BUY-AND-BUILD INTEGRATION

HOW TO DELIVER A BUY-AND-BUILD PROGRAMME WHICH MAXIMISES VALUE

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EIGHT INTERNATIONAL

EIGHT ADVISORY

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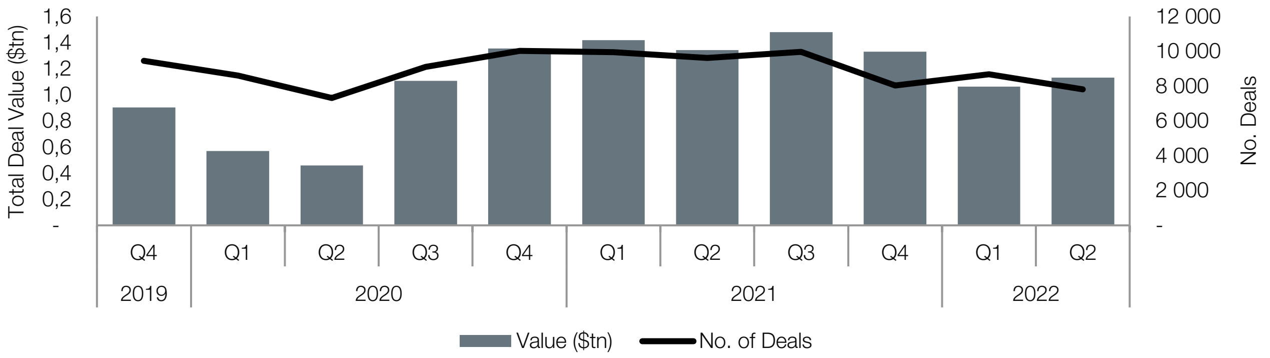
&A activity saw a buoyant resurgence in 2021, as activity slumped in H1 2020. As the world emerged from the coronavirus pandemic early 2022, activity remained strong even if slightly lower than 2021's pent up demand.

Global M&A activity by total value and number of deals



However, not all of the world has emerged from the pandemic, and as demand has outstripped supply in the global economy, many countries are facing high interest rates as central banks battle to control inflation.

This compounded with conflict in Ukraine has sent many commodity prices skyrocketing – putting a squeeze on businesses' overheads as they seek to balance an increasing cost base with price inflation.

Many, including the Bank of England, predict recession; a drying up of capital, and M&A activity diverting to less traditional means of driving value. One of those scenarios includes buy-and-build – whereby an investment firms uses a vehicle, or platform business, to drive growth through rapid acquisition and integration of similar businesses in the same sector.

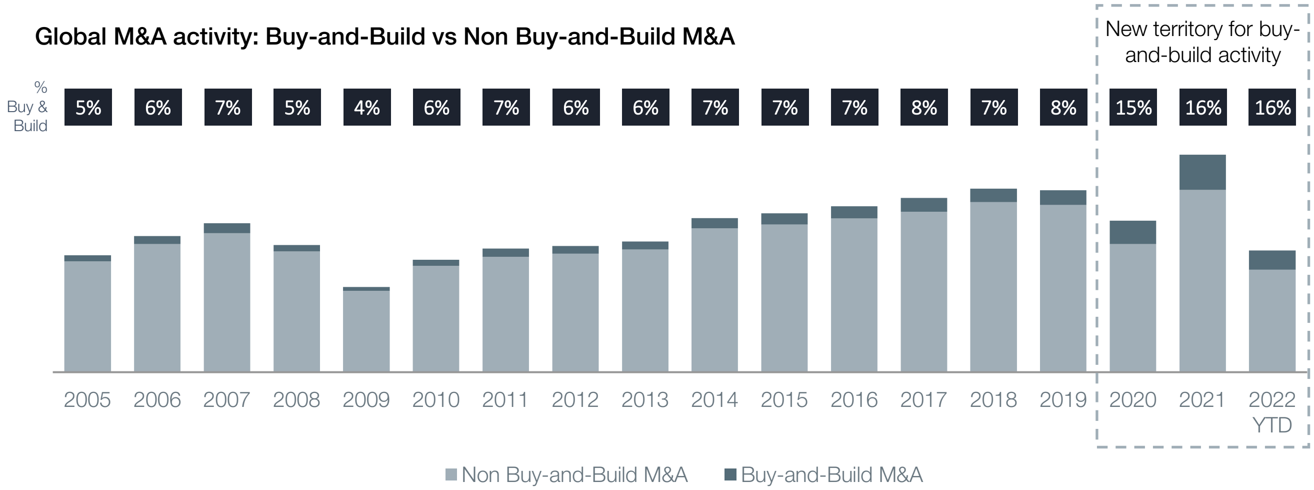
The strategy is attractive; transactions can be de-risked as the platform business perfects the diligence and integration delivery, and arbitrage on deal multiples favours larger businesses where and investors can ride the growth wave.

