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# Buy-and-Build Economics: Multiple Arbitrage and Its Limits

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## Multiple arbitrage in one paragraph

A buy-and-build strategy starts with a platform company and grows it through a series of add-on acquisitions. Multiple arbitrage is the part of the expected gain that comes from price rather than performance: the sponsor buys small companies at a lower multiple of EBITDA (earnings before interest, taxes, depreciation and amortization), combines them, and expects the larger entity to be valued at a higher multiple when it is sold. Bain & Company's 2019 Global Private Equity Report described the mechanism in these terms: the approach "allows a GP to justify the initial acquisition of a relatively expensive platform company," and the arbitrage "brings down the firm's average cost of acquisition" (Bain, Buy and Build, 2019). This article separates that price effect from the other sources of value and tests what happens when the exit multiple does not cooperate.

## The arithmetic: an illustrative platform and three add-ons

Every number in this section is **Illustrative**: the company is fictional and the multiples were chosen for readable arithmetic. They are not market data or typical prices for any sector or size band.

### Assumptions

| Item (Illustrative) | EBITDA ($M) | Purchase multiple | Price ($M) |
|---|---|---|---|
| Platform, "Fictional Facility Services Co." | 5.0 | 8.0x | 40.00 |
| Add-on A | 1.0 | 5.0x | 5.00 |
| Add-on B | 1.5 | 5.5x | 8.25 |
| Add-on C | 2.0 | 6.0x | 12.00 |
| **Total acquired** | **9.5** | **6.87x blended** | **65.25** |

The add-ons cost a blended 5.61x ($25.25M for $4.5M of EBITDA). Other assumptions, all invented:

- One-time integration costs of $2.0M (systems, rebranding, severance, consolidation of sites), funded at close.
- Organic EBITDA growth across the combined group of $1.5M by exit.
- Run-rate cost synergies of $1.0M, fully realized by exit.
- Exit at 9.0x EBITDA, one turn above the platform's entry multiple.
- Debt of $36.0M at close (about 3.8x acquired EBITDA), paid down to $26.0M from operating cash flow by exit. Total capital is $67.25M, so the equity cheque is $31.25M.

Exit EBITDA is therefore $9.5M + $1.5M + $1.0M = $12.0M, and exit enterprise value (EV) is $12.0M × 9.0 = $108.0M.

### The value bridge

The enterprise gain is $108.0M less $67.25M of total capital, or $40.75M. One way to attribute it:

| Component (Illustrative) | Calculation | $M |
|---|---|---|
| Multiple arbitrage on add-ons | $4.5M add-on EBITDA × (8.0x platform entry − 5.61x paid) | 10.75 |
| Multiple expansion | $9.5M acquired EBITDA × (9.0x exit − 8.0x platform entry) | 9.50 |
| Organic EBITDA growth | $1.5M × 9.0x | 13.50 |
| Synergies | $1.0M × 9.0x | 9.00 |
| Integration costs | One-time | (2.00) |
| **Enterprise value created** | | **40.75** |
| Debt paydown from cash flow | $36.0M − $26.0M | 10.00 |
| **Equity value created** | $82.0M exit equity − $31.25M invested | **50.75** |

Equity at exit is $108.0M − $26.0M = $82.0M, a multiple on invested capital (MOIC) of 2.62x.

Three conventions sit behind this table. First, "arbitrage" is measured against the platform's own entry multiple, so it captures only the discount at which add-ons were bought; any re-rating of the whole group above that level is shown separately as "expansion". Second, growth and synergies are valued at the exit multiple, so they absorb an interaction term; value them at the entry multiple and the expansion line grows. Third, leverage does not appear in the enterprise bridge at all. It adds no enterprise value; it changes how the outcome is divided over a smaller equity cheque, and the debt paydown line is simply cash flow used to retire debt.

On these assumptions, price effects (arbitrage plus expansion, $20.25M) are roughly half the enterprise gain before integration costs, a product of the invented inputs, not a finding.

