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Unlocking value with buy-and-build strategies in the DACH private equity market

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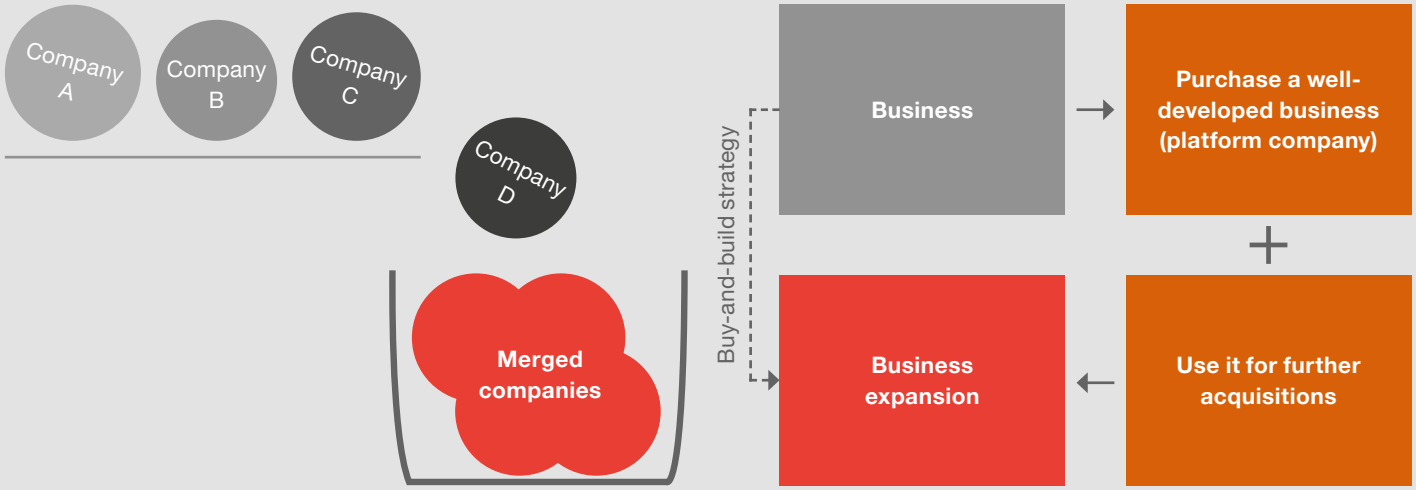
Introduction

In today's private equity (PE) market, scaling and boosting valuations are crucial to achieving successful strategic exits. The growing pressure to create value has led to PE strategies such as buy and build or rollups becoming increasingly popular. Buy and build involves acquiring a platform business and complementary businesses for growth through regional expansion, vertical integration or transformation, using a staggered approach with tailored due diligence and financing. In contrast, a rollup involves acquiring a platform together with smaller companies for rapid market consolidation, focusing on increasing market share. Rollups use standardised due diligence and start out with equity financing, transitioning to leveraged refinancing later.

The era of "pay and pray" is over, as current market conditions make active value creation and strategic exits indispensable. Consolidation through buy-and-build or rollup strategies allows companies to benefit from increased buying power and reduced costs, leading to improved cash flow and margins. Sharing resources in areas such as administration and marketing drives synergies, boosting market share and sales. A larger entity can also benefit from a liquidity premium, reducing the cost of capital and enabling further acquisitions. Consolidation raises valuation multiples, making companies more attractive for lucrative exits. A buy-and-build strategy or a rollup thus allows companies to unlock value in a competitive environment characterised by declining growth, operational challenges and increasing digital maturity.

Roll-up vs buy-and-build: Key differences explained

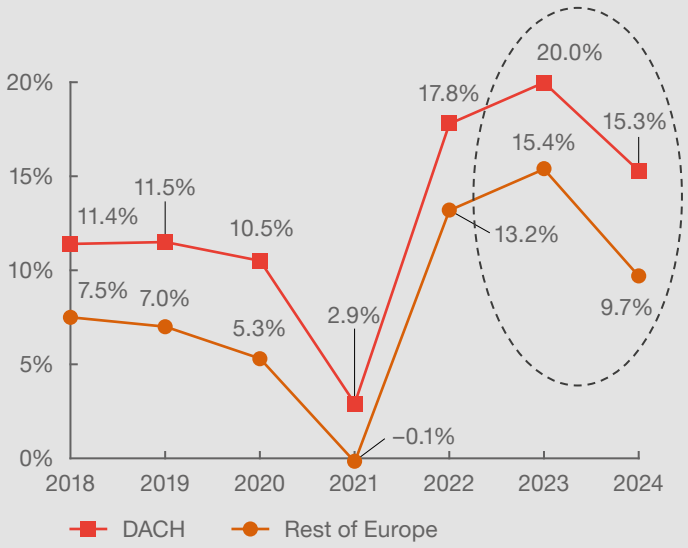


Source: PwC.

