ERASMUS UNIVERSITY ROTTERDAM
ERASMUS SCHOOL OF ECONOMICS
Bachelor Thesis Economics & Business
Specialization: Financial Economics

Fundraising drivers in private equity
The role of Buy and Build strategies

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Finish date:	03/07/2024

The views stated in this thesis are those of the author and not necessarily those of the supervisor, second reader, Erasmus School of Economics or Erasmus University Rotterdam.

ABSTRACT

This study explores the drivers of fundraising capabilities in private equity (PE) firms, specifically focusing on the impact of buy-and-build strategies. Employing a backward-looking approach, it analyses buy and build transactions in relation to PE firms as ultimate owners, alongside firm and transaction characteristics at the firm level. Results from this study portray that firms with a track record of transactions with higher Internal Rates of Return (IRR) and shorter holding periods, as well as with PE firms characterized by their sector ambiguity garner a larger probability of fundraising. Besides this, the thesis reveals the positive link between fundraising volume and adopting the Buy and Build strategy, having a higher IRR and being sector ambiguous. Concerning the buy-and-build strategy specifically, the thesis shows that adopting this strategy has no significant effect on the probability of fundraising and is captured in the correlated variable of IRR. Adopting this strategy does, as previously mentioned, have a significant effect on the fundraising volume. This portrays the distinct difference in significance and signs of significance between the decision by the Limited Partners (LP) to invest and how much to invest. By analysing firm-level dynamics of fundraising drivers and the strategies pertaining to these fundraising capabilities this study makes suggested implications for practice in the industry.

TABLE OF CONTENTS

CHAPTER 1 Introduction

In the year 2023, there has been a serious reduction in the fundraising for private equity. According to McKinsey, private market asset classes fundraising dropped to just over $1 trillion in 2023, a reduction of 22% compared to 2022. (Dahlqvist et al., 2024). Regarding investment strategies, Bain & Company in a recent article goes into the buy and build strategy and poses that this is a dominant strategy in the private equity business model. (Building a Stronger Buy-and-Build, 2024) This seems logical, as it is described in the paper by Hammer et al. (2022) that private equity funds are willing to pay more for platform companies and companies with add-ons perform better. Given that fact and the tough go private equity companies have had recently in raising funds the question arises whether General Partners (GP) are more likely to raise and raise more if they are known as a private equity firm that operates under the rubric of the Buy and Build strategy. This in connection with other fundraising drivers is highly relevant to GPs as data points when looking at the best ways to raise capital.

Literature regarding fundraising for private equity firms is out there but is not incredibly extensive. What is shown in Loos & Schwetzler (2017) is that for instance exits via IPO or larger, industry-diversified funds "exhibit a higher likelihood of fundraising and collect larger amounts." They also pose that longer holding periods have a negative effect on fundraising volumes and that a higher performance causes private equity funds to raise larger volumes of money. This study does not however find a relationship between add-on /Buy and Build deals and the likelihood or volume of fundraising. However, as they point out, their research focuses on fundraising events of which the vast majority were before 2007, and as they pose themselves; add-on acquisitions gained in relevance after the financial crisis. Regarding the literature on Buy and Build strategies, the paper mentioned previously by Hammer et al. (2022) finds that the so-called multiple arbitrage indeed does have a positive effect on the IRR. This serial acquiring can however come at a serious financial cost. In Hammer (2016) it is discussed that there are illiquidity concerns stemming from the Buy and Build strategies and he calls it an "unintended dark side" of the strategy. In that paper, it is shown that Buy and Build strategies have the effect of causing larger holding periods which cause these illiquidity concerns.

The goal of this thesis is to locate the drivers of fundraising on a firm level and the role of Buy and build strategies. Previous studies have not found such a relationship for Buy and Build transactions on a fund level. However, knowing what is known about the Buy and Build strategy and the effect it has on performance as well as various other aspects of transaction characteristics it is worth looking at it on a firm level as well as looking at the other fundraising drivers on this level. Given the self-named limitations of the study by Loos & Schwetzler (2017) together with the difference between the more extensive information available when looking at it on a firm level, it will give a clearer picture of the drivers of fundraising and the role of the Buy and Build strategy in this. Therefore, the research question

is to find out: what are the drivers of fundraising, and does adopting a buy-and-build strategy influence the likelihood and volume of fundraising for private equity funds?

