M&A East Roundtable
Bolt-On Acquisitions
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Bolt-on acquisitions, also known as add-on acquisitions and "buy and builds," have become standard practice for private equity firms to increase the value of their platform investments. At the 2018 M&A East Conference, the ACG Philadelphia Bolt-On Acquisitions Roundtable facilitated a conversation with speakers from backgrounds that offered multiple perspectives on the acquisition process. Moderated by **William Gonzalez**, a Senior Vice President at Audax Private Equity, the discussion covered why bolt-on acquisitions have gained popularity recently, the criteria for a successful bolt-on acquisition and effective go-forward strategies.

Featured Speakers

- **Ryan Northington**, Partner at Guardian Capital Partners
- **Robert O'Sullivan,** Chief Development Officer, Axia Women's Health
- **Ken Pawloski,** Chief Financial Officer, Chelten House Products, Inc.
- **Fritz Richards,** Partner, Prestwick Partners

Popularity

A bolt-on acquisition refers to a business that is added by a private equity firm to one of its existing platform companies. The panel formed a consensus that bolt-on acquisitions are here to stay and make a lot of sense in the M&A space. With today's high multiples in an expanding economy, an accretive bolt-on acquisition can effectively lower the multiple a private equity firm pays for a platform company, offering potential valuation upside via synergies.

Criteria

Successful bolt-on acquisitions occur in fragmented industries given the availability of smaller targets from which to choose. However, regardless of size, the add-on must support the platform's geography, scope and culture. "Geography must make sense," according to Robert O'Sullivan, who looks for advantageous synergy opportunities while Ken Pawloski focuses on growing his company's customer base and expanding its product line.

"Bolt-on acquisitions can be used to shape the risk profile of a business by expanding into new product lines or moving into favorable geographies, for example." noted William Gonzalez.

Culture is critical throughout the process of a bolt-on acquisition to Ryan Northington who said, "Life is too short to do deals with bad people. Culture is important, especially when the platform company is aspiring to be the acquiror of choice in its industry." A final consideration for Fritz Richards is a management team that has successful experience in growing their platform via acquisitions in a fragmented industry.

Strategies

Directly following a bolt-on acquisition, Ken Pawloski said it is a "balancing act" between the platform company and the new company both from an operations and financial perspective as the broader group stressed the importance of the platform company maintaining its core EBITDA stream. To facilitate this transition, many private equity firms handle the financing and allow the management team to focus on running the businesses.

According to Robert O'Sullivan, "Hopefully after six to nine months of integration, the add-on feeling falls away." Synergies are critical to the profitability of a bolt-on acquisition and allow platform companies to take advantage of economies of scale and streamline "non-customer facing processes," as noted by Ryan Northington.

Branding is another important consideration as some companies keep their local name to maintain their customer base while others take the name of the platform. Fritz Richards said there is a "perceived sense of greater customer service when a familiar, home-grown brand is maintained at the local level."

Conclusion

William Gonzalez concluded, "It's about creating self-sustaining businesses at the end of the day." If bolt-on acquisitions are being digested well by the platform, driving growth and helping the company's exit story, they are a great strategy to increase value. On the other hand, if bolt-on-acquisitions are counterproductive and overwhelming, damaging the core business, they should be avoided. Given the variability inherent in successfully completing a bolt-on acquisition and the risk of failing to capture incremental value, it is critical to understand what your firm does well and execute that strategy to the fullest.

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