Market overview

Despite surpassing pre-pandemic levels, growth in PE-backed assets in Germany, Austria and Switzerland (DACH) is currently falling. The downturn in the DACH region can be primarily attributed to its growth being slower than the rest of Europe. This lag is largely due to the composition of the region's industries and the prevalence of low-growth markets. In 2024, revenue growth of PE-backed assets in the DACH region experienced a significant decline, decreasing from 15.4% to 9.7%. The rest of Europe also faced a reduction in growth rates, but this slowdown was less severe, with growth decreasing from 20.0% to 15.3%. This underscores the fact that the challenges faced by the DACH region are more substantial than in other parts of Europe. These challenges include operational difficulties such as inflation-driven cost increases, tight labour markets and high wages, which are eroding profitability more significantly than in other European countries. Additionally, digital maturity is now limiting the value that can be created from digital transformation alone, while high demand for tech talent has made attracting skilled professionals challenging and costly. Rapid digital transformation and integrating AI present significant challenges for businesses trying to keep up with technological advances. On top of all this, the energy sector faces its own set of challenges as it navigates the transition to sustainable and renewable energy sources, compounded by the increasing demand for energy that is being driven by advances in AI.

Revenue growth of PE-backed assets (YoY)

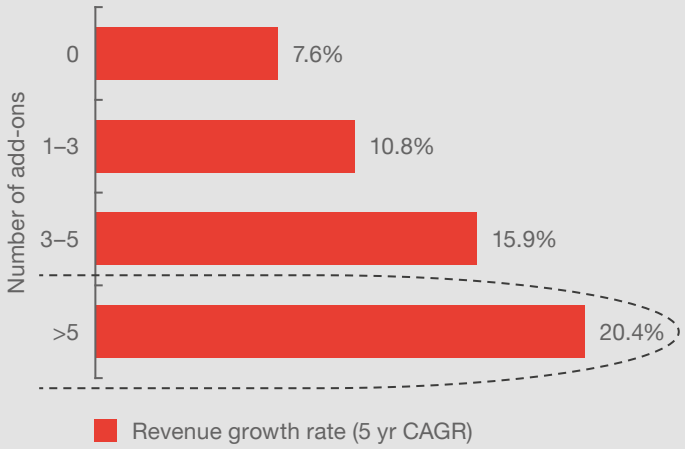


Source: Gainpro.

Data-driven insights

Buy-and-build strategies significantly enhance both scale and valuation at exit: integrating multiple businesses into a single, digitally optimised entity allows PE firms to achieve substantial valuation uplifts. Where strategies are employed that involve more than five add-on acquisitions, PE-backed businesses can achieve nearly three times the CAGR of businesses without any acquisitions. In addition, EBITDA multiples for small-cap companies tend to be lower, which can lead to enhanced EBITDA margins upon exit: this opens up multiple opportunities for arbitrage. All these factors demonstrate that add-on acquisitions significantly enhance value by accelerating revenue growth, realising cost synergies and improving profit margins. They also underscore the incremental impact of rollup strategies on value creation as more entities are consolidated, as the combined value of these businesses is greater than the sum of their parts.