## Sensitivity: when the exit multiple does not expand

The table below holds exit debt at $26.0M and varies two things: the exit multiple and the share of the $1.0M synergy actually realized. Cells show exit EV / equity value / MOIC. All figures are **Illustrative**.

| Exit multiple | 0% synergies (EBITDA $11.0M) | 50% synergies ($11.5M) | 100% synergies ($12.0M) |
|---|---|---|---|
| 9.0x (expansion) | 99.0 / 73.0 / 2.34x | 103.5 / 77.5 / 2.48x | 108.0 / 82.0 / 2.62x |
| 8.0x (no expansion) | 88.0 / 62.0 / 1.98x | 92.0 / 66.0 / 2.11x | 96.0 / 70.0 / 2.24x |
| 7.0x (near blended entry) | 77.0 / 51.0 / 1.63x | 80.5 / 54.5 / 1.74x | 84.0 / 58.0 / 1.86x |
| 6.0x (valued like an add-on) | 66.0 / 40.0 / 1.28x | 69.0 / 43.0 / 1.38x | 72.0 / 46.0 / 1.47x |

Three readings follow from the arithmetic:

1. **Arbitrage survives a flat multiple, but only just.** If the group exits at 8.0x, the platform's entry multiple, and nothing else improves (EBITDA stays at $9.5M), exit EV is $76.0M. The enterprise gain is $8.75M: the $10.75M arbitrage less $2.0M of integration costs. Integration absorbs nearly a fifth of the pure price effect before any operating problem occurs.
2. **The arbitrage disappears if the buyer at exit prices the group like its parts.** At 6.87x, the blended entry multiple, the price effect is zero by construction; below it, operating improvement is subsidizing a price loss.
3. **Leverage magnifies whichever way the outcome falls.** Suppose the group exits at 6.0x with no growth and no synergies, and cash flow went to interest and integration rather than paydown, leaving debt at $36.0M. Exit EV is $57.0M and equity is $21.0M, a 0.67x MOIC. The same deal financed entirely with equity would return $57.0M on $67.25M, or 0.85x. Debt turns a 15% enterprise loss into a 33% equity loss.

## Add-on price creep

The arbitrage depends on the spread between the platform's multiple and each add-on's price. Holding the exit at 8.0x and add-on EBITDA at $4.5M:

| Blended add-on multiple (Illustrative) | Arbitrage ($M) | Net of $2.0M integration ($M) |
|---|---|---|
| 5.61x (base case) | 10.75 | 8.75 |
| 6.5x | 6.75 | 4.75 |
| 7.0x | 4.50 | 2.50 |
| 7.5x | 2.25 | 0.25 |
| 8.0x | 0.00 | (2.00) |

Each half-turn of creep removes $2.25M of arbitrage on this add-on base. A plan that relies on later add-ons being cheap is exposed to the same competition that raised the platform's price.

## What Bain's 2019 report argues

Bain's buy-and-build chapter is from 2019 and predates the higher-rate period described in Bain's 2025 report, so it is useful as an articulation of the thesis rather than as current pricing evidence. Its argument rests on "the market's tendency to assign big companies higher valuations than smaller ones," and a figure caption states that "smaller companies consistently trade for lower multiples than bigger ones" (Bain, 2019).

Two single examples illustrate the logic; neither is a sample:

- In a veterinary consolidation, Bain wrote that small practices "could be acquired for a mid-single-digit EBITDA multiple (vs. a mid-teens multiple for the platform)" (Bain, 2019).
- Berlin Packaging was acquired "for around $410 million in 2007" and, "seven years and four strategic acquisitions later," sold to Oak Hill Capital Partners "for $1.43 billion," which Bain described as "a better than three times return" (Bain, 2019). Bain does not decompose that outcome, so it cannot show how much came from price.

The same chapter carries its own warnings: "Too much demand for too few targets will drive up prices and compete away the multiple-arbitrage opportunity," integration problems such as "IT systems may look like spaghetti," and "A years-long reclamation process can cut deeply into ROI." Bain also wrote that it had seen these approaches "badly underperform other strategies" (Bain, 2019). On frequency, it reported that the share of add-on deals representing at least the fourth acquisition by a single platform rose from 21% in 2003 to "closer to 30% in recent years." That is a count of deals, not a measure of returns.

## What public-company multiples can and cannot show

Many use Damodaran's tables as a benchmark. His "Enterprise Value Multiples by Sector (US)" page, with data as of January 2026, reports a total-market EV/EBITDA of 19.73 for 5,994 firms with positive EBITDA, and 16.95 excluding financials (Damodaran, EV multiples by sector, US). Sector values on the same page differ widely, for example 14.26 for Business & Consumer Services and 10.41 for Trucking (positive-EBITDA firms).