However, the strategy isn't without its risks; platform businesses are a single point of success and failure, and are often highly leveraged to deliver a steady deal flow. Buyers are also now more critical of businesses who have delivered growth through buy-and-build, as inadequate or incomplete integration erodes value in the eventual sale process.

In this document, we outline the key themes we are seeing within buy-and-build, as well as our key considerations on how to ensure success both during diligence and during integration programmes.

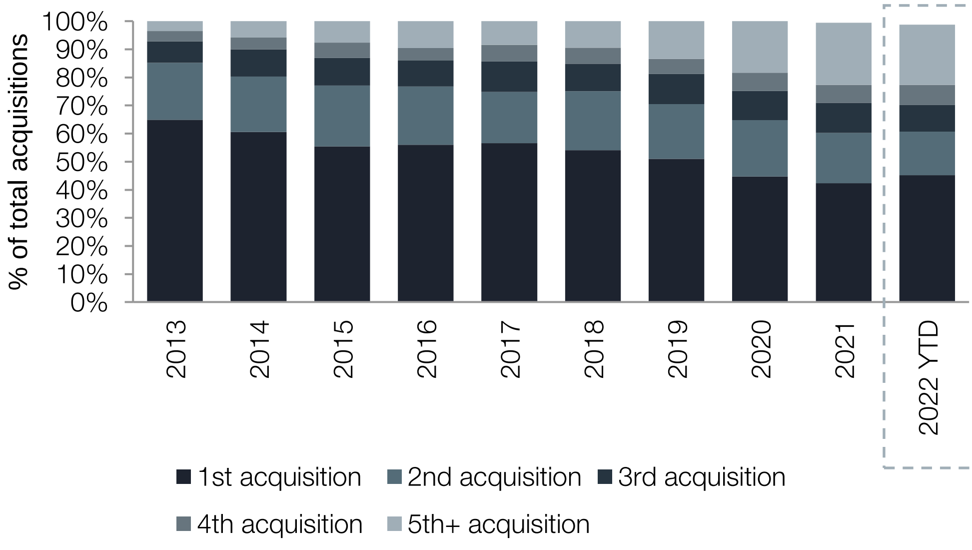
The volume of buy-and-build acquisition as a percentage of total deal volume has averages 6% from 2005 to 2019. However, buy-and-build as an M&A strategy has become far more relevant since 2020 – and now accounts for 16% of total deal volume.

Global M&A activity: Buy-and-Build vs Non Buy-and-Build M&A



In addition, buy-and-build strategies are increasing in their ambition. As the strategy has matured, the average platform business now acquires more targets overall. Since 2013, the platform businesses acquired 2.9 businesses on average, this has increased to 3.6 from 2019, and is 4.1 in 2022 YTD.

Relative number of acquisitions by platform businesses



Four or more bolt-ons now account for nearly a third of total buy-and-build deal flow.

While platform companies are trending towards more companies, the total number drops quickly after five deals; 15% of companies have more than six bolt-ons, but less than 1% have more than 10.

