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Inorganic growth strategies and the evolution of the private equity business model*

Benjamin Hammer†, Alexander Knauer, Magnus Pflücke, Bernhard Schwetzler‡

Abstract

This paper investigates inorganic growth strategies in PE buyouts where the portfolio firm, which has been acquired in the initial buyout, serves as a platform for subsequent add-on acquisitions. We analyze a comprehensive sample of 9,548 buyouts and 4,937 add-on acquisitions spanning 16 years of buyout activity in 86 countries. We find that probability for add-on acquisitions is high if the PE sponsor is experienced and has reputational capital, if the portfolio firm is large, has M&A experience at entry and operates in an industry with moderate degree of fragmentation, as well as in case of favorable financing conditions. Similar factors also explain higher add-on productivity and faster add-on execution. On average, cross border/industry diversifying inorganic growth strategies are most likely if the portfolio company already draws upon international/inter-industrial M&A experience at entry and if the PE sponsor frequently invests across border/industries. Furthermore, our results indicate that add-on acquisitions increase the probability for exiting through IPO and secondary buyout. The effect on secondary buyouts is driven by deals where the subsequent PE owner continues the inorganic growth strategy of the previous buyout.

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Keywords: Leveraged buyout, mergers and acquisitions, buy and build, add-on, bolt-on

JEL classification: G23, G24, G34

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