Camino Search

EXECUTIVE EDGE

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THE M&A MENTALITY

With
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This article is the first in a three-part *Executive Edge* mini-series featuring Camino Search's Head of M&A and Corporate Development Practice, Nathan Placks. In part one, Harry Hewson and Nathan Placks explore prominent M&A strategies, what defines them, and the key skills or characteristics required of leaders in acquisitive environments in an interview conducted by Research Analyst, Lauren Andrews.

Featuring

NATHAN PLACKS

Based in Camino Search's Tampa office, Nathan launched and continues to lead the M&A and Corporate Development team across European and US offices. He is also the co-founder of Clerkenwell House, a networking group based in Tampa that connects investment professionals and entrepreneurs within the technology and services sectors.

Nathan has a successful track record of building M&A teams within established private equity portfolio companies, as well as building new rollups, holding companies, and investment firms, all focused on vertical market software. He is extremely well connected and recognised as a thought-leader within the B2B and vertical market software, private equity, venture capital, roll-up, and family office landscapes.

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[LA] What are the most prominent acquisition strategies in the current market and how do they differ?

[NP] In our market there are four main acquisition strategies at play, including roll-ups, strategic M&A, holding companies and search funds, each of which is unique, with variations in volume, approach to consolidation, objectives, and acquisition targets.

ROLL-UP

A roll-up is a strategy where an investor or company acquires multiple smaller companies in the same industry and merges them to create a larger, more competitive entity.

The primary goal is to gain economies of scale, drive revenue and EBITDA, increase market share and customer base.

'Key Characteristics'

Industry Focused: They typically target fragmented industries with many small players that can be consolidated.

Synergy Driven: The acquired businesses are usually integrated to maximise value by enhancing operational efficiencies, leveraging cross-selling, and streamlining back-office functions.

Exit Strategy: Roll-ups generally aim for a sale to a larger strategic buyer, private equity, or going public once sufficient scale is achieved.

Volume: The M&A strategy is focused on volume, typically with more than eight acquisitions per year.

Everfield is a strong example of a successful roll-up. The platform was created by Aquiline Capital Partners in 2022 and has since acquired 19 vertical market software companies. The company offers long-term investments and accelerators for established software businesses, helping them preserve their legacy, identify successors, achieve significant growth, and secure personal financial freedom.

STRATEGIC M&A

Strategic M&A involves the acquisition of a company by another company in order to achieve specific strategic objectives, such as entering new markets, acquiring technology, or eliminating a competitor.

The primary goal is to enhance the acquiring company's strategic position, whether by expanding its product line, entering new markets, or acquiring new capabilities.

'Key Characteristics'

Value Creation: This approach focuses on enhancing long-term value through synergies, operational efficiencies, market expansion, and innovation, often involving integration of complementary assets, capabilities, and technologies.

Long-Term Focus: The acquisition is typically intended to be integrated and held long-term as part of the acquiring company's core operations.

Strategic Fit: These acquirers target companies that complement or enhance their existing business, making impactful and transformational deals.

Selectivity: Strategic acquirers are low-volume acquirers, typically making between two and five deals per year. Unlike roll-ups, they do not buy purely for scale, instead acquiring a select few companies that will complement one another looking at the whole customer journey.

A great example of this is Keyloop, backed by Francisco Partners, which is an automotive software company that has completed seven strategic acquisitions in the last three years across sales, compliance, and marketing to name a few. These add-ons focus on individual yet complementary elements of the customer journey, enabling Keyloop to provide a seamless experience to its clients from the moment you open their website until you pick up the vehicle.

[HH] **Strategic M&A is the most common and traditional acquisition strategy.** When people think of acquisitions, the first image that often comes to mind is that of large, successful companies buying out their competitors to strengthen their market position, such as Facebook acquiring Instagram or Disney acquiring 21st Century Fox.

HOLDING COMPANY

[NP] A holding company is a parent corporation that owns a large enough share in its subsidiaries to control their policies and management but does not engage in the day-to-day operations of those businesses.

The primary goal is to manage a portfolio of companies, often in diverse industries, to create value for stakeholders and generate EBITDA that can be reinvested into other acquisitions.

'Key Characteristics'

Diversification: These organisations often hold a variety of businesses in different sectors to spread risk, maintaining a decentralised model with minimal integration.

Control without Management: Their focus is on governance and strategy while allowing subsidiary management to handle daily operations.

Financial Optimisation: This approach is often used for tax advantages, financial management, and optimising capital allocation across the portfolio.

Long-Term Hold: They typically hold companies for long periods, generating returns through dividends, capital appreciation, or reinvestment. These holding periods typically stretch across 30+ years, and sometimes can be true permanent capital.

Volume: There is no set rule on the volume of acquisitions within a holding company, with companies like Datacor completing two to four acquisitions per year similar to strategic acquirers, compared to Constellation completing 50+ acquisitions.

Danaher Corporation is an excellent example to give here; it's a diversified holding company that operates as a conglomerate with a wide range of subsidiaries across various industries including life sciences, diagnostics, environmental solutions and more. The company typically acquires businesses with strong market positions and potential for growth, and has completed 80+ buy-side transactions to date.

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[HH] **Permanent capital vehicles and holding companies are the most topical right now and are becoming more common due to the limitations of liquidity mechanisms in traditional PE.** Borrowing to finance M&A has become more challenging and unlike the typical PE cycle, permanent capital vehicles are not constrained by short-term timelines, allowing them to focus on long-term synergies and sustainable value creation, offering a more stable and strategic approach to M&A.

SEARCH FUND

[NP] A search fund operates very differently; it is an investment vehicle created by entrepreneurs to raise capital from investors with the purpose of searching for, acquiring, and managing a small-to-medium-sized company, typically with an EBITDA of one to five million.