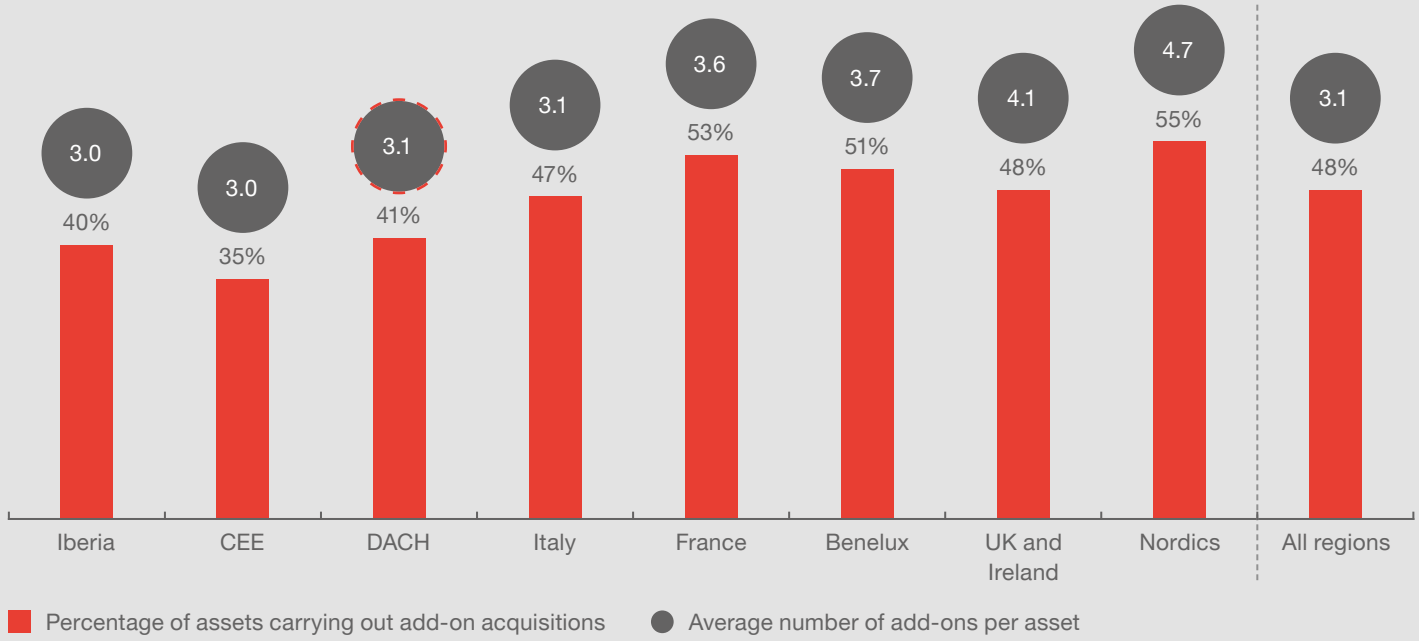
Impact of add-on acquisitions on revenue growth (median values)



Source: Gainpro.

In a European context, investors are becoming increasingly active in pursuing deals as interest rates stabilise and confidence in the broader economy improves. However, some other European regions are significantly more active than DACH when it comes to add-on acquisitions, notably the Nordic countries: over the last five years, 55% of Nordic assets have carried out add-on acquisitions, while DACH lagged behind at 41%. This is further highlighted by the average number of add-ons per asset, which stands at 4.7 in the Nordic countries, compared to just 3.1 in the DACH region. This indicates that DACH is being outpaced by other European regions – but it also means that the DACH market offers untapped potential for add-on acquisitions in the coming years, as the market continues to recover and deals resume their upward trajectory.

Percentage of assets carrying out add-on acquisitions in Europe (2019–2024)



Source: Gainpro.

Strategic opportunities

The DACH region has a fragmented market with approximately 3.8 million small to medium-sized enterprises, many of which are family-owned, making it an attractive region for buy and build and providing numerous opportunities for consolidation. In fact, more than half (approx. 56%) of PE entries in DACH in 2023 had previously been family-owned, highlighting the significant potential for creating synergies. This fragmentation gives investors plenty of opportunities to acquire and consolidate companies, increasing their scale and market influence.

With retirement approaching or succession proving challenging in many cases – the leaders of 626,000 DACH SMEs are expected to need successors by 2027 – many business owners in the region have a strong motivation to sell. This provides PE firms with ample opportunities to acquire businesses and exploit strategic consolidation to drive value creation. The presence of niche players with specialist expertise across various industries reduces competition in the acquisition market, enabling PE firms to negotiate favourable pricing. On top of this, the technological innovation and strong exports of many DACH SMEs are driving growth, creating an environment ripe for rollups. The region's stable regulatory framework, coupled with reasonable valuations and favourable financing conditions, further underpins these opportunities.

PE-backed entries in DACH, by deal type

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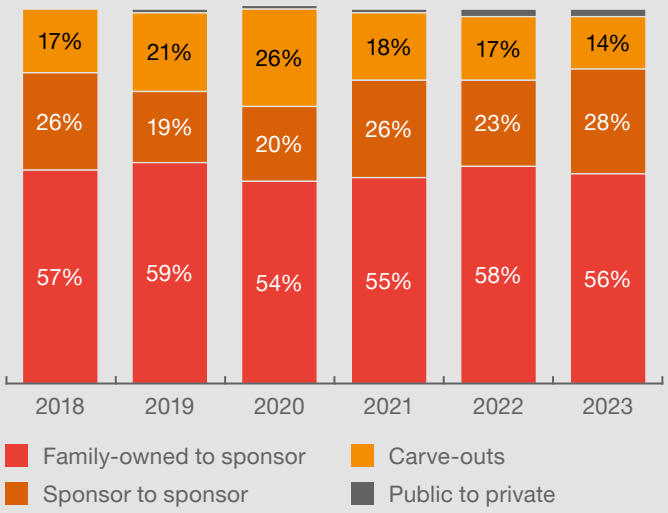

Source: Gainpro.