For this study, there will be a backward-looking approach done with firstly the definition of a Buy and Build PE firm as a firm whereof more than 5% of the transactions that were made were add-on acquisitions. The data for these deals will be gathered from the Zephyr database by Bureau van Dijk, the deals data will be compiled by firm. For the fundraising, this study will be looking at the total fundraising for 7245 firms in the last 10 years. This data will be compiled with the use of the Preqin database, as here the fundraising events are more visible and clearly mapped out. Here the research will also gather the other possible fundraising drivers for the firms. After the data has been gathered on what PE firms adopt a buy-and-build strategy and what PE firms have raised funds in the last 10 years, the paper will combine the data to get a clear picture of the effect that this strategy and other variables have on fundraising capabilities. Next, logit and ordinary least squares (OLS) regression models for probability and volume respectively will be employed to look at these fundraising drivers.

Given the previous literature exposing a use for and growing adoption of the buy-and-build strategy, the paper hypothesizes that there will be a weak effect found of being a Buy and Build private equity firm and the likelihood and volume of money raised. The risk and return profiles that investors look at are more thoroughly translated into the firm level as opposed to the fund level. For instance, adopting a Buy and Build strategy is associated with specific risks like integration risk and execution risk that on the fund level might have negative outcomes or positive which are more clearly and on a net basis laid out on the firm level. It is also safe to assume that investors look at the firm as well as the specific fund when looking to and how much to invest. As this fund is only an extension of the company and with that the board and employees that operate the company. This presupposed difference becomes clear in the results of this study as there are indeed certain differences between the results that are found here and the studies when looking at it from a fund level. For one, in this study, it becomes clear that being a buy-and-build firm does have a positive effect on the fundraising volume. In the probability of fundraising, this is not the case, and it becomes clear that the standalone effect of being a Buy and Build private equity firm is not significant and the beneficial effect for fundraising probability is captured in the higher IRR. The reasoning behind this difference in outcome between the two models is that in the decision of how much to invest other factors are of higher import. LPs know that adopting the Buy and Build strategy requires more capital-intensive investments and therefore larger sums of money are necessary. This need translates, according to the results, into higher fundraising volumes and thereby the desired need is met. There is certain inherent trouble in data collection with private markets which aren't the most forthcoming with data like performance measures. This is next to the trouble of finding the global ultimate owner to process a buy-and-build deal. Therefore, this study will not be exhaustive in its findings but will provide a good addition to the existing literature.

CHAPTER 2 Theoretical Framework

2.1 Past transactions

2.1.1 Buy and Build strategy

The main research question concerns the buy and build strategies and whether performing said strategy will result in a higher or lower probability- and volume of funds raised. There has been no theoretical framework to mention that finds an effect of add-ons on the fundraising volume. Loos & Schwetzler (2017) find no significant impacts of add-ons on fundraising volumes or the fundraising probability. Their sample is between 2000 and 2010 however and most of their fundraising events and deals happen before 2007. The paper argues that based on Achleitner et al. (2010, pp. 25–26): "strategic and operating improvements, under which add-on acquisitions can be subsumed, gained in relevance, especially after the global financial crisis, as traditional value drivers such as financial engineering and market timing are no longer sufficient means by which PE firms can differentiate themselves".

Loos & Schwetzler (2017) are among the plethora of studies highlighting the add-on deal as a key value-creation lever. Hammer et al. (2022) find that the so-called multiple arbitrage indeed does have a positive effect on the IRR. The private equity fund is therefore willing to pay a premium for the following companies if they prove the possibility of becoming a platform for future add-ons. A paper by Bansraj et al. (2020) poses that besides the multiple arbitrages, another added benefit of serial acquisitions is that financial investors, in this case, private equity funds, get to pose as strategic buyers to gain synergies.

Given all of this, it would be safe to assume that even though Loos & Schwetzler (2017) couldn't find a significant relation between no. of add-ons and fundraising volume on a fund level this could very well be there. This is because of the positive effect it empirically has on the value creation figures and performance of a fund and firm. This thesis therefore hypothesizes a positive relationship between the percentage of buy-and-build deals and the fundraising volumes and probability thereof.

Hypothesis 1: Being a Buy and Build Firm yields a higher probability- and volume of fundraising.

2.1.2 Return track record

An obvious effect would be that if a PE firm does well, the fundraising for said fund would be higher. There is quite some research on this topic, for instance, Chung et al. (2012) pose that the IRR is a very important driver of fundraising capabilities. Through a rational learning model, they put forth that in their estimation the IRR as a measure of performance is of equal importance as the carried interest that

the Limited Partners (LP's) pay the GPs when it comes to future fundraising, or in their words: "indirect pay for performance from future fund-raising is of the same order of magnitude as direct pay for performance from carried interest."

