Construction Delays

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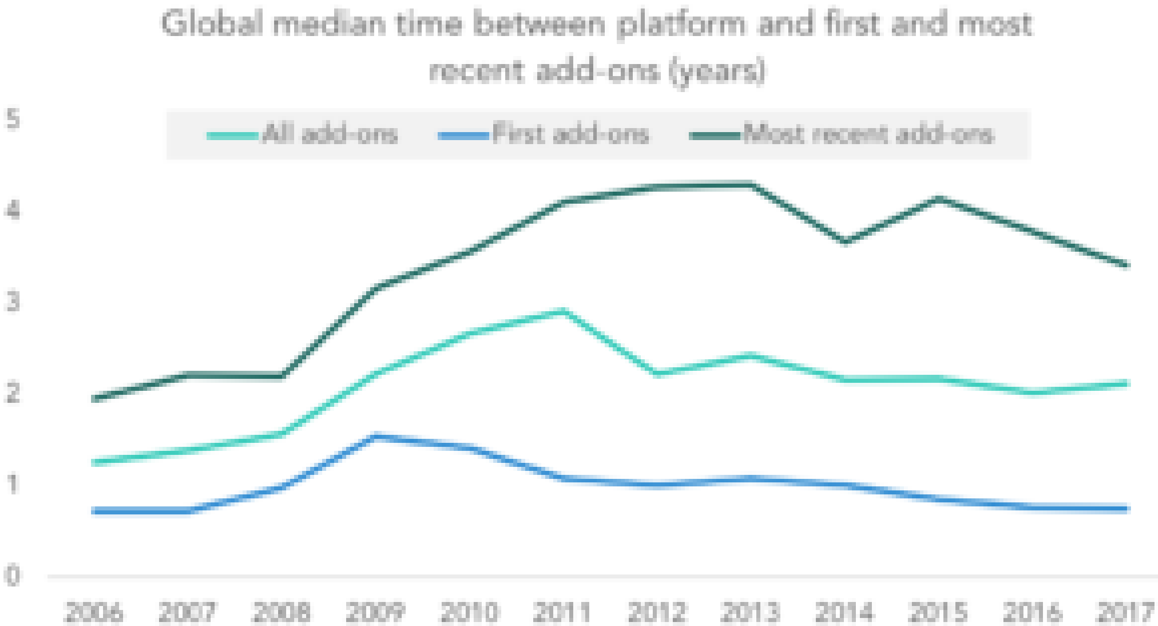

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Last week we highlighted our recent buy-and-build research, which found, among other things, that PE hold periods are significantly impacted by add-on deals. On average, platforms with add-on acquisitions take about one year longer to exit versus bare-bones platforms. That, in turn, has helped pushed out PE holding times to around five years on a median basis, up from around three to four years in the leadup to the financial crisis. "Strip and flip" is clearly a thing of the past.

Add-on data offers a unique glimpse into the rapid transformation of the PE industry, which historically has moved at a glacial pace. The accompanying chart shows the median time between platform acquisitions and add-ons, split out between the first add-ons done (bottom blue line) and the most recent add-ons for the same platforms (top green line). It's become common for PE sponsors to identify potential add-on acquisitions before buying their platform; in fact, it's now necessary in the most competitive cases. That said, the push to add on quickly isn't as new a phenomenon as many believe; it appears to have begun very quickly after the crisis, in fact. On a median basis, sponsors have waited about a year or less to add on going back to 2011. Given the time it takes to close any acquisition, the one-year mark can be rounded down closer to zero, or at least to the "first hundred days" mark.

On the other side of the coin, the time taken for second-and-later add-ons went down a different path in the same timeframe. In the aftermath of the crisis, late-cycle add-ons were done more than four years after the original platforms were acquired. We posit that, due to macroeconomic headwinds and post-crisis performance issues, PE sponsors turned to add-ons to boost platform revenues in a low-growth environment. And as we've discussed with the software space, late-cycle add-ons are often done to expand the platform's offerings in response to ever-changing consumer demands. While both of those points have visibly contributed to the "most recent" add-on data, the numbers have been trending downward since 2013. The broader takeaway is that even late-cycle add-ons are being completed earlier today compared to 2008-2012. In other words, the buy-and-build strategy is much more deliberate—i.e. less reactionary—in the current market.

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