

M&A INSIGHTS

CP DEALS INSIGHT: PRIVATE EQUITY STRATEGY – BUY AND BUILD

**MARCH 2024
THIS INSIGHT COVERS:**

- ☐ **Strategy Overview**
- ☐ **Considerations**
- ☐ **Drivers**
- ☐ **Case Studies**

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BUY & BUILD – THE STRATEGY OF CHOICE

Multiple arbitrage possibilities, increased synergistic improvements, market dominance and economies of scale are driving investor buy & build strategies

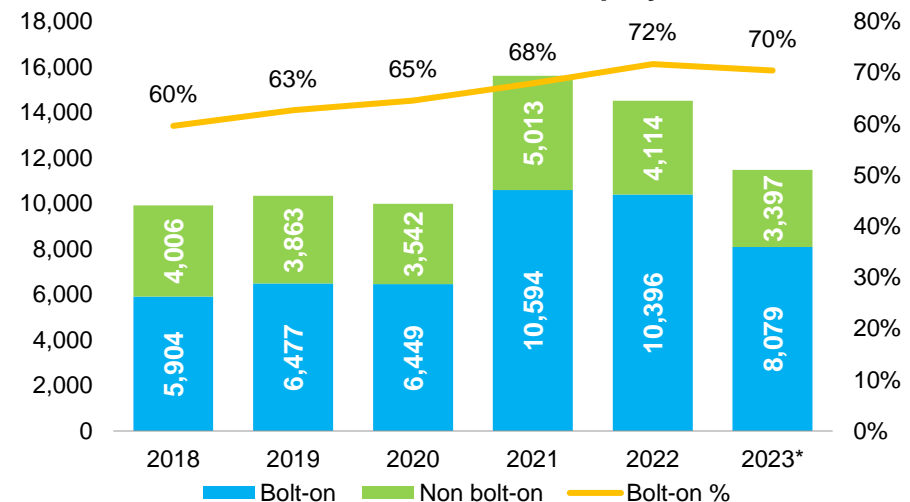
Buy and build is an investment strategy employed, often in private equity, and involves the acquisition of a **platform company** typically with **developed operations and expertise**, that can be **built upon** and **grown** through the **acquisition of smaller companies**

In H1-23, there were **over 2,200 bolt-on acquisitions** by private equity owned platform businesses in Europe, summing to over **£225bn**

There are a multitude of strategic benefits that acquisitions can bring:

- Potential for greater geographic expansion
- Rapid market penetration
- Diversification of product/service offering
- Talent acquisition
- Economies of scale
- Multiple arbitrage possibility
- Expanded customer base
- Increased bottom line profitability through synergies
- Offers corporate synergy and enhancements in market knowledge

Global Volume of Private Equity Deals



Most prolific industries for bolt-on activities

Legal Services	Veterinary Services
Funeral Services	Nurseries
Fostering	Women's Health
Accounting Services	Dental Services

BUY AND BUILD: KEY CONSIDERATIONS

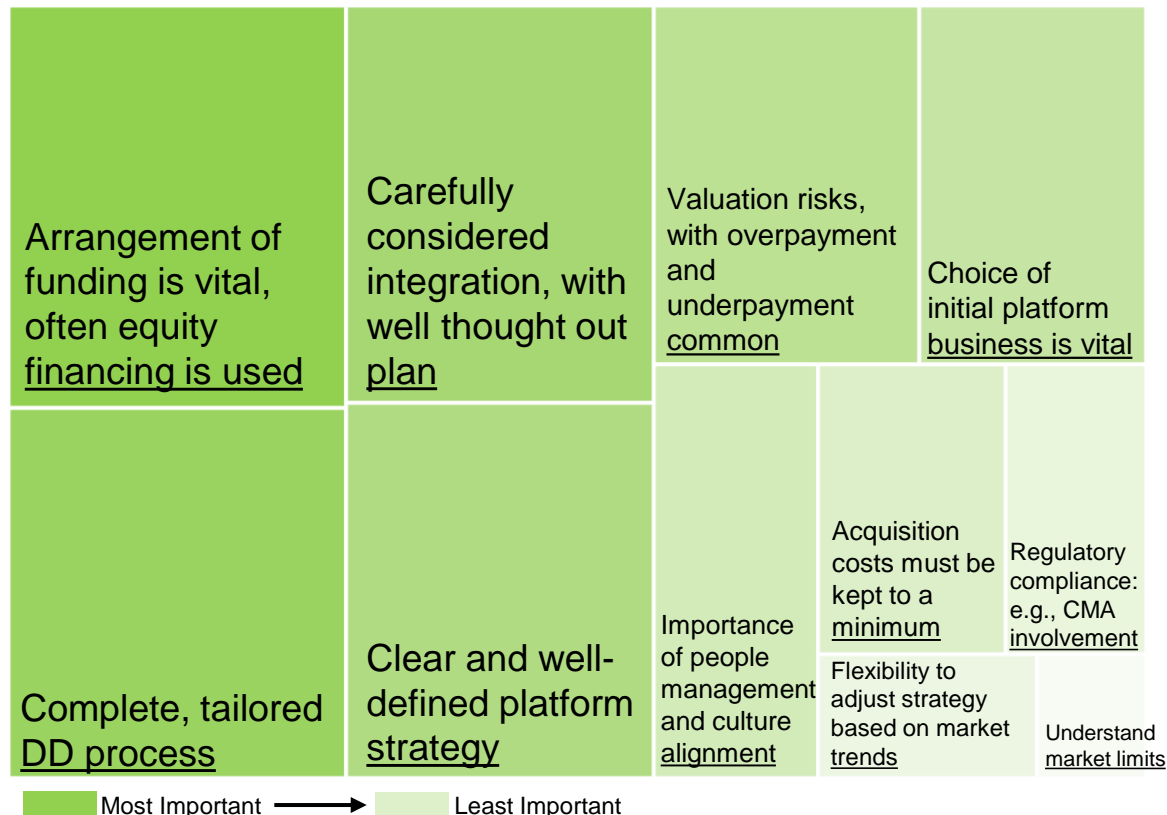
A well executed buy and build strategy can have positive effects on company valuations, however there are a number of key considerations to maximise these benefits