This higher ability to raise funds was also noticed earlier on by Kaplan and Schoar (2005) when they also laid out very clearly that past performance measures are a strong indicator for a GP to raise additional funds in the future. They furthermore point out that the longevity in the use of the performance measure of IRR is proof of its viability to rank the private equity firms.

As the literature suggests, this thesis hypothesizes; that there seems to be a direct link between performance measures and the fundraising capabilities of private equity firms.

Hypothesis 2 The higher the average IRR of the firms' funds, the higher the probability- and volume of fundraising.

2.1.3 Speed of capital turnover

The buy-and-build strategy is a tried and tested method of realizing abnormal returns. This method of inorganic growth by way of add-on acquisitions is in some instances a time-consuming process. Hammer (2016) describes that holding periods are increased by 29% when the buy-and-build strategy is performed. What this does is it increases illiquidity for the limited partners. Espenlaub et al. (2015) show that longer holding periods make for more illiquidity for LPs and that buyouts are therefore more enticing compared to venture capital.

Cumming et al. (2005a) also go into the differences between buyouts and venture capital and shows that illiquidity is a strong driver of investment decisions.

The reason for this is explained theoretically by Gompers (1996, p. 153) who mentioned that when General managers (GP) make shorter holding periods the norm it makes it possible for Limited partners to make their exit money available to enter once more into the capital deployment process. in Sorensen et al. (2014) they also pose that this illiquidity is something that should be and is considered when looking at investment decisions.

It is empirically shown by Acharya et al. (2013) that the holding period is a negative determinant in getting abnormal exit returns and Cumming et al. (2005b) make it clear that there is a negative impact of illiquidity on future fundraising.

All of this together comes together in the prediction of this thesis that there is a negative impact of the length of the holding period and the probability- and volume of fundraising.

Hypothesis 3 The shorter the average holding period of past transactions, the higher the probability- and volume of fundraising.

2.2 PE firm characteristics

2.2.1 Size, experience, and reputation of PE firms

There is quite some research on different characteristics of PE firms that affect the success of said firms, there are a couple of main characteristics that literature has suggested make the most impact on this success.

Discussing size, there is some debate in the literature, where Lopez-de-Silanes et al. (2014) find no relation between fund size and returns. Harris et al. (2014) also don't find this relationship for buyout funds but do find it for VC funds.

Examining experience, Alperovych et al. (2013) show that the experience of a PE firm has a positive effect on post-buyout efficiency, with this the operational as well as the financial improvements of the bought firm are meant.

Going onto reputation, with VC firms Hsu (2004) has shown that firms with a high reputation get a 10-14% discount on the purchase of a start-up and an offer made by such a VC is three times more likely to be accepted. This will obviously translate into a higher possibility for return as such a benefit gives a head start compared to the competition.

As the literature has shown, the size, experience, and reputation of PE firms influence their performance, and looking at the literature this also seems to translate into fundraising possibilities:

In Balboa and Martí (2007) they find that the size of a PE firm has a positive and significant effect on the fundraising capabilities.

Chung et al. (2012) take several predecessor funds which could be taken as a proxy for experience and find that this too has a positive and significant effect on the fundraising capabilities.
Going back to Balboa and Martí (2007) they use affiliation with a national private equity organization as a proxy for reputability through the signaling effect and find that this has a positive and significant effect on the probability and levels of fundraising.

All of this is supported by Gompers and Lerner (1998) and Kaplan and Schoar 2005) who get similar results.

Taking all this literature this thesis hypothesizes that these three characteristics have a positive effect on the fundraising capabilities of firms.

Hypothesis 4 If the firm is larger, has more experience, and is of higher reputation, the probability-volume of fundraising will be larger.

2.2.1 Industry specialization of PE firms

There are in the private equity sector quite a few firms that only focus on a specific sector like tech, however, there are also a lot of firms that are industry ambiguous. The literature on this subject and whether it is good for the returns is quite clear. Le Nadant et al. (2018) describe that relative specialization leads to a 7.5% profit increase compared with industry-ambiguous PE firms. Cressy et al. (2007) also find that industry specialization by a PE firm adds 8.5% to the operating profitability of the PE-backed company.

Gejadze et al. (2015) go into how the performance increases described in Le Nadant et al. (2018) and Cressy et al. (2007) affect fundraising. It finds a positive connection between the level of industry specialization and the speed and size of the follow-up fund.

Loos & Schwetzler (2017) do find a different connection, here they find that more industry-ambiguous firms have better fundraising capabilities, the theoretical basis they provide for this is that they write that investors see that diversified firms allow easier shift in investment focus which makes them more attractive in an economic downturn or temporary industry ugliness. Besides this they mention that industry-ambiguous firms have a larger taste for the full demand for PE financing and due to this wider investment scope require more fundraising events.