Source: Data driven by mergermarket
Note: 2022 YTD relates to the period 1 January 2022 to 20 August 2022

BUY-AND-BUILD BY SECTOR

The success of buy-and-build as a strategy is heavily dependent on the sector where the investments take place. The best strategies leverage a sector with following attributes:

Growth
Stagnant or declining sectors restrict leverage potential

New entrants
Innovative new businesses offer a constant flow and healthy deal pipeline

Fragmentation
The sector has room to run and harbours consolidation

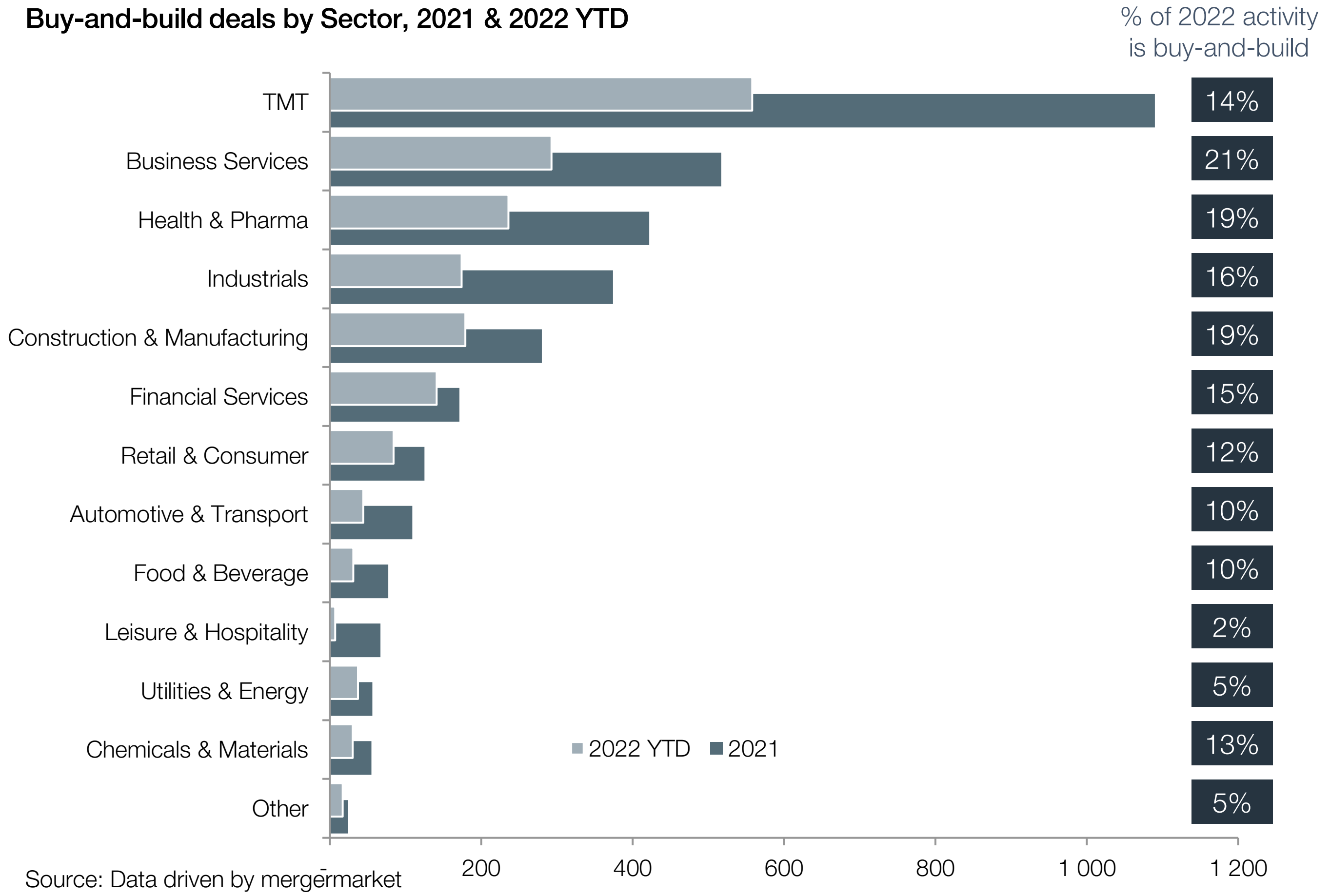
Scalability
The platform is able to leverage its operating model to facilitate new demand

Repeatability
The sector has numerous and similar businesses

Certain sectors are more accommodating for buy-and-build strategies, as too are certain types of business. Buy-and-build has featured in large scale roll-ups of businesses, including care homes, vets, pubs and nurseries – whereby owner managed or family businesses seek an exit and investors see the opportunity to leverage the scale and consistency of a group.

