the skin of the people and ensure that they appreciate the opportunity, and the fact that you are doing it together as a bigger, better team. It is not 'you're working for us now' it is 'we're working together now; we've got your back'. All businesses are ultimately driven by their people, and you need all your people to subscribe to the combined culture of the new business.

Leadership style and intra-leadership cohesion are particularly important during this time of transition. Poor and disjointed communications can quickly lead to an erosion of culture and create friction, to the detriment of the larger group.



### Poor communication with key stakeholders

Similarly, internal and external stakeholders need to be well managed. How will the target's suppliers feel now that someone else is at the helm? Are they nervous? Will it alter how they operate? How will the customers feel? Will they worry about a change in service quality?

All these questions need clear and decisive answers in order to protect the brand (brand harmonisation), the earnings and the company reputation.



LOOK FOR  
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## Choosing target companies

The targets you choose will naturally depend on the type of growth your business is looking to achieve. If your aim is to attract more customers for your existing offering, then direct competitors may be the best targets. Whereas if you want to take your business in a different direction – into new products, markets, countries or perhaps to achieve digital transformation – your search will need to be broader.

Do your research carefully and make sure there are a sufficient number of potential targets available.

Wherever your search takes you, there are some important considerations to keep in mind:

- What are the characteristics and culture of the business?
- Is the management team strong?
- Is the vendor looking to realise an exit?
- Are there good synergies between your business and the target company?

## Finding the right businesses

It has to be the right fit for your business, both strategically and culturally, and ultimately you must be confident that it is accretive to your value. Never underestimate the human element in these calculations.

Focus on sectors with many active players where consolidation can easily bring cost savings and improvements to product or service offerings.

Look for a company where you are comfortable that the profit is sustainable and it has not been dressed up for sale (i.e. lipstick on a pig). Profitability must be robust.

Focus on businesses where you can achieve synergies across sales, costs or margins, or preferably all three. Some businesses might not add value to you on day 1 but, in time, they can deliver immense value. It is not always  $1+1=2$ , it can be  $1+1=3$  once you have maximised the symbiotic benefits across the business.





## Funding your buy and build strategy

Given the typical transaction size, few businesses are able to finance buy and build acquisitions from retained cash on their balance sheet. Furthermore, there is often uncertainty around the timeframes in which the acquisition will start to deliver meaningful financial returns.



### Debt versus equity

Debt financing these transactions comes with numerous benefits, from lowering the weighted average cost of capital (and hence improving equity returns) to the tax deductibility of the interest charge. This pricing relationship holds as long as the debt cost is cheaper than your own cost of equity.

You need to ensure that any debt package is adequately sized and correctly structured. The business model must be sensitised to weather a downturn in performance and still be able to deliver against its debt requirements and covenant suite. Too much leverage and the interest and amortisation costs can put undue financial pressure on the cashflow of the business.

Debt funding can also, potentially, reserve company firepower, allowing cash to be preserved for more organic value-add investments (e.g. capex) or to build up working capital to take advantage of a particular sales opportunity.

Ultimately, a lot of entrepreneurs and owners would rather use somebody else's cash to support the acquisition of these add-on businesses because the leverage amplifies their potential equity returns.



### Benefits of external finance and finding the right partner

External firms have specialist teams with experts in structuring and delivering these types of complex debt facilities. Lean on their experience and track record to ensure the deals are properly structured, stress-tested and optimised.

Speed, flexibility and dependability are also key components of a first-class delivery.

Speed is valuable in many scenarios but never more so than if there is a competitive bid process for a particular target company. If your financing provider is too slow or the lending process too complex and lengthy, it can ruin your chances of transacting on the time-sensitive opportunity.

Flexibility is important as, while each transaction will broadly follow the same financing pattern, each set of circumstances and objectives are unique and hence the best providers must have the dexterity to adapt to different scenarios.

Dependability and a track record of successful delivery are also vital. Structured transactions like these are hard work and intense so having a trusted funding partner by your side, which can safely guide you through the process, is a real asset.

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## How can ThinCats help?

ThinCats is extremely proud of its team of experts operating in this space.

We maintain strong geographic coverage through our network of regional offices, and we have deep and broad sector expertise within the team.

Clients often compliment us on our speed, support, and flexibility. We have our internal risk controls, of course, but we pride ourselves on our ability to be flexible and take a balanced and pragmatic approach. Critically, we buy into your vision – we invest the time upfront to properly understand the business and related transactions before explaining the financing parameters we can support. Our clients can confidently negotiate with their vendors, safe in the knowledge that we can - and will - deliver against those terms. It's a key reason why people like doing business with ThinCats.



Visit [thincats.com](https://thincats.com) for more information

ThinCats is a trading name of ThinCats Limited (Company No. 09707863) whose registered office is at 2&3 Charter Point Way, Ashby Park, Ashby De La Zouch, Leicestershire, United Kingdom, LE65 1NF.