Although it is argued well in Loos & Schwetzler (2017) this thesis still hypothesizes, due to the seeming majority of literature, that industry specialization has a positive effect on fundraising capabilities.

Hypothesis 5 The more industry-specialized the PE firm is, the higher the probability- and volume of fundraising.

CHAPTER 3 Data and Methodology

3.1 Data Sources

The dataset is constructed using two data sources. Firstly, the Zephyr database is used. From the Zephyr database, the "Deals Private Equity" tab is counseled, here the deal structure is handled and there is the possibility to select the Buy & Build option. This option signifies if a deal is an add-on on another deal that the private equity fund has previously made. Although this is surely not exhaustive it is the best option in place to identify an add-on deal in this space. The deal needs to be completed and confirmed to qualify. As there the fundraising in the last decade will be looked at and this study is with a backward-looking objective there are deals between June 1999 and December 2013 in there to be considered. All global ultimate owners that were not specifically listed as private equity entities were taken out of the sample. What was left was a list of 299 add-on transactions done by private equity companies. All these transactions were manually checked to see whether the transactions were indeed add-ons and to see whether the private equity houses were indeed private equity houses and not mis-listed on the platform. What was left is a total of 295 pure add-on private equity transactions, this manual checking was a time-consuming endeavor but one that seems worthwhile as an accurate dataset is paramount to the quality of the research.

Seeing as this thesis is not concerning the transactions specifically but the firms and the way they fundraise their operations, there was a consolidation effort and what was left was 120 private equity houses that made these 295 add-on transactions between 1999 and 2014.

The next step in the process was matching these private equity firms with another source to get to their entire transaction apparatus and see how many of their transactions were add-ons. This was done manually again, by taking the name of the private equity firm and placing it into Preqin. Besides placing these firms on the watchlist, which was used to extract the data needed to perform the regression, the number of buy-out deals was also noted down. This is necessary as in this thesis it is stated that if the number of add-on deals falls below the 5% of total deals norm it cannot be reasonably assumed that a Buy & Build strategy is part of their overall growth strategy. 74 private equity firms passed this 5% mark and were therefore established as Buy & Build private equity houses. This is only 61.67% of all the firms that performed add-on transactions. For the other 38.33% of the firms, although they have performed (several) add-on transactions, it cannot be claimed that it is part of their primary strategy.

After the establishment of these firms as Buy & Build firms, the next part of the research revolves around the fundraising effort of the firms. Several studies focus on specific funds, but this thesis will revolve around the funds raised in the last 10 years.

There are a couple of reasons why this thesis chooses this trend as opposed to focusing on specific funds. Among these is that it gives more possibilities to identify long-term trends. This long trend analysis also makes sure that it isn't necessary to control for market cycles because, in the last 10 years, all the market cycles are captured.

Another reason why this thesis doesn't look at specific funds but at an aggregate of the funds is that it provides a more diverse dataset which allows for a more comprehensive analysis.

Over the last decade, there have been a lot of shifts in investor sentiment and fundraising strategies due to these changes in preferences. This is much better captured in an aggregate value rather than a single fund.

With looking at private equity we only focus on buy-out firms which excludes venture capital firms. The exclusion of venture capital firms is because the investment is done much earlier in the investment stage and therefore there will be more focus on operational legitimacy and less on the inorganic growth opportunities. For this reason, the focus is on buy-out firms when looking at the point of this thesis, which again is to find out whether being a Buy and Build PE firm is a proxy for getting more fundraising more likely.

3.2 Key Variables

Now that has been explained how the independent variable and dependent variable are ascertained, Appendix A has a quick outline of all the variables but in the rest of this part, it will be examined how the other key fundraising variables are laid out.

These variables were chosen because they:
- Have direct influence on the dependent variable and there is theoretical justification for this.
- There is enough available data, and it is reliable.
- There is non-collinearity; they are not highly correlated with the independent variable.
- There is no multicollinearity; there control variables are not highly correlated with each other.

These variables will be taken per hypothesis:

Hypothesis 2 The higher the average IRR of the firms' funds, the higher the probability- and volume of fundraising.
For this part, the average Net IRR was taken of all the closed and still open funds at the end of December 2013. This was done by taking the firm ID and linking this to the fund ID, when this was done, the performance measures of these funds were available. As laid out in the theoretical framework, there is a proven theoretical basis for the fact that performance measures have an important effect on the

fundraising part of the business. What is shown by Mellichamp (2017) is that IRR is the most used performance measure, and it is obvious that it has therefore the largest signaling effect for the fundraising part. In previous studies like Chung et al. (2012) the IRR of the last fund was taken but for the same reasons as the decision to go with the fundraising over the last decade and not of the last fund proposed in section 3.1 the averaged IRR until 2014 was chosen for this thesis.