What to look out for

To achieve the best possible returns, there are a number of factors which PE investors should look out for when choosing investment targets. Industries that are particularly well-suited include those characterised by high commoditisation and fragmentation. These industries often have a limited number of dominant players, making them suitable for consolidation. The commoditised nature of these markets, with standardised offerings and low customer loyalty, streamlines the integration of acquired entities. Additionally, simple industries – where operations and business models are straightforward and disruption costs are minimal – provide an ideal environment for a buy-and-build approach. Low barriers to entry, with few regulatory or technological hurdles, facilitate smoother entry and scaling. Industries with scalable operations, where leveraging technology and centralising business processes could lead to significant efficiency gains, are also prime candidates. Finally, sectors with stable demand – offering consistent and recurring revenue streams, and thus predictable cash flows – are attractive targets for strategic acquisitions.

Challenges

Despite these opportunities, PE firms face significant challenges in executing buy-and-build strategies in the DACH region. High asset valuations increase competition and can lower returns. The region's slow growth and low margins, stemming from its sector mix and reliance on industries such as the automotive industry, make it hard to find niche opportunities for value creation. Additionally, rising interest rates are driving up borrowing costs, affecting feasibility and returns. Where rollups involve multiple acquisitions, debt levels can substantially increase, elevating the overall risk profile.

A first critical factor in executing buy-and-build strategies is selecting the right market. Start by analysing trends, competitor actions and innovation-driven opportunities to identify potential industries and use a criteria-based shortlist to prioritise industries based on investment criteria such as scalability and complexity. The final selection should be made based on a detailed evaluation of the top industries, in line with your investment objectives.

Once you've picked an industry, you need to select the right initial platform company, leveraging market data, trends and competitive benchmarking to identify high-growth, fragmented industries suitable for consolidation. Getting this step right is key: a scalable, well-positioned platform is essential to anchor your strategy and ensure that add-ons are successfully integrated.

Now you're ready for deal execution. During this phase, due diligence risks can arise from overlooking liabilities or overestimating synergies, both of which will impact financial performance. Integrated due diligence and getting the right deal structure are therefore vital to minimise risk. Business and operational due diligence is crucial for assessing your target's commercial prospects, operational processes, supply chain and production capabilities, IT setup, and tech stack. Tax and legal due diligence for platform acquisitions needs to be tailored to the target, while bolt-on acquisitions can benefit from standardised and streamlined due diligence processes. Deal structures should also be tailored to optimise your investment and tax setups, including leveraged financing.

Transaction preparation is crucial for platform acquisitions, involving customised documents such as SPAs and SHAs, leveraged financing from banks, and W&I insurance. Standardised processes for executing and refinancing rollups ensure consistency and efficiency. Standardised tools, templates and effective programme management also drive efficiency in the execution phase, while tailored equity structures such as ESOPs and VSOPs can expedite buy-and-build strategies.

Complexity in integration, such as merging companies with different systems and cultures, also presents challenges. Cultural differences make it more difficult to align systems, processes and operations. Integrating technology involves combining IT systems and infrastructures: this can be costly and time-consuming, delaying efficiency gains. To counter these difficulties, strategic integration and an effective target operating model (TOM) are essential for setting a common post-merger blueprint, ensuring seamless integration. Overestimating synergies or failing to align goals can hinder this process.

Conclusion

Buy-and-build strategies present a compelling avenue for unlocking value in the DACH PE market, particularly amid the challenges of declining growth and increased operational complexity. Strategically acquiring and integrating businesses enables PE firms to significantly boost their scale and valuation, leading to lucrative exits. The fragmented market environment in the DACH region, characterised by numerous small and medium-sized enterprises, offers abundant opportunities for consolidation, especially among family-owned businesses. This environment is ripe for strategic expansion, allowing firms to capitalise on synergies, increase their market influence and drive growth.

However, executing buy-and-build strategies in the DACH region is not without its challenges. High asset valuations and rising interest rates can affect returns, while the region's slow growth and reliance on low-margin industries mean that initial platform companies must be carefully selected.

Effective due diligence, synergy management and tailored structuring are essential to mitigate risks and achieve the desired outcomes. Addressing barriers to integration, especially in the cultural and technological spheres, is crucial for successful mergers and efficient operations.

As the DACH market recovers, there is untapped potential for build-and-buy strategies, offering PE firms a strategic opportunity to enhance value creation. Careful navigation of these challenges and leveraging the region's unique market dynamics will allow PE firms to position themselves for successful strategic exits, unlocking significant value in a competitive environment.

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