

Accepted Manuscript

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PII: S0929-1199(17)30212-2
DOI: doi:[10.1016/j.jcorpfin.2017.04.006](https://doi.org/10.1016/j.jcorpfin.2017.04.006)
Reference: CORFIN 1183

To appear in: *Journal of Corporate Finance*

Received date: 13 March 2016
Revised date: 31 March 2017
Accepted date: 8 April 2017



Please cite this article as: Hammer, Benjamin, Knauer, Alexander, Pflücke, Magnus, Schwetzler, Bernhard, Inorganic growth strategies and the evolution of the private equity business model, *Journal of Corporate Finance* (2017), doi:[10.1016/j.jcorpfin.2017.04.006](https://doi.org/10.1016/j.jcorpfin.2017.04.006)

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Inorganic growth strategies and the evolution of the private equity business model*

Benjamin Hammer[†], Alexander Knauer, Magnus Pflücke, Bernhard Schwetzler[‡]

Abstract

This paper investigates inorganic growth strategies in PE buyouts where the portfolio firm, which has been acquired in the initial buyout, serves as a platform for subsequent add-on acquisitions. We analyze a comprehensive sample of 9,548 buyouts and 4,937 add-on acquisitions spanning 16 years of buyout activity in 86 countries. We find that probability for add-on acquisitions is high if the PE sponsor is experienced and has reputational capital, if the portfolio firm is large, has M&A experience at entry and operates in an industry with moderate degree of fragmentation, as well as in case of favorable financing conditions. Similar factors also explain higher add-on productivity and faster add-on execution. On average, cross border/industry diversifying inorganic growth strategies are most likely if the portfolio company already draws upon international/inter-industrial M&A experience at entry and if the PE sponsor frequently invests across border/industries. Furthermore, our results indicate that add-on acquisitions increase the probability for exiting through IPO and secondary buyout. The effect on secondary buyouts is driven by deals where the subsequent PE owner continues the inorganic growth strategy of the previous buyout.

This version: 31 March 2017

Keywords: Leveraged buyout, mergers and acquisitions, buy and build, add-on, bolt-on

JEL classification: G23, G24, G34

* We gratefully acknowledge comments from an anonymous referee, April Knill, Rüdiger Stucke, Denis Schweizer, Tiantian Gu, Martin Hibbeln, Miroslav Mateev, and conference participants at the EFA annual meeting 2014 (Lugano), FMA annual meeting 2014 (Nashville), MFA annual meeting 2014 (Orlando), World Finance Conference 2014 (Venice), DGF annual meeting 2014 (Karlsruhe) and WHU Campus for Private Equity 2014 (Vallendar). This paper benefitted from valuable research assistance by Robert Friesel. We also thank BofA Merrill Lynch for providing us with high-yield index data. All errors and omissions are our own.

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