Hypothesis 3 The shorter the average holding period of past transactions, the higher the probability- and volume of fundraising.

For this hypothesis, the average holding period of an asset per private equity fund was taken. This was only available in the backend of the Preqin database and was therefore not manually or automatically portrayed but it was configured with the assistance of Preqin employees who took the firm ID and attached them to the fund IDs and thereby provided this thesis with the most complete list of the average holding period of all firms. As previously discussed, the holding period is something that in the opinion of this thesis will influence the fundraising volume and probability of fundraising.

Hypothesis 4 If the firm is larger, has more experience, and is of higher reputation, the probability-volume of fundraising will be larger.

For the proxy larger, there is in the private equity world a clear distinction between small-, mid- and large cap and a whole load of categories in between. This could be made available by way of many dummy variables. However, this thesis performs Max revenue as a proxy for the investment target size. The thought behind this decision is that a large-cap fund will put its max revenue a lot higher than a mid- or small-cap fund.

For the experience and reputability of the firms, this thesis includes a couple of different proxies. For experience, the proxy year established was taken as this will very clearly lay out how long the firm has been in the business of active investing in private assets.

For reputability, the proxy listed was taken as listed companies are better followed by analysts, have better oversight, and are more well-known to the public and professionals.

As an extra proxy for experience, reputability, and size both funds closed and funds in the market have been considered. Seeing as they have high multicollinearity one of these had to be taken. It could be argued that funds closed is a better proxy for experience and funds in the market a better proxy for reputability as a firm that has more closed funds is more experienced than one that has more funds in the market as this doesn't necessarily say anything about their experience. It does however say something about their reputability as more funds in the market makes you more reputable and how many funds you closed doesn't necessarily say anything about your reputability in the market. Given the fact that for the

matter of this thesis, it is believed that year established is already a very strong proxy for experience with 91.07% of the firms having this mentioned and the proxy for reputability in Listed being a strong but quite an exclusive proxy for reputability, with only 2.28% of the firms in the dataset being listed the choice was made to go with the funds in the market. This is combined with the fact that funds in the market have the highest correlation with the dependent variable of the two and the lowest correlation with the independent variable.

As mentioned in the theoretical framework all the firms' characteristics are most likely highly significant when it comes to the establishment of the dependent variable and as will be shown are not significantly correlated with the independent variable.

Hypothesis 5 The more industry-specialized the PE firm is, the higher the probability- and volume of fundraising.

As a proxy for industry specialization, this thesis looks at the industries that the firm highlights as industries that they focus on. These were counted and the number of industries that a firm is interested or invested in is taken as a proxy for how industry-specialized a firm is. In that, if the firm focuses on 10 industries it is less industry-specialized compared to a firm that focuses on 3 industries.

As mentioned, there is a theoretical basis to think that there is a link between industry specialization and fundraising volume, besides this, there is no theoretical evidence as well as no empirical evidence that this thesis finds that there is a link between the number of buy and build transactions and the number of industries that a firm is looking at or invested in.

3.2 Summary statistics

In Table 1 this thesis provides the descriptive statistics on the variables mentioned in the previous section. In this section, the thesis will go into what the observations for these statistics look like and what the distribution shows.

Funds raised in the last 10 years

Regarding the dependent variable, funds raised in the last decade what can be seen in Table 1 and the data underlying this is that the average volume of funds raised in the last decade was 1796.81M dollars. Only 42.53% of the firms have raised any money in the last 10 years, topping that list are the firms that are known to all like Blackstone, KKR, and CVC. The top 10 have raised a total of 945.60B Dollars in the last decade, coming to 16.59% of the total sums raised. What can be seen when looking at the firms that did raise funds, the distribution is very top-heavy. Looking at the quartile distribution it is visible that the first quartile is 60.02M Dollars, 2nd (median): 231.52M Dollars, and 3rd: 857.3M

