

Buy & Build Strategies in Private Equity

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Section I: Introduction to Buy & Build

Introduction

Add-on acquisitions as a key private equity strategy to build platform value through consolidation and multiple expansion

- Buy & Build strategies enhance value by combining scale, operational efficiency, and strategic synergies across complementary businesses

Key Drivers:

Platforms	The initial, larger portfolio company serves as the structural and managerial foundation for subsequent acquisitions, provides the operational infrastructure required for integration and growth
Add-Ons	Smaller companies acquired post-platform investment. These targets are typically valued at lower EBITDA multiples, creating potential for multiple arbitrage
Market Context	Approximately 70% of PE buyouts involve at least one add-on, particularly in fragmented industries such as software, healthcare, and B2B services
Buy & Build Strategy	When a platform completes four or more add-ons, the PE firm is executing a structured “Buy & Build” strategy aimed at market consolidation and operational leverage
Strategic Objectives	To compound enterprise value by building scale, realizing cost and revenue synergies, and achieving valuation uplift as the integrated platform commands higher multiples

From Platform Acquisition to Exit

The execution of Buy & Build strategies



1. Platform Acquisition: A resilient, well-managed business is acquired to provide the operational backbone and governance framework for future expansion



2. Target Acquisition: The sponsor selectively acquires smaller, complementary businesses to add to the platform. These targets are typically purchased at lower valuation multiples



3. Integration: Alignment of the platform and acquired targets operationally, strategically, and culturally to unlock cost and revenue synergies. Combining complementary resources and expanding margins to drive sustained value creation



4. Exit: The private equity sponsor aims to sell or IPO the expanded platform at a higher valuation multiple than what was paid for the add-ons, capturing the uplift from scale, stability, and integration



By systematically acquiring, integrating, and scaling complementary businesses, private equity firms convert fragmented markets into cohesive, higher-valued platforms

Section II: Strategic Rationale

Driving Inorganic Growth and Strengthening the Platform

Add-ons drive scale, diversification and cross-border expansion



Add-on strategies enable platform companies to achieve inorganic growth by acquiring complementary businesses. This approach expands market presence, diversifies revenue streams, and strengthens competitive positioning, turning platforms into market leaders through strategic consolidation rather than solely organic expansion

Market Consolidation & Scale

Add-ons consolidate fragmented industries, expanding market share and operational reach. Scale drives purchasing power and bargaining leverage

Geographic Expansion

According to BCG, cross-border add-ons enable entry into new regional markets and deliver higher IRRs, averaging 38.2% compared to 27.3% for domestic deals

Product & Service Diversification

Adds complementary offerings, strengthening cross-sell potential and resilience across cycles

Talent & Capability Acquisition

Acquiring niche teams or IP accelerates innovation and operational maturity within the platform

Quantitative Edge & Defensive Motives

Add-ons unlock multiple sources of operational and financial value

Value Creation Levers 	
Revenue Synergies	Add-ons expand market reach and customer access, driving top-line growth through cross-selling, upselling, and new market entry
Cost Synergies	Integration and scale reduce overhead, optimize procurement, and enhance margin expansion across the platform
Multiple Arbitrage	Larger, more diversified platforms command higher valuation multiples, creating additional equity value at exit

Defensive Motives 	
Portfolio Scope	Broader product, geographic, and customer mix reduces exposure to single-market or single-client risks
Bargaining Power	Increased scale strengthens supplier and customer negotiation leverage, improving pricing stability
Resilience	Integration improves predictability of cash flows and cushions performance through economic cycles

Together, these value creation levers and defensive motives drive sustainable EBITDA growth, margin resilience, and higher exit multiples in Buy & Build strategies. According to Bain & Company (2024), platforms executing three or more add-ons achieve 15–20% higher EBITDA growth than standalone investments

Section III: Value Creation Levers

Revenue Synergies

Revenue synergies drive top-line growth in Buy & Build strategies

- Revenue synergies arise when the combined platform and add-ons can generate greater sales than each entity alone, through leveraging complementary products, customer bases, or market reach

Key Drivers:

