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Add-On Acquisitions: Platform and Bolt-On M&A in PE-Owned Companies

Financial criteria for add-on acquisitions, accelerated due diligence for bolt-on deals, integration finance, goodwill accumulation across multiple acquisitions, and the platform financial model

WHAT YOU WILL LEARN AND WHY IT MATTERS

The buy-and-build strategy — in which a PE fund acquires a platform company and grows it through a series of add-on acquisitions — is one of the most common and most demanding value creation approaches in the private equity industry. For the CFO of the platform company, the buy-and-build strategy multiplies the financial management complexity: each add-on acquisition introduces a new set of financial statements to consolidate, a new purchase price accounting exercise to execute, a new set of integration tasks to manage, and a new set of lender reporting requirements to satisfy.

The CFO who can manage this complexity efficiently — who has the financial infrastructure, the analytical discipline, and the organizational bandwidth to execute multiple add-on acquisitions over the holding period while running the platform company at full financial governance quality — is enabling the buy-and-build strategy to generate the returns that PE sponsors project at the time of the platform acquisition. The CFO who becomes the bottleneck in the buy-and-build process — because the platform's financial management cannot absorb the additional transactions — is constraining the primary value creation lever that the PE sponsor is executing.

FINANCIAL CRITERIA FOR ADD-ON ACQUISITIONS

The financial criteria for add-on acquisitions in a PE buy-and-build strategy are distinct from the criteria for the platform acquisition and reflect the specific strategic and financial context of the bolt-on transaction.

THE CONTRIBUTION TO PLATFORM EBITDA: The primary financial criterion for an add-on acquisition is the contribution to the platform company's EBITDA — both the acquired EBITDA at closing and the incremental EBITDA expected from the synergies of the combination. In a buy-and-build strategy, the platform company is typically valued at a higher EBITDA multiple than the add-on acquisitions, creating a multiple arbitrage opportunity: paying a lower multiple for the add-on's EBITDA and realizing the full platform multiple on the combined entity's EBITDA at exit. The CFO must model this multiple arbitrage explicitly — the difference between the add-on acquisition multiple and the expected exit multiple, multiplied by the EBITDA added through the acquisition, is the gross value creation from the arbitrage before synergy.

THE INTEGRATION COST AND TIMELINE: Every add-on acquisition requires integration effort and integration cost. The integration cost — the one-time expense of combining the acquired business's systems, processes, and teams with the platform — must be modeled explicitly in the acquisition financial analysis and compared to the synergy value being acquired. Acquisitions with integration costs that exceed the present value of the expected synergies are value-destructive, and the CFO must be willing to make this financial assessment explicitly and present it to the PE sponsor even when the investment team is enthusiastic about the strategic rationale.

THE LEVERAGE CAPACITY CONSTRAINT: The platform company's existing credit agreement constrains the total leverage that can be used to fund add-on acquisitions. Most PE credit agreements include an accordion feature — a pre-approved capacity to increase the senior secured facility by a

specified amount to fund add-on acquisitions, without requiring a full credit amendment. The CFO must understand the accordion capacity and the conditions under which it can be drawn (typically subject to pro-forma leverage compliance, a minimum EBITDA contribution from the acquisition, and other conditions specified in the credit agreement) to determine how many and how large the add-on acquisitions can be within the existing debt capacity.

ACCELERATED DUE DILIGENCE FOR BOLT-ON DEALS

Add-on acquisitions in a PE buy-and-build strategy are typically smaller than the platform acquisition and are executed on a compressed timeline — often four to eight weeks from initial offer to closing, versus twelve to sixteen weeks for a platform acquisition. This compression requires the CFO to develop a streamlined due diligence process that can be executed quickly without sacrificing the analytical depth required to identify the financial risks that determine whether the acquisition is value-creating.

THE STREAMLINED DUE DILIGENCE FRAMEWORK: The accelerated due diligence framework for add-on acquisitions should focus the analytical effort on the highest-risk areas and compress or eliminate the analysis of lower-risk areas. High priority: the quality of earnings analysis (the adjusted EBITDA verification that determines the acquisition price), the revenue quality analysis (the customer concentration and retention assessment), and the working capital analysis (the target working capital for the purchase price adjustment mechanism). Medium priority: the financial statement review, the cap table and equity structure review, and the key contract review. Lower priority: the comprehensive tax due diligence, the environmental and regulatory due diligence, and the detailed systems and IT review — all of which can be completed post-closing with appropriate representations and warranties protection or escrow holdback.

THE REPRESENTATIONS AND WARRANTIES INSURANCE: For add-on acquisitions, the use of representations and warranties insurance (introduced in Part Fourteen) is even more valuable than for the platform acquisition because of the compressed due diligence timeline. The CFO cannot conduct a comprehensive due diligence in four to eight weeks; RWI insurance provides the financial protection for the risks that were not identified during the compressed process. The cost of the RWI premium (one to two percent of the insured amount) should be included in the acquisition financial model as a transaction cost.