However, TMT leads the way on buy-and-build deals in absolute terms, while Business Services has the highest proportion of buy-and-build deals, with 1 in 5 deals being a bolt-on.

Buy-and-build deals by Sector, 2021 & 2022 YTD



Source: Data driven by mergermarket
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BUY-AND-BUILD BY LOCATION

North America continues to be the dominant market for Buy-and-Build, while the European Continent is a close second. Buyers have increasingly preferred domestic assets, though this trend may be changing

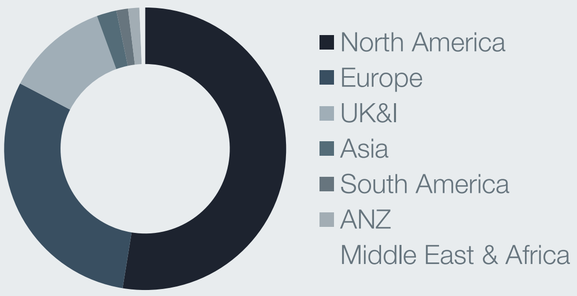
Unsurprisingly, buy-and-build programmes are common in the world leading M&A markets, North America and Europe, which between them account for 98% of buy-and-build activity.

The majority of this activity is driven by the US M&A market, which is also the key driver of global deal volume.

The UK and France are consistently runner up to the USA with large markets for buy-and-build activity while the Netherlands and Germany have more recently become focused on the strategy.

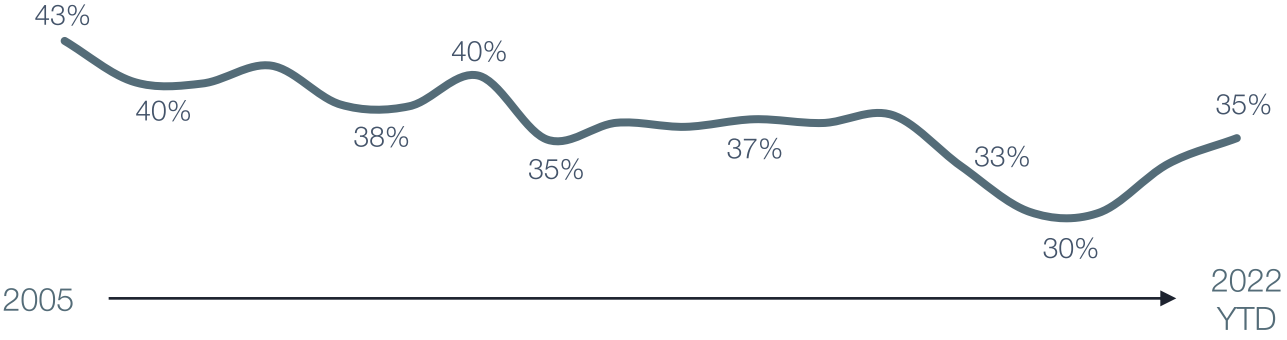
Italy, historically not focused on buy-and-build activity has since focused more on the strategy – moving from 13th in the rankings to 6th since 2015. Canada has moved away from the buy-and-build strategy – once 4th in the global rankings, it now stands as the 10th highest rated country by buy-and-build deal volumes.

Buy-and-build by Region (2005-2022YTD)



There is also a contrast in how globalised the platform businesses are seeking to build. Again, the USA leads the way in global buy-and-build, with American companies acquiring businesses in 46 other countries in 2021. The USA is also the most open market for inbound investment, with companies from 24 countries acquiring American assets in their buy-and-build strategies.