Dollars. The clear lineup of the quartiles and the discrepancy between the median and the mean points to a left-skewed distribution which is also visible in the dot plot of the fundraised variable in Graph 1
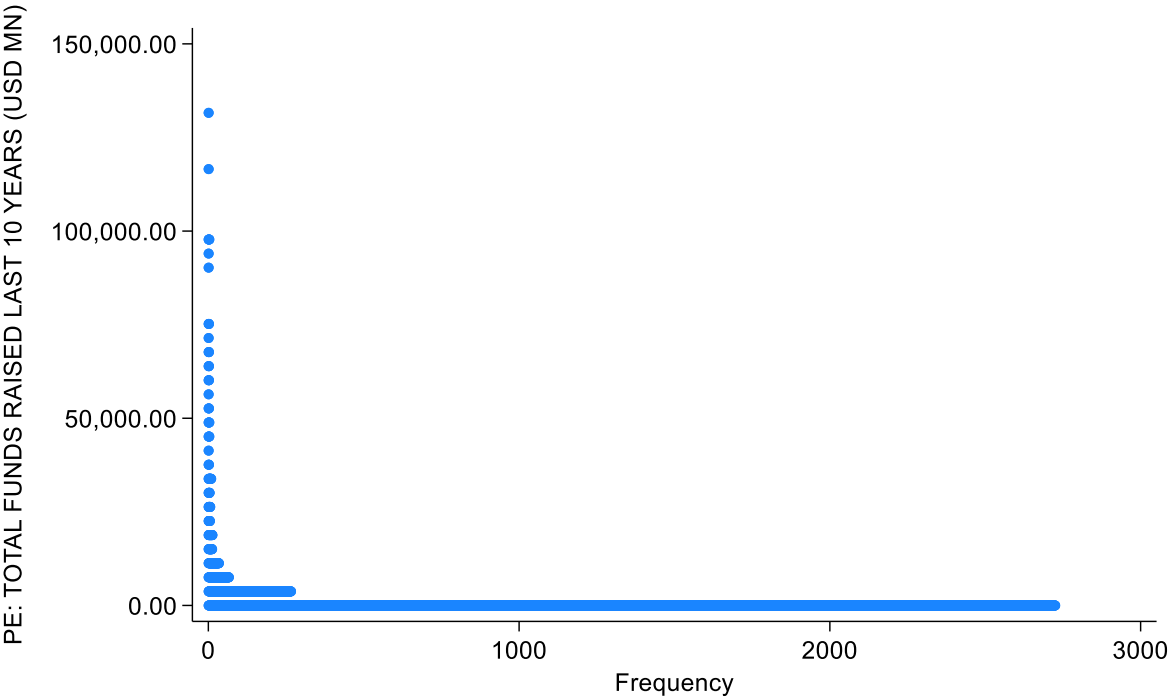

Graph 1: The graph illustrates the frequency that every volume of funds were raised in the last decade

Buy and Build Firm

Next, the buy-and-build deals will be looked at. As mentioned, the total add-on deals are not exhaustive because it seems unlikely that only 295 add-on transactions have been made and only 120 out of our dataset of 7245, coming to 1.66%, of the PE firms have made an add-on transaction between 1999 and April 2014. However, we do have quite some information on these add-on transactions that were made. What is noticeable in the data that is available regarding the add-ons is that they can be segmented by industry, country of acquisition, and year. When it comes to industry most of the deals were done in the category "other services" at 46.05%, the top 5 when it comes to add-on deals industries are completed with 2nd Machinery: 11.31%, 3rd Wholesale/retail: 10.06%, 4th Education & Health: 5.82% and 5th Chemicals: 5.34%. This leaves out large industries like Tech and Energy although some of that could be enclosed under the caption of "other industries". Looking at the country of acquiror or in other words, where the PEs headquarters are located, what is visible in the data is that 73.60% of the deals were done by PEs that have their headquarters located in North America, compared to 46.35% of the total PE's in our dataset that are located in North America. Positing a discrepancy in the popularity of inorganic growth opportunities by way of add-ons in North America. The third way this deal data is segmented is by year, what can be seen in Graph 2 is that the popularity of add-ons has increased substantially since 1999 when only 2 add-on deals occurred