The goal is for the entrepreneur to become the CEO of the acquired company and drive growth to eventually provide returns to the investors and themselves.

[HH] It's important to note that whilst there is the initial acquisition, these companies are not always M&A driven and less than 15% of these acquisitions have been part of true consolidation M&A strategies.

'Key Characteristics'

Entrepreneur-Led: Search funds are driven by entrepreneurs who raise capital, to acquire and assume leadership in a company that they will use their vision and initiative to grow.

Small and Mid-Sized Targets: Typically they focus on acquiring a single company in a stable industry with strong cash flows.

Investor Role: Investors provide the capital for the search process and acquisition and will often then serve as advisors.

Exit Strategy: These investments usually follow the typical PE lifecycle with a five to seven year hold and a clear exit plan, though some may aim for longer-term management.

This strategy originated in universities including Stanford, Harvard and MIT; a great example of one of these funds and their success stories is Pacific Lake Partners and acquisition of Banyan Software. Pacific Lake Partners acquired Banyan Software through this strategy in 2017; whilst not all search funds invest with the intention of creating a roll-up, Banyan Software has since adopted this model, completing 39 acquisitions post-investment.

[LA] Are there any exceptions to this categorisation?

[HH] There are some PE backed roll-ups that don't integrate and possess an evergreen style model such as Visma with Hg Capital and Everfield with Aquiline. This leads to them often being grouped with permanent capital vehicles despite going through the PE lifecycle.

[LA] From your experience, what are the key skills and characteristics required for senior leaders working in acquisitive environments and are there any exceptions?

[NP] There are certain core traits and skills needed within acquisitive businesses, but it's important to remember that these will need to be scaled up or down depending on the strategy in play, for example, strategic acquirers will focus on great integrators whereas roll-ups will focus on great originators.

End-to-End Execution: They must be capable of handling processes end-to-end, proficient in managing all aspects of acquisitions, including but not limited to due diligence, workflows, financial modelling, valuations, and negotiations.

[HH] Integration Experience: Some models require advanced integration skills; the ability to get the businesses talking to each other is key, facilitating communication and synergy between acquired businesses to enhance the overall value.

[NP] Integration is becoming more and more important. The 'bag of spanners' approach which takes the assumption that buying lots of businesses at a 2x multiple and packaging them together you can sell them at a 5x multiple to make returns, is becoming less effective. Aside from integration, the alternative approach to reaching the desired return is to make the holding period longer, hence the shift we are seeing towards permanent capital funds and long-term holds.

That being said, only 30% of our current clients look for this. The longer-term holds found in holding companies and some roll-ups do not require integration, different from the strategic acquirers following the typical PE lifecycle which requires integration in order to sell.

Deal Sourcing/Origination: Leaders who are directly involved in the acquisition process should be great at deal sourcing, having expertise in both the thematic research side of mapping and research alongside the outreach side of reaching out to founders, bankers and advisors.

[HH] **Stakeholder Management:** The relationship between the management team and PE partners differs in an M&A driven business and will require strong stakeholder management skills and investor exposure. Whether it's bolt-ons, a roll-up, transformational acquisitions or carve outs, the sponsor will be even more present in an M&A driven asset.

Market Analysis: Leading in these environments also requires a strong macro view of the market and understanding of how each acquisition sits within your market positioning, strategic direction, and the narrative communicated to potential buyers.

Networking: Great leaders excel at building and maintaining relationships across the industry. Their ability to network helps in sourcing deals, gaining insights, and fostering connections that can be advantageous for acquisitions and business growth.

Transformation: They should be capable of guiding transformation within acquired companies. This includes improving operations and efficiencies, as well as adjusting business models, cultures, and strategies to identify new growth opportunities and add value.

Team-Building: Leaders need to be skilled at building and nurturing strong, high-performing teams. In acquisitive environments, having a cohesive and capable team is crucial for managing complex acquisitions, driving integration, and ensuring long-term success.

[NP] Allocation: Acquisitive environments need exceptional allocators; CEOs in particular need to be great at allocating people, time and capital. They need to effectively manage these resources to get the most value out of their investments, placing the right people in key roles, focusing time on important projects, and investing capital where it will make the biggest impact.

Competitiveness: They must be able to compete effectively against other buyers in the market, often between five and ten competitors. They need to be able to back this up with strong negotiation skills and strategic acumen to stand out and secure deals amidst intense competition from other interested parties.

Holding companies differ from the other models in terms of leadership traits required. In these environments, characteristics are prioritised over skills, unlike other settings where the reverse may be true; the absence of the structured PE lifecycle requires a less hands on approach compared to the longer-term holds.

Frugality: Within long-term hold structures, leaders need to be frugal and comfortable with delayed gratification. They should be willing to forgo short-term gains in favour of long-term value creation, recognising that significant returns often require patience and a focus on sustainable growth.

COMING NEXT

The next article is a continuation of this three-part mini series on M&A featuring Nathan Placks, covering the correlation between desired exit strategies and talent requirements.

Executive Edge is Camino Search's bi-weekly column, showcasing our insights on the market, talent acquisition and business strategy, authored by Founder and Managing Director, Harry Hewson.

Camino Search

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About Us

TALENT THAT TRANSFORMS BUSINESSES

Camino Search is your trusted partner and advocate in the market. Your success is our priority, and we're here to support you every step of the way. From advising start-ups and SMEs on their first finance hires through to full team builds, we source the industry's leading talent through our extensive network, cutting-edge software and data-led market analysis.

We are committed to working at pace without compromising on quality, consistently maintaining efficient yet thorough processes, leveraging our international and regional networks. More than just recruiters; we are true talent partners and trusted advisors, guiding both individuals and organisations towards their goals, dedicated to making a meaningful impact.

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