Domestic vs Cross Border Buy-and-Build (graph showing % of Cross-border deals)



Historically, buy-and-build strategies accommodated cross-border transactions, as in the mid-2000s businesses went global. Markets have become more insular in the last decade, with the coronavirus pandemic of 2020-21 reaching a low point for cross-border deals – driven by travel restrictions enforced across the globe. As these restrictions are lifting, cross-border buy-and-build activity is recovering back to pre-pandemic levels

Source: Data driven by mergermarket
Note: 2022 YTD relates to the period 1 January 2022 to 20 August 2022

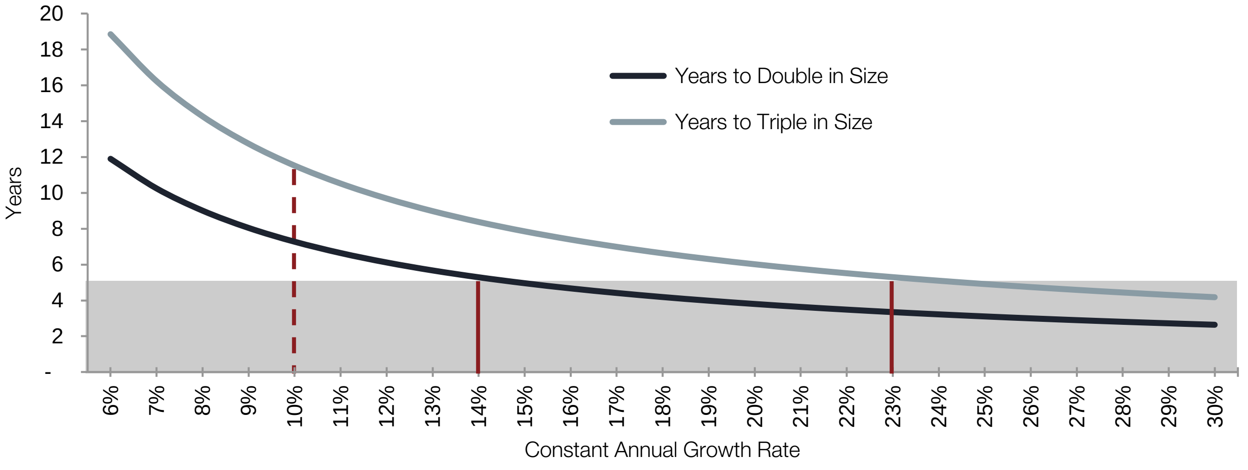
WHY BUY-AND-BUILD?

Buy-and-Build Programmes investors the ability to add value to growth constrained assets in a way any single asset couldn't achieve on its own – leveraging larger multiples on realisation

Buy-and-build has long offered benefits for Private Equity, and record low debt levels have helped to support this strategy with mid-market funds.

The key driver has always been value. Buy-and-build enables accelerated growth in businesses or sectors not used to 30%+ annual growth rates. As the graph below illustrates, a business with annual growth of 10%, commendable for most businesses, would take seven years to double in size, and 12 years to triple (dotted red line).

Constant Annual Growth Rates: Doubling or Tripling in Size



For Private Equity firms seeking to hold assets for five years, organic growth would require a constant rate of 14% and 23% for that business to double or triple in that time (respectively, solid red lines). While these rates are obtainable for some, it certainly isn't without its challenges and may not be possible in sectors where growth has plateaued.

Other benefits of buy-and-build include:

- **Larger businesses attract larger multiples through multiple arbitrage**
- **Platform business uses debt to acquire, further leveraging the initial fund investment**
- **Funds rely on the innate expertise of the platform business during due diligence**
- **Larger funds gain access to mid-market assets through fragmented sectors**
- **Platform business free cash flow funds deals, reducing reliance on the fund**
- **Smaller funds leverage debt to scale-up their fund and punch above their weight**

WHAT MAKES BUY-AND-BUILD DEALS, DIFFERENT?

While Buy-and-Build Integration Programmes add complexity to single acquisition integrations – their repeatability offers an opportunity for teams to replicate and refine a proven methodology playbook in delivery

Buy-and-build programmes, when compared with a single acquisition or merger of equals, are different to both Private Equity investors, and the corporates in question.

While the strategy has is benefits, these don't come without pitfalls and risks. A "normal" integration typically allows the business to focus on one acquisition at a time, over a slow-and-steady, risk-averse timeframe which captures synergies holistically and comprehensively. The change in business processes, systems and culture are carefully choreographed so to not rock the boat.

Buy-and-builds borrow a lot from the standard integration playbook, but in practice they can play out very differently. Although the acquisitions tend to be smaller in relative scale to that of a merger, the sustained pace of change within the platform organisation often leads it to being, and feeling, worlds apart from where it started.