These are **US public companies**. The multiples are computed from market capitalization and share-price data, drawn from services such as Bloomberg, Morningstar, Capital IQ and Compustat, with market data taken as of December 31 of the prior year (Damodaran, data history and sources). They say nothing direct about what a lower middle market (LMM) business, or a sponsor-owned group, will fetch in a private sale. Listed companies are generally larger, more liquid and more diversified than add-on targets, so the tables are not a substitute for private transaction evidence, and a sponsor who uses a public multiple as the assumed exit for a $12M EBITDA group needs a separate reason to believe a buyer will pay it.

The table helps in one narrow way: sector differences dwarf a one-turn expansion in a model, so a thesis that needs a re-rating should name which buyers price the combined company. Private multiples by size band are not cited because none was verified for this article.

## Financing and the cost of carrying the strategy

A buy-and-build is financed over several years, so the cost of debt shapes the number of add-ons and the margin for error. Bain's 2025 report stated that "still-high interest rates continued to take a chunk out of add-on transactions," which were 11% of buyout deal value against "a peak of 40% in 2015," and that "as financing costs took off, it became more and more difficult to make buy-and-build strategies pencil out" (Bain, Private Equity Outlook 2025). The same report noted that "elevated debt costs make it more difficult to capture value through leverage."

Bain's 2026 report, published February 22, 2026, describes the interest rate environment as "increasingly favorable" and rates as "moving south, albeit slowly," while also reporting that "almost 80% of GPs surveyed believe multiples will stay flat in the coming year" (Bain, Private Equity Outlook 2026). That survey is the StepStone/Bain general partner (GP) survey; the page does not state its sample size. It observes that flat multiples take away "a value lever so many deals have relied on over the past decade," and that holding periods at exit are "hovering around seven years." Longer holds hurt a roll-up: integration costs arrive early while any exit re-rating is discounted over more years. This article does not forecast rates or multiples.

## The limits, one by one

### Integration costs

Integration is a cash cost that arrives before any benefit. Bain's 2019 chapter names incompatible systems and conflicting go-to-market approaches as typical problems (Bain, 2019). Budget it per add-on: it scales with the number of systems, sites and owner-managers combined.

### Synergy realization

Unrealized synergies cost value at the exit multiple: a $1.0M shortfall at 9.0x is $9.0M of EV. Track them as dated, named actions, each with its assumed run-rate.

### Add-on performance after acquisition

Kim (2025), a working paper studying private equity buyouts of US hospitals, classifies targets as platforms or add-ons. According to its abstract, platform hospitals show "significant and persistent profitability gains," while "local add-ons exhibit severe contractions in patient volume and profitability," which the author interprets as intentional reallocation toward the platform rather than managerial failure (Kim, SSRN, 2025). The abstract was read; the paper was not. The lesson for the arithmetic is narrow but useful: an add-on's standalone EBITDA at purchase is not guaranteed to persist inside the group, so the "acquired EBITDA" line deserves its own downside case.

### Size premium not guaranteed at exit

The thesis assumes the exit buyer pays for scale. That holds only if scale changes something a buyer values, such as customer concentration, management depth, systems or density. A loosely integrated group may be valued on its weakest parts. Bain's 2019 warning that "a business plan that relies on increased purchasing leverage or pricing power can fall apart quickly" applies here (Bain, 2019).

### Add-on price creep

As the creep table shows, competition among consolidators narrows the spread. Bain's 2025 report observed that "fierce competition for deals ensures multiples remain high" (Bain, 2025), though it was describing buyouts generally, not add-ons specifically.

### Leverage

Debt amplifies the equity result in both directions, and floating-rate debt ties the plan to a rate path. Test a route-density roll-up thesis or similar plan at the downside cells of the sensitivity table, not only the base case.