Cross-Selling & Upselling	Offering existing products to the acquired customer base or premium versions to platform clients
Market Expansion	Entering new regions or customer segments through add-ons, accelerating international growth and reducing time-to-market for new offerings
Enhanced Value Proposition	Creating a one-stop-shop offering that boosts client retention, pricing power, and overall share of customer wallet
Brand & Reputation Transfer	Using the platform's established reputation to enhance credibility of smaller add-ons, improving conversion rates and customer trust
Innovation & Capability Synergies	Integrating specialized know-how, technology, or IP from add-ons to expand product range and strengthen competitive differentiation

Cost Synergies

Cost synergies are the foundational levers of value creation in Buy & Build strategies

- Cost synergies attract greater scrutiny compared to revenue synergies owing to higher predictability, providing reliable bottom-line growth through operational improvements and ultimately margin expansion

Key Drivers:

Elimination of redundancies	Streamlining/centralizing departments with similar functions within the combined enterprise, such as the back office
Economies of scale	Pooling resources within the company to reduce unit fixed costs
Improved utilization	Multifunctional capacity of existing resources leads to an increase in utilization rate
Parenting advantage	Using the platform's established structure to coordinate add-ons and introduce best practices, improving operational efficiency and aligning overall interests
Increased bargaining power	Leveraging significant market share to negotiate favorable terms with suppliers

Valuation of Potential Synergies (1/3)

Estimate the value of potential synergies arising from the transaction using two complementary valuation methodologies

- The DCF approach gives a theoretical intrinsic value
- The multiple approach serves as a market sanity check
- Together, they provide a valuation range for expected synergies

Multiple Approach

Method:

$$\text{Synergy Value} = \text{Stabilized Net Synergy} \times \text{EV/EBITDA Multiple}$$

DCF Approach

Method:

$$PV = \sum_{t=1}^n \frac{CF_t}{(1 + WACC)^t} + \frac{CF_n(1 + g)}{(WACC - g)(1 + WACC)^n}$$

The combination of DCF and multiple approaches ensures a balanced valuation perspective, capturing both the timing and market perception of synergies

Valuation of Potential Synergies (2/3)

Valuing incremental earnings from realized synergies by applying transaction multiples

(€mn)	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
Restructuring Expense	(5)	(5)								
Pre-Tax Synergies	15	20	20	20	20	20	20	20	20	20
Tax Expense	(4)	(6)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)
Net Synergies	6	9	12	12	12	12	12	12	12	12

Multiple Approach

The multiple approach estimates total synergy value by applying an appropriate EV/EBITDA multiple to the stabilized net synergy run rate

	EV/EBITDA Multiple				
	10.0x	11.0x	12.0x	13.0x	14.0x
	Valuation of Synergies				
2025E	60	66	72	78	84
2026E	90	99	108	117	126

Valuation of Potential Synergies (3/3)

Valuing incremental synergy cash flows by discounting post-tax benefits using the appropriate WACC and terminal growth rate

(€mn)	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
Restructuring Expense	(5)	(5)								
Pre-Tax Synergies	15	20	20	20	20	20	20	20	20	20
Tax Expense	(4)	(6)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)
Net Synergies	6	9	12	12	12	12	12	12	12	12

1

Calculate annual post-tax synergy cash flows after restructuring and tax effects

2

Select an appropriate long-term growth rate to project terminal-year synergies

3

Compute terminal value applying perpetuity formula to stabilized Year-10 synergies

4

Discount annual and terminal synergy cash flows using WACC to present value

Perpetuity Growth Rate

(1.0%)	(0.5%)	0.0%	0.5%	1.0%
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Terminal Value in Year 10 (€mn)

132	142	153	163	173
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WACC	Value of Synergies (€mn)				
10.0%	103	105	107	110	113
9.0%	114	117	120	124	128
8.0%	125	131	137	142	147
7.0%	145	151	157	164	173
6.0%	168	176	185	196	209

Multiple Arbitrage (1/3)

Multiple Arbitrage creates value by exiting the investment at a higher multiple than at entry