For a buy and build strategy to be successful, businesses need **a clear and well-defined strategy**, to deliver **maximum returns** and **synergies**

Common challenges for businesses pursuing buy and build strategies:

- This strategy exposes the acquirer to a greater level of regulatory hurdles, operational and strategic risks, and a higher exposure to market uncertainties
- Companies need to have a certain level of strategic and cultural alignment between all parties on long term goals
- Integration of new companies under a platform can have unintended consequences on talent retention. Retention of key personnel is essential to realise full benefits of acquisitions

Key Considerations



BUY AND BUILD STRATEGY: KEY DRIVERS

The main drivers in the ever-growing implementation of this strategy, and its prevalence amongst private equity investing

PE Dry Powder

De-Risk for PE

Portfolio
Diversification

Market
Fragmentation

Market
Demographics

Increased
Regulatory Burden

Market
Dominance

Recession
Proof

Buy and build strategy has been around for decades, however in recent years there has been a noticeable increase in the number of bolt on acquisitions and the establishment of new platform businesses, owing to changing sector dynamics and high valuation multiples

Due to the increased number of recent geo-political shocks, investors have spent an increased amount of time understanding the markets in which they have capital deployed. Therefore, they are deploying their vast dry powder in 'better-known' industries

The deployment of capital in existing industries de-risks investments for PE, as they are effectively doubling-down on management teams, within sectors that they already understand, and where they may have already seen returns

Due to the high level of fragmented industry composition seen in certain sectors, building one large consolidated group can have benefits in recessionary periods, as typically, larger companies can withstand economic pressures greater than standalone businesses. Consolidation can also generate significant synergies and drive higher returns

CASE STUDY 1

Market and select businesses where this strategy has been successful

Professional Services

A traditional and fragmented industry which is of vital importance to the UK economy, contributing c.13% to GDP in 2023. Changing legislations, pricing issues and technological change are driving private equity activity

- The Legal Services Act of 2007, which allowed for different ownership structures for law firms, has driven a wider range of structures behind law services providers
- Traditional LLPs are still a common ownership structure, which present a conflict of interest in investment vs profit
- Blixt, Sovereign and Waterland have been extremely active and executing buy and build strategies, with Waterland backing various accounting firms
- A common theme is the drive to diversify offerings available to clients. Platform businesses are ever increasingly acquiring well-established financial advisory, or more specialist law firms, offering a cheaper and less risky approach to expanding into different markets



- DJH Mitten Clarke are accountants in the Midlands, Northwest and Yorkshire and are currently backed by Tenzing Private Equity
- Established in 2021, following the merger of 2 of Stoke-On-Trent based accountancy firms
- Since their PE backing, they have acquired 5 businesses to expand their geographical presence in their regions

Lawfront

- Lawfront is a national legal services business, with leading regional law firms providing general legal services to individuals and businesses across the UK
- Neil Lloyd (CEO) stated, "Lawfront's strategy is to buy between 5 and 8 'regional leaders' and then invest in their growth in those regions"
- Currently backed by Blixt Private Equity, since their founding in 2021, they have made 4 acquisitions and are on a clear buy and build path

CASE STUDY 2

Market and select businesses where this strategy has been successful

Healthcare Services

Increasingly prevalent in the healthcare market, buy and build strategies are an attractive option for private equity wishing to increase returns