### Antitrust

Serial acquisitions can draw antitrust scrutiny even when each deal is small. The US Department of Justice (DOJ) and Federal Trade Commission (FTC) 2023 Merger Guidelines include Guideline 8: "When a Merger is Part of a Series of Multiple Acquisitions, the Agencies May Examine the Whole Series," and state that the agencies "consider the cumulative effect of the pattern or strategy" (2023 Merger Guidelines, PDF). DOJ describes the guidelines, issued December 18, 2023, as "a non-binding statement" (DOJ, 2023 Merger Guidelines page), and the FTC chairman announced on February 18, 2025 that they "are in effect" (FTC, February 18, 2025). On October 28, 2026 the DOJ's page still listed them with no withdrawal or revision (DOJ, Merger Guidelines). Whether any single deal requires a premerger notification depends on thresholds that are revised periodically; this article does not state them. This is a description of published guidance, not legal advice.

## What the academic literature establishes, and what it does not

**The large-sample evidence is thin and measures something broader than arbitrage.** The main published study found is:

- Hammer, Marcotty-Dehm, Schweizer and Schwetzler, "Pricing and value creation in private equity-backed buy-and-build strategies," *Journal of Corporate Finance* 77 (2022), 102285. Using "a sample of 3399 buyouts between 1997 and 2020 as well as proprietary performance data," the authors find that private equity firms "pay sizable premiums for B&B platforms," that the transaction multiples "are similar to those paid by strategic acquirers for matched targets," and that sponsors still "generate above-average equity returns in B&B strategies," which they attribute to "both higher top-line growth and multiple expansion" (Hammer et al., 2022). Quotes are from the published abstract. Multiple expansion is measured at strategy level, not as the add-on-to-exit spread, so the study supports the mechanism without sizing it for any one program.

Further reading, cited for existence and topic only:

- Borell and Heger, "Sources of Value Creation Through Private Equity-Backed Mergers and Acquisitions: The Case of Buy-and-Build Strategies" (SSRN, 2013), confirmed to exist through Crossref; its findings were not read (Borell and Heger).

- Schwetzler, "Multiple Arbitrage in Private Equity Based Buy-and-Build Strategies," an entry in the Palgrave Encyclopedia of Private Equity (2025), confirmed through Crossref; content not read (Schwetzler).
- Amess and Lertora, "Buy and build strategy in private equity," Elgar Encyclopedia of Mergers and Acquisitions (2026), confirmed through Crossref; content not read (Amess and Lertora).

Whether arbitrage persists across cycles, how large it is after integration costs, and how it varies with deal size are not answered by these sources.

## A sanity-check worksheet

Use this to test an arbitrage claim in a roll-up pitch. The example column is **Fictional**.

| Question | Evidence to request | Example (Fictional) |
|---|---|---|
| What was actually paid for each add-on? | Signed purchase agreements, EBITDA definition used | 5.0x-6.0x on seller-adjusted EBITDA |
| Is the platform multiple the right reference? | Platform price and its EBITDA basis | 8.0x |
| What does integration cost per add-on? | Itemized budget, prior actuals | $0.67M average |
| Which synergies are named, dated and owned? | Action list with run-rate per item | $1.0M, three actions |
| Does acquired EBITDA hold after close? | Post-close monthly results per add-on | Not yet tested |
| Who buys the combined group, and at what multiple? | Comparable private exits, named buyer types | None verified |
| What is the MOIC at a flat exit multiple? | Sensitivity table | 2.24x at 8.0x |
| What is the MOIC if the group is priced like an add-on? | Sensitivity table with downside debt | 0.67x in the worst case shown |
| Is the series of deals likely to draw antitrust review? | Local market shares, counsel's view | Not assessed |
| How many credible add-on targets exist? | A sourced target list for the thesis | To be built |

The last row often binds: the arbitrage exists only if enough owners will sell at the assumed price. Estimating private company revenue is a starting point for sizing that list.

Docket's Triage, Scout and Audit agents build that kind of target list with each answer quoting a retained source page.

## Sources

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13. FTC Chairman Andrew N. Ferguson Announces that the FTC and DOJ's Joint 2023 Merger Guidelines Are in Effect — Federal Trade Commission, February 18, 2025; guidelines in effect. Accessed 2026-10-28.

## Source links

Links cited in this article, in order of first appearance. Full addresses are provided for readers using extracted text.

1. https://www.bain.com/insights/buy-and-build-global-private-equity-report-2019
2. https://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/vebitda.html
3. https://pages.stern.nyu.edu/~adamodar/New_Home_Page/datahistory.html
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