Below we outline some of the key considerations around buy-and-build integrations:

Sustained change
Integration becomes business-as-usual as opposed to a programme of work. It doesn't conclude, it just adapts to the next deal.

Parallel integration
Integration programmes are challenging when teams are delivering just one – but buy-and-build may mean juggling the integration of several deals at once placing further reliance on robust programme management

Reliance on the platform
The platform business acts as host to bolt-ons and bears the responsibility of a strong balance sheet, enduring organic growth and reliable cash generation – it must also host a scalable operating model

Pace of integration
Integration programmes are complex and often run for 18-24 months. Buy-and-build strategies don't have the luxury of time, and each individual acquisition must be delivered at pace

Management team act as investors
The Management team of the platform business act as an extension of the investment team, and vice versa. Both parties are more involved in the deal and business strategy – both must be aligned on objectives

FORMING A BUY-AND-BUILD STRATEGY

A large element in the success of Buy-and-Build Programmes is in the foundation of the strategy – investors who build from the right business, in the right sector, with the right team will move faster and build more value

While there are many attributes to successful acquisitions, buy-and-builds and integrations, we believe there are three key factors which investment and management teams should focus on when formalising their buy-and-build strategy:

1

The **sector** in which the strategy will operate is crucial to the strategy. Teams who invest in **growing markets,** where **existing and new targets are abundant**, help to ensure pace in the plan. Sectors with **consistency across businesses** ensure repeatability.

2

The **platform business** itself will be the foundations on which the strategy is build – and it is self evident then that a strong platform will support a successful strategy. A platform business with strong **organic growth, cash generation** and an ambitious and **experienced management team** will help to drive the programme.

3

The lines between investor and management are blurred during a buy-and-build programme, and both parties may feel stretched, stressed and out of their comfort zone for many months and years. Key to ensuring that the team continues to operate effectively is **alignment** – alignment of goals and objectives, of **values** and of **reward.**

These three attributes are key to buy-and-build success, but clearly any poorly implemented integration will erode value, so there is a forth element which should be considered in delivery of the buy-and-build strategy

4

A robust, rapid integration is required to capture deal synergies and to ensure business continuity of operations across the constantly changing business. Teams who implement appropriate integration management across the strategy will benefit from improved valuations at exit, will reduce the natural attrition of customers and staff, and will better leverage cost efficiencies with suppliers.

In addition, given the recent focus on buy-and-build activity, Integration Due Diligence has become a more typical element of buy-side diligence – where inadequate integration of the strategy erodes the value of the combined business on exit.

HOW WE APPROACH BUY-AND-BUILD INTEGRATION

Our Buy-and-Build approach leverages our proven integration methodology to build an M&A Playbook for businesses – enabling our clients to replicate future integrations with limited or no external support

The best buy-and-build strategies are led by the management team, with support from investors, and targeted use of advisers. On traditional integrations, adviser-led delivery teams can mobilise pre-deal, and often stay in place for 12-18 months post completion.

Our "Normal" Integration Approach

1. Articulate your shared vision
2. Bring your people with you
3. Collectively create the operating model
4. Deliver the plan and realise value

That model is unlikely to work for a buy-and-build strategy, and neither does several adviser-led teams on each acquisition work either. A combination of fee structure and adviser value-add mean that there is a diminishing return from having advisers in delivery on numerous integrations, and the business itself becomes the more suited lead for integration delivery.

Our buy-and-build integration approach respects this. Our experts support platform businesses on the initial integration(s), and co-create a an M&A Playbook, which the platform business then takes forward to future acquisitions.

This ensures the integrations runs at pace, but to a framework which is known to work for your platform business: it delivers operational integration, captures synergies and engages teams while ensuring the key deliverables of a "normal" integration are delivered.

Our Buy-and-Build Integration Deliverables

Our deliverables are developed alongside your platform business and handed over to ensure future success. These deliverables include the below, wrapped up into the M&A Playbook:

Integration Strategy	Integration Plan	Communications & Engagement Plan
Target Operating Model ("TOM") Design	Synergy Tracking	Programme Governance & Reporting

OUR KEY TAKEAWAYS

While buy-and-build as a strategy isn't a new concept for investment and management teams, the strategy being used at a level like never before.