- Private equity have long been active in the sector, including in verticals such as dentistry, physiotherapy and social care. A recent study concluded buy and build deals significantly outperform standalone PE deals by c.10% (31.6% IRR vs 23.1%)
- The volume of mid-market healthcare private equity investments has increased exponentially in recent years, increasing from an average of 4 per year (2012-15) to an average of 42 per year (2019-22)
- Despite all buy and build strategies being different, there are similarities with the successful approaches taken:
 - Distinctions between group and practise level growth drivers
 - Clear structure as to what activities are managed at practise/group levels (e.g. IT)
 - Clarity on expected cost synergies across different support systems
 - Pursuit of lean support systems

PORTMAN dental care

- Founded in 2009 by CEO Sam Waley-Cohen, Portman Dental Care currently has over 375 dental practices across the UK, Ireland and Benelux, including 16 orthodontic Portman Smile Clinics, caring for over 700,000 patients
- Initially backed by Livingbridge, it is now owned by Core Equity Holdings, a Belgian based private equity firm
- It has made 7 acquisitions, most notably the merger with Dentex Group



- Established in 2004, the group has grown consistently year on year, and are now the largest privately owned occupational health, rehabilitation and well-being company in the UK
- Supporting more than 700,000 employees across more than 1000 clients, the group has been highly acquisitive post PE-backing from LDC in 2021, adding 5 new businesses to the group in 2023

CP DEALS: WORKING WITH BUY AND BUILD PLATFORMS

We have experience working on a range of buy and build related deals, in a variety of sectors



Ongoing Transaction Services and Transaction Tax advice

Transaction Services and Transaction Tax advice to Funeral Partners as they continue their role up strategy, originally backed by August they are now backed by Montagu and have grown to have over 240+ funeral partners



Corporate Finance and Transaction Tax advice to management

Advice to the management team of Land Survey Solutions Limited, on their sale to Westbridge, who will operate it as a new platform business



Ongoing Transaction Services advice

Ongoing advice to Family First Nurseries, backed by August Equity as they continue their buy and build strategy. Originally having 4 sites, they now operate c. 100 nurseries



Corporate Finance advice to private equity

Advice to Blixt Group on their acquisition of Academy Insurance, who will operate it as a new platform business to acquire similar insurance brokers



Corporate Finance advice to the management team

Sell-side corporate finance advice to the shareholders of Genesis Dental (now Dental Partners) on their sale to August Equity, they have since grown from 10 practices to over 70



Corporate Finance advice to the management team

Sell-side corporate finance advice to the management team of Nelsons on their sale to Lawfront Group, backed by private equity Blixt, they currently have 3 businesses and will continue to grow

COOPER PARRY: A BUY AND BUILD SUCCESS STORY

About us and our journey

Recent CP Deals '4th in the Midlands' & '20th Nationwide' as financial advisor



COOPER PARRY



WATERLAND
PRIVATE EQUITY INVESTMENTS

Buy and build strategy in the UK accountancy space

With Waterland's investment, we have been rolling out our five-year vision to generate a five-fold increase in annual revenue and provide broader services to new and existing clients

New Partner hires, team lifts, and acquisitions will strengthen existing and add new capabilities, expanding our presence in the UK and internationally

Following the investment, we have been on a journey of acquisitions, having bought over **6 businesses in the last 18 months!**

We are **perfectly placed** to advise on **your plans**

glassdoor rating

4.5 ★★★★★



We have achieved B Corp certification - businesses that meet the highest standards of verified social and environmental performance, public transparency, and legal accountability to balance profit and purpose

CONTACT US

Who we are



SIMON NICHOLS

Partner

Simon leads the Cooper Parry Transaction Services team in London & the South East. He was previously a Partner at both Azets and KPMG.

He has over 20 years of experience in leading cross border, multi-disciplinary teams on global and domestic acquisitions, demergers, disposals and capital markets transactions.

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NIALL CHANTRILL

Partner

Niall has worked in M&A for 10 years and has spent all of that time working with private companies & PE operating across the mid-market.

He has advised on a wide variety of transactions across Business Services, Tech & Healthcare.

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LOREN DOCKSEY

Senior Analyst

Loren joined Cooper Parry Corporate Finance in 2020 as an analyst, assisting the team with deal origination and market research.

Loren has experience of both private equity and corporate clients, assessing investment criteria, mapping markets and originating acquisition targets.

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CONNOR MALONE

Analyst

Connor joined Cooper Parry Corporate Finance in July 2023 as an analyst, undertaking a year in industry as part of his BSc (Hons) Business Economics and Finance degree at Loughborough University

Connor has experience mapping markets, creating market analysis pieces, originating acquisition targets and assessing buyer pools

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M&A INSIGHTS

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