compared to the peak in 2012 when 48 deals occurred. This popularity has gone down somewhat since then, most likely due to the rising interest rates which makes borrowing -which is needed for add-ons- more expensive.
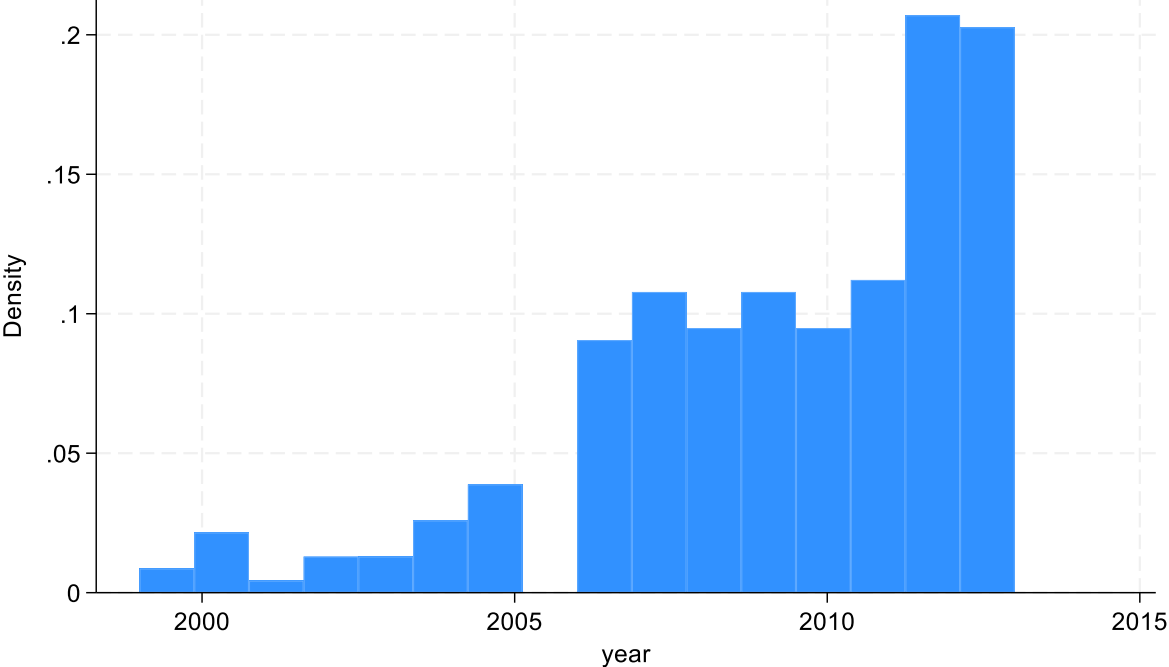
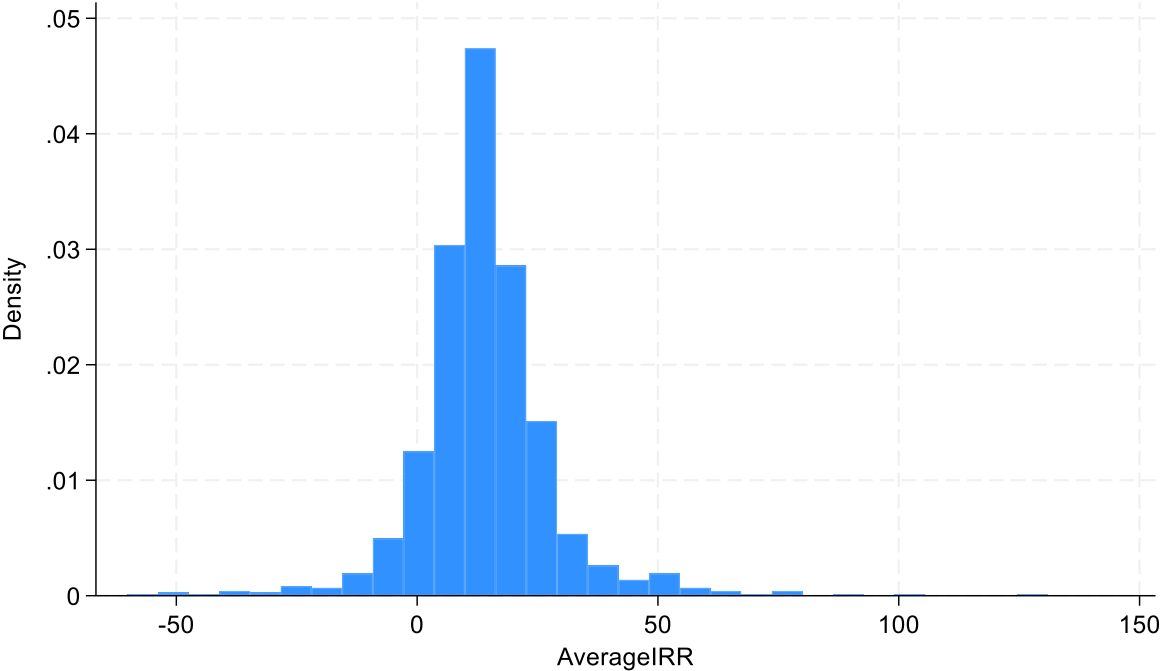Graph 2: This graph illustrates the distribution of the number of buy-and-build deals over time.

