WHAT DOES IT MEAN TO BE A PLATFORM VS. ADD-ON INVESTMENT?

When evaluating potential buyers for your company, it is important to understand whether a buyer is viewing your company as a platform investment or as an add-on investment (also known as a bolt-on or add-on acquisition). There are considerations for both you and your company depending on which type of acquisition the buyer is pursuing, which may sway your decision between buyers, or at the very least help you plan for life post-closing.

PLATFORM INVESTMENT	ADD-ON INVESTMENT

POTENTIAL BUYER TYPES

Platform investment: Typically a financial buyer.

Add-on investment: Could be an independent strategic buyer (public corporation, other founder-owned business) or a private equity-backed strategic buyer (wanting to add on to a platform).

POTENTIAL BUYER GOALS

Platform investment: Most buyers will aim to grow the company through organic initiatives (winning new customers, expanding with existing customers, geographic expansions, new products) or by pursuing add-ons (or a combination of the two).

Add-on investment: Buyers may be motivated by revenue accretion (access to different channels, cross-selling or up-selling, geographic expansion, access to your equipment or IP), or by cost synergies (or a combination of the two).

YOUR GOALS

Platform investment: Many founders acheive the below goals when their company is acquired as a platform investment:

- Meaningful liquidity
- Continuity of the business/your legacy
- Accelerated growth of the business through the capital partner's resources

Consider: these buyers will likely want you to continue to run the company or already have a solid succession plan in place to continue the success of the company. If this doesn't align with your goals (e.g., if you want to retire), you'll need to discuss this early on.

Add-on investment: Many founders acheive the below goals when their company is acquired as an add-on investment:

- Meaningful or full liquidity
- Retirement
- Access to more resources than as a stand-alone business

Consider: how your company fits with the buyer's. Are there any conflicts of interest? Depending on the buyer's structure and how embedded you are in the business, some buyers may also want you to stay employed at the company post-closing.

PEOPLE CONSIDERATIONS

It's likely that everyone on your team will stay in place in this type of transaction. People continuity is often important for these buyers to ensure the continued success of the business. Benefit plans for employees will likely also remain unchanged.

There could be job elimination for redundant or merged roles; it's important to understand the buyer's plans for your employees early in the transaction to ensure you're aligned. Benefit plans will also likely change for your employees.

DEAL STRUCTURE

- % of company ownership can vary
- You will typically have the opportunity to roll equity to get a bigger, second "bite of the apple"
- You're likely to keep more operational control
- You will likely have a board seat if the buyer forms a Board of Directors post-closing
- Closing process may be longer as capital is called, especially if any debt is being used to fund part of the transaction

- Typically 100% of the company is acquired
- You are less likely to have the ability to roll equity
- If you continue working at the company post-closing, you'll likely answer to a boss now
- You likely won't have a board seat
- Closing may be more streamlined as there's already a financing structure in place (e.g., cash on the balance sheet or credit facility readily available)

Similarities

What Matters to Buyers:
Regardless of whether the buyer is viewing your company as a potential platform or add-on investment, the qualities of the company likely remain the same. Buyers in either case typically look for a more diversified customer base, past financial performance, and future growth paths available to the company. While there will be nuances to this depending on the buyer's motivations, keeping these in mind as you consider a future sale can help you prepare.

Diligence Process:
The due diligence process will look very similar for both a platform or add-on transaction. Buyers will want to fully understand the company they are investing in, so there will be a heavy lift required from you to provide all of the requested data and explanations throughout the diligence phase. One caveat is that the process could be more streamlined if the buyer is a strategic buyer, as they already have a baseline level of expertise in the industry. This is often balanced with potential confidentiality concerns if the buyer is also a current competitor.