GOODWILL ACCUMULATION AND PURCHASE ACCOUNTING AT SCALE

A platform company that completes five or ten add-on acquisitions over the holding period accumulates substantial goodwill — the excess of acquisition prices over the fair value of net identifiable assets — on its balance sheet. This goodwill accumulation creates specific financial reporting and governance challenges that the CFO must manage proactively.

THE GOODWILL IMPAIRMENT TESTING CHALLENGE: As the platform company accumulates goodwill from multiple add-on acquisitions, the annual goodwill impairment testing becomes increasingly complex. The CFO must track the goodwill associated with each acquisition separately, assign each goodwill

balance to the appropriate reporting unit, and test each reporting unit for impairment annually. For a platform company with multiple add-on acquisitions, the goodwill impairment testing may require separate valuation analyses for multiple reporting units, each with its own financial projections and discount rate.

THE PURCHASE ACCOUNTING BACKLOG: Each add-on acquisition requires a purchase price allocation — the fair value assessment of all identifiable assets and liabilities — that must be completed within the measurement period (up to one year from the acquisition date). If the platform company is completing multiple add-on acquisitions per year, the purchase accounting backlog can become a significant accounting project management challenge. The CFO must track the status of the purchase price allocation for each acquisition, ensure that the preliminary allocation is completed before the next quarterly financial statements, and finalize the allocation within the measurement period.

THE PRO FORMA FINANCIAL PRESENTATION: When presenting the platform company's financial results to the PE sponsor and the lenders, the CFO must provide a pro forma financial summary that shows the company's financial results as if all the add-on acquisitions had been completed at the beginning of the reporting period. The pro forma presentation allows the PE sponsor to assess the platform's growth on a consistent basis, without the distortion of mid-year acquisition timing. The CFO must maintain the pro forma reconciliation as an ongoing analytical tool, updating it with each new acquisition.

THE PLATFORM FINANCIAL MODEL

The platform financial model — the integrated financial projection that tracks the growing platform company through each successive add-on acquisition — is the master analytical tool of the buy-and-build CFO. It must be updated with each acquisition closing, must incorporate the purchase accounting adjustments that affect the platform's reported financials, and must project the combined platform's financial trajectory to the anticipated exit date.

THE MODEL UPDATE PROCESS: Each time a new add-on acquisition is completed, the CFO must update the platform financial model to incorporate the acquired company's financial data: the opening balance sheet (including the purchase accounting adjustments), the revenue and EBITDA contribution from the acquisition date forward, the integration cost timeline, and the synergy realization schedule. This update must be completed within the first thirty days of the acquisition closing to ensure that the monthly reporting package reflects the correct combined company financial position.

THE COMBINED COMPANY EBITDA BRIDGE: A particularly important element of the platform financial model for buy-and-build companies is the combined company EBITDA bridge — the analytical tool that shows how the platform's EBITDA has grown from the initial acquisition through each successive add-on. This bridge distinguishes organic EBITDA growth (improvements in the existing business's profitability) from acquired EBITDA (the earnings added through acquisitions) and synergy EBITDA (the incremental earnings from the combination of the acquired businesses with the platform). This three-way decomposition is essential for the PE sponsor's assessment of the quality of the value creation — organic EBITDA growth is valued most highly by exit acquirers, acquired EBITDA at a significant multiple arbitrage

is also valuable, but synergy EBITDA that has not yet been fully realized creates uncertainty about the exit valuation.

ACTIONS TO TAKE BEFORE PART TWENTY-FOUR

Build the add-on acquisition financial model template — a standardized model that can be completed in forty-eight to seventy-two hours for each new acquisition opportunity, including the QoE bridge, the synergy analysis, the acquisition financing analysis, the pro forma leverage calculation, and the equity return contribution at the platform level. This template ensures that every acquisition opportunity is evaluated with consistent analytical rigor and on a timeline that supports the compressed due diligence schedule.

Review the goodwill impairment testing status for all completed acquisitions: confirm that the purchase price allocation has been finalized for every acquisition outside the current measurement period, that the reporting unit structure is appropriate for the platform's current organizational structure, and that the annual impairment testing has been completed for every reporting unit with a goodwill balance. Present the goodwill status summary to the audit committee as part of the next audit committee meeting.

CLOSING PERSPECTIVE

Add-on acquisitions are the execution mechanism of the buy-and-build strategy, and the CFO who can manage the financial complexity of a platform growing through multiple bolt-on transactions — the accelerated due diligence, the purchase accounting, the integration finance, and the growing platform financial model — is enabling the PE sponsor's most ambitious value creation strategy. The financial infrastructure required to execute this strategy at scale — the templates, the processes, the team capabilities, and the model architecture — must be built proactively before the acquisition pipeline fills up, not reactively in response to each new transaction's demands.

COMING NEXT IN THE SERIES

Part 24 — The Exit Preparation Process: Financial Readiness for the PE Hold-Period Conclusion

Part Twenty-Four covers the financial preparation for the PE exit — the financial cleanup required twelve months before the process begins, the management presentation and financial narrative for the sale, the QoE preparation from the seller's side, the data room assembly, and the financial diligence support that determines the quality of the exit process.