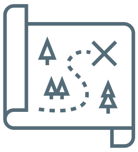
With increasing economic uncertainty, we believe that the strategy will continue to gain traction with investors seeking to continue to deliver high returns, alongside ambitious management teams, at times where deal values will be more variable. The strategy is likely to offer strong returns over the coming years, as investors may find asset prices dip in 2023-24, and recover as the strategy comes to fruition in 2025-28.

But it isn't without its pitfalls. Certain sectors will be more volatile and sensitive to shocks over the coming years, which would compound detrimental effects of the strategy. Integrations performed poorly, or not at all, erode value and introduce longer term distractions to management teams, who must slow the programme to deliver fixes and remedies.

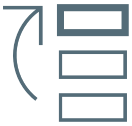
Buyers too are becoming increasingly aware of the need to diligence the integration of buy-and-build assets, with Integration Due Diligence becoming a more common feature in diligence. Teams who can demonstrate a well integrated business will achieve strong equity values on sale – though are reminded that this is the product of the hard work which comes before, and isn't a quick fix in exit planning or the deal process.

Build alignment of the vision and approach between investment and management teams

Build an Integration Playbook early to drive pace and consistency in future deals



Allow the programme to adapt to sector changes and opportunistic deals



Give the programme the focus it needs, not just one or two of the larger or more complex deals

HOW WE CAN HELP

Our teams have deep experience in integration programmes, with both pre-deal readiness and due diligence and post-deal delivery. Our people have supported clients in the formative stages of a buy-and-build programme, helping them to set up for success in the longer term.

Should any of the below apply to you, or your transaction, please feel free to contact us and we would be happy to help support you and your teams.

Services we provide to investors & management teams in buy-and-build integration

- **M&A Integration Playbook**
  Helping you to develop the training, approach, tools and methodologies to ensure rapid integration of future integrations in-house

- **Operational due diligence**
  Helping you to understand the operational considerations on your target (including carve-out considerations, if applicable)

- **Technology due diligence**
  Helping you understand the risks and opportunities within the IT, technology and data landscape of the asset

- **Integration due diligence**
  Helping you determine the effectiveness of a buy-and-build programme (can also be performed as a vendor due diligence role on the sell-side of a buy-and-build programme)

- **Buy-and-build strategy & planning**
  Developing the plan with investors and management, and building alignment

- **Day 1 Readiness**
  Delivering business continuity of the target over Day 1

- **Integration delivery**
  Delivery of integration objectives, including operational changes and synergy capture

- **Buy-and-build programme management**
  Providing programme management to several integration programmes at any one time – ensuring that each acquisition integrates effectively while managing risks and dependencies

- **Optimising the standalone entity**
  Value creation within a broader transformation, including performance improvement and digital transformation

HOW WE ARE DIFFERENT

We differentiate our client service by differentiating our operating model – our focus on senior-led engagements, combined with an agile approach enables us to deliver high quality work alongside a commercially sensible fee structure.

Genuinely one team

Our colleagues operate and act as one team. There are no "departments" in Eight Advisory and our working environment is fully mixed across service specialisms – all with experience of carve-out programmes

- Operational specialists
- Financial due diligence
- Tax advice
- Valuation & modelling
- Tech, IT & Data

Senior involvement

Our scale means our senior people are hands-on in delivery, providing insight directly to our outputs

- One-quarter of our Strategy & Operations team is Partner or Director grade
- People work for us because they enjoy delivery
- Strong sector and functional expertise
- Experts who have lived carve-outs from start to finish
- Our people have held senior positions in previous roles

Deal experience

Our people work around the deal; including buy and sell-side, and pre and post completion. They have a clear understanding of post-deal implications during diligence and advise accordingly

Deal strategy → Due diligence → Valuation → Integration & Separation → Transformation & Exit Support

Client impact

Our clients benefit from focused support which is value-driven and delivered at pace

- Insightful & valuable outputs
- Delivered at pace
- Fast issue identification
- Informed pre-Day 1 assumptions
- Comprehensive scope coverage
- Flexible team sizes

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