- Value is created when PE firms buy smaller companies at low EBITDA multiples and sell the integrated platform at higher ones
- Smaller firms trade at discounts due to scale and risk, while integration brings efficiency and stability that justify higher valuations
- Even a 1-2x multiple increase can lift equity IRR by 20-30%, making multiple arbitrage a structural source of value creation

Lower Entry Multiples	Scale & Professionalization	Higher Exit Multiples
Add-ons bought at 6-8× EBITDA	Integration builds scale, efficiency, and credibility	Platforms exit at 10-12x, capturing valuation uplift

Multiple arbitrage creates value by acquiring lower-multiple businesses and integrating them into larger platforms that command higher valuations through disciplined pricing, scale, and strategic re-rating

Multiple Arbitrage (2/3)

Beyond Platform Integration

- Multiple arbitrage creates value by acquiring smaller, lower-multiple businesses and integrating them into larger platforms that command higher valuations through disciplined pricing, scale and strategic re-rating

The examples below show how different transactions create value through multiple arbitrage:



Buy Low, Integrate & Exit High

A PE firm acquires smaller add-ons at 6–8x EBITDA and later sells the scaled platform at 10–12x

Captures valuation spread through integration and scale



Reposition in Growing Industry

A window-glass manufacturer bought at 8x EBITDA is re-framed as a smartphone-screen supplier and sold at 15x

Unlocks multiple expansion by shifting into a higher-growth market



Roll a Private into a Public Entity

A public company trading at 20x earnings buys a private firm at 10x; its earnings are instantly re-rated at 20x within the public entity

Realizes immediate uplift via public-market valuation spread

Multiple Arbitrage (3/3)

Numerical example of multiple arbitrage in practice:

- 1 Divide total enterprise value by combined EBITDA to calculate blended entry multiple
- 2 Apply the assumed exit multiple to project total platform value to model value uplift at exit
- 3 Compare entry and exit multiples to determine re-rating impact to measure multiple spread
- 4 Subtract combined entry EV from exit EV to quantify equity uplift and assess overall value creation

(€mn)	EBITDA	Entry Multiple	Enterprise Value
Platform	200	10x	2 000
Add-on 1	40	8x	320
Add-on 2	40	7x	280
Combined	280	-	2 600

- 1 **Blended Entry Multiple = $\Sigma EV \div \Sigma EBITDA$**
- 2 **Exit EV = EBITDA × Exit Multiple**
- 3 **Multiple Spread = Exit Multiple - Entry Multiple**
- 4 **Value Created = Exit EV - Entry EV**

Metric	Value
Blended Entry Multiple	9.3x
Exit Multiple	11x
Enterprise Value at Exit	€3 080m
Value Created	+ €476m (+18 %)

Section IV: The Value Creation Bridge

The Value Creation Bridge

Quantifying and visualizing value creation levers from add-on acquisitions

- The Value Creation Bridge breaks down total equity value creation into its key components showing where returns come from
- It is especially valuable in **add-on acquisition analysis**, as it highlights how value creation levers and integration effects compound across multiple acquisitions within a platform

