

Nils Hoffmann

## **German Buyouts Adopting a Buy and Build Strategy**

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Nils Hoffmann

# **German Buyouts Adopting a Buy and Build Strategy**

Key Characteristics, Value Creation  
and Success Factors

With a foreword by Prof. Dr. Reinhart Schmidt

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## **Foreword**

Problems of buyouts on the one side and M&A on the other side have been often treated by the literature from theoretical and empirical view. But there is comparatively little knowledge concerning a new practice where investors combine buyouts with M&A via a so-called buy-and-build strategy. In Germany such strategies have been pursued from about 1998, since then the growth of private equity has pushed the interest in these strategies.

The author's professional experience and the access to special data resources have made possible investigating the phenomenon of buy-and-build strategies not only theoretically but also empirically. Until the end of 2003 the author has found 21 cases of buy-and-build strategies with a German platform company. The cases differ with respect to financing and capital structure, type of the buyer, and the buyer's motives. Moreover, there are different parties concerned like investors, funds of funds, private equity enterprises, and target companies. Thus, one can imagine the plurality of possible species.

The author has combined his expert knowledge with great effort, opening a new and sensible area for research in business administration. By applying case study research, the development of propositions, and the evaluation of a questionnaire the author was able to get interesting empirical results.

The identified key characteristics, the sources of value creation, and the derived success factors are of special importance for those who are dealing with buy-and-build strategies. I hope and wish that Nils Hoffmann's investigation will be useful for practitioners and stimulate empirical research on corporate strategy, as well.

Reinhart Schmidt

## **Preface**

The completion of this dissertational thesis would not have been possible without the generous help of many people.

In particular, I owe a great debt to my supervisor Professor Dr Reinhart Schmidt for supervising my research project. His invaluable scientific advice and also his inspiring personal support significantly helped me in designing and compiling my work. Furthermore, I am very grateful that Professor Dr Gerhard Kraft and Professor Dr Müller-Stevens accepted to take on the role as co-assessors.

I would also like to thank all the private equity managers who provided valuable insights in personal discussions and took the time to participate at the case studies and/or questionnaire-based survey. Their contribution was a key prerequisite for the completion of my research project.

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Finally, I would like to express my gratitude to my parents for their enduring care, strong encouragement, and generous support during the course of my education.

Nils Hoffmann

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**List of abbreviations**

ARD	American Research and Development Corporation
BIMBO	Buyin Management Buyout
Bn	Billion
BVK	Bundesverband deutscher Kapitalbeteiligungsgesellschaften e.V.
CAGR	Compounded Annual Growth Rate
CAPM	Capital Asset Pricing Model
CEO	Chief Executive Officer
CMBOR	Centre for Management Buy-out Research
Co.	Company
CSF	Critical Success Factor
DCF	Discounted Cash Flow
Dipl.-Kfm.	Diplomkaufmann
EBIT	Earning Before Interest and Taxes
EBITDA	Earning Before Interest, Taxes, Depreciation, and Amortisation
EBO	Employee Buyout
e.g.	exempli gratia [for example]
et al.	Et alii [and others]
EUR	Euro
EVCA	European Private Equity and Venture Capital Association
FDIC	Federal Depository Insurance Corporation
FTC	Federal Trade Commission
GBP	British Pound
GNP	Gross National Product
HLTs	Highly Leveraged Transactions
IBO	Investor-led Buyout
i.e.	id est [that is]
IPO	Initial Public Offering

IRR	Internal Rate of Return
KKR	Kohlberg Kravis Roberts & Co.
LBO	Leveraged Buyout
LIBOR	London Inter-Bank Offered Rate
LMBO	Leveraged Management Buyout
LSE	London Stock Exchange
M	Million
M&A	Mergers & Acquisition(s)
MBI	Management Buyin
MBO	Management Buyout
MM	Modigliani/Miller
MLBO	Management Leveraged Buyout
NAV	Net Asset Value
NewCo	New Company
NPV	Net Present Value
NVCA	National Venture Capital Association
OBO	Owner Buyout
PE	Private Equity
SF	Success Factor
S&P 500	Standard & Poor's 500
SVA	Shareholder Value Approach
UK	United Kingdom
USA	United States of Americas
USD	United States Dollar
USM	Unlisted Securities Market
WACC	Weighted Average Cost of Capital