1. Entry Equity: Initial equity value at acquisition, representing the platform's baseline before integration effects



2. Revenue Synergies: Top-line growth achieved through cross-selling, new customers, and geographic expansion



3. Cost Synergies: Operational savings from integrating add-ons, sharing services, and reducing overhead costs



4. Multiple Arbitrage: Value created by buying add-ons and exiting the larger platform at a higher multiple

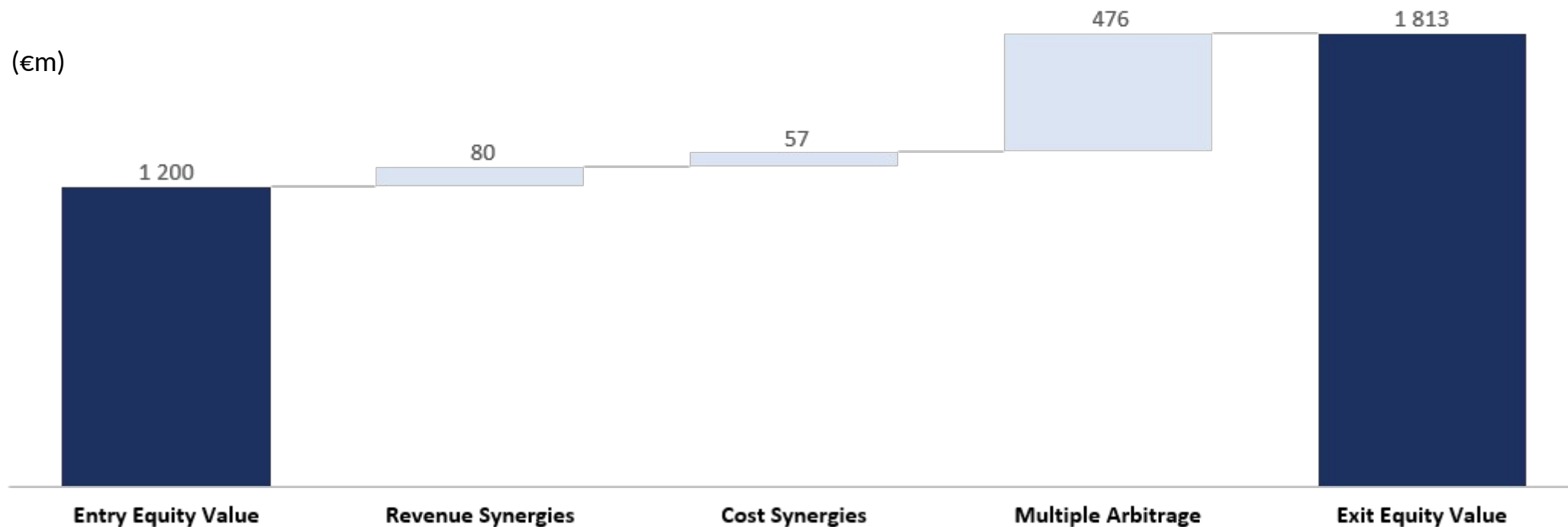


5. Exit Equity: Final equity value after capturing synergies and benefiting from multiple expansion

Add-on Acquisition Value Creation Bridge

Demonstrating how integration effects translate into incremental equity value in Buy & Build Strategies

- Operational synergies enhance performance while valuation uplift reflects market re-rating and integration benefits
- Enhanced scale and strategic focus translate into higher valuation multiples at exit



Section V: Integration Challenges

Integration Challenges

Acquiring firms often face challenges in realizing cost and revenue synergies when integrating an acquired company

- Estimating potential synergies accurately is difficult; ease and speed are often overestimated
- Integration risks often erode expected deal value

Potential Issues:

Strategic Misalignment	Conflicting market positions and business models limit cross-selling potential and delay revenue synergy realization
Operational Integration	Overlapping systems and fragmented processes extend integration timelines and erode expected cost savings
Culture	Divergent leadership styles and corporate cultures undermine employee retention and morale
Regulatory	Multi-jurisdictional antitrust reviews and tax complexities increase signing-to-closing risk and integration friction
Talent	Key departures post-acquisition lead to loss of institutional knowledge and higher recruitment costs

Section VI: Case Studies

Ufenau Partners Buy & Build

Exemplifying Ufenau's proven Buy & Build framework for sustainable value creation

- Ufenau Capital Partners executed a successful Buy & Build strategy with *Intelligent Repair Solutions (IRS)*, expanding from a regional operator into a market leader in Germany, Denmark, and Sweden
- Demonstrating Ufenau's capability to consolidate fragmented service markets into scalable, professionally managed platforms through disciplined Buy & Build execution

Market Expansion

- 13 add-on acquisitions since 2014
- Established presence across Germany, Denmark, and Sweden
- Integrated SMART repair and car body & paint services

Revenues & Synergies

- Revenue increase from €30 m → €100 m
- Strong profitability via synergies, shared systems, and cross-market branding
- 1,100 employees across 77 locations

Value Creation

- Close collaboration with management to align operations
- Standardized systems and processes improved efficiency
- Resulting in margin expansion and scalable growth

Through disciplined add-on integration and active partnership with management, Ufenau's Buy & Build strategy at IRS demonstrates how operational scale and strategic focus can rapidly enhance enterprise value and investor returns



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