Average IRR

The IRR is the most important performance measure that there is for private equity firms. (Kaplan and Schoar, 2005) As previously described this is a notoriously hard measure to come by as it is oftentimes not disclosed. That is why having it for 15.83% of the firms is quite a good statistic. As can be seen in Table 1 the distribution is quite normal, with the mean lying at 14.40% and the median at 13.15%. There are certain categories of firms that have higher Average IRRs. As explained in the theoretical framework there seems to be a connection between the buy-and-build strategy and IRR at first glance. When looking at the primary numbers what is visible is that the firms that are noted as a Buy and Build Firm - so again, these are firms of which more than 5% of their transactions are add-ons- the average IRR is 17.59% and for not Buy and Build Firms this number is 14.29%. What is also visible is that under minority-led firms the average IRR is substantially higher with 18.37% and 14.29% for minority-led and majority-led firms respectively. This is the other way around with women-led firms which have a historical average IRR of 9.59% compared to 14.53% with a man leading the firm. This is contrary to previous studies like Hammer et al. (2021) who find that having more diverse lead partner teams is linked with improved investment outcomes and valuation growth. The disparity found

here doesn't in any way come to any standard of proof for a significant effect of both these CEO characteristics on the average IRR.

Furthermore noticeable is that the listed firms have a substantially higher average IRR at 19.44% compared to 14.18% of those who are not publicly traded. The last thing; looking at the geographic distribution the data shows that Asia has the highest average IRR with 15.62% and Africa the lowest with 9.78%.
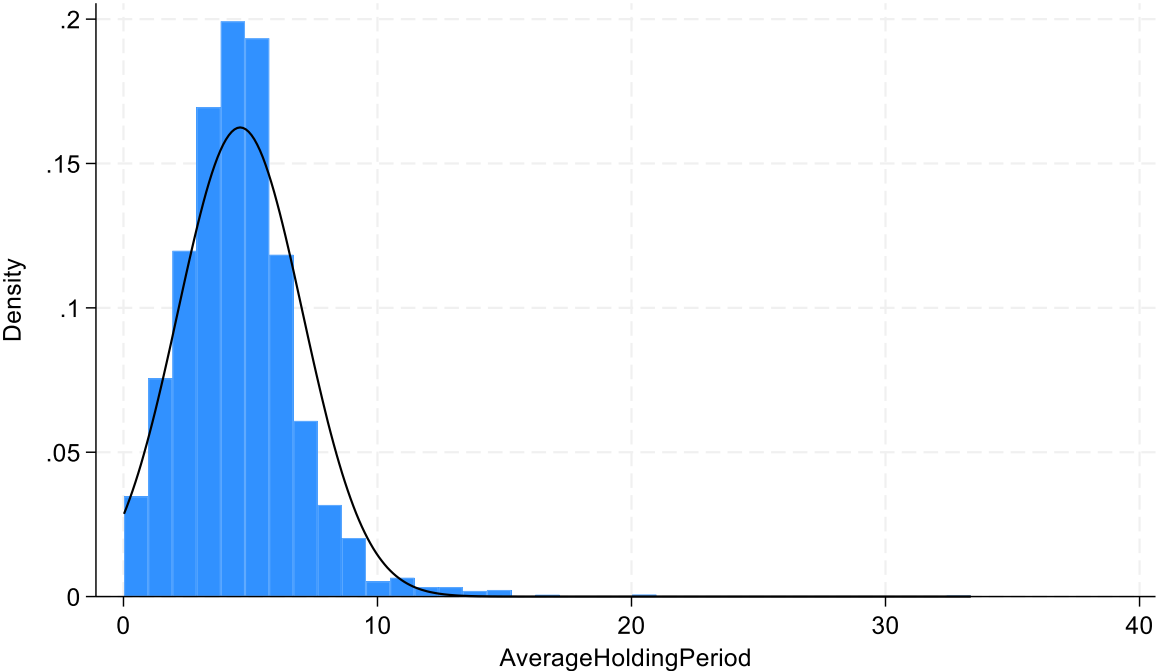

Graph 3: This graph illustrates the distribution of the average Net IRR of all funds before 2014 by each firm

Average holding period

The average holding period is data that isn't readily available on the Preqin database, however, it is stored in the backend, and together with their team, this was made available. For almost half of the PE firms (44.00%) the data was available. The data that was readily available on preqin was the target holding period or better stated the maximum and minimum target holding period. However, this thesis supposes that there is always a discrepancy between the target and actuality and therefore it is better to have the historical figures especially considering the backward-looking approach of the analysis. According to Valkama et al. (2013), the average holding period of PE firms is 3.59 years as opposed to this thesis' 4.61 years. However, they look at 321 specific buyouts whereas this thesis looks at the average holding periods on the firm level in 2014. What can be seen is that there is close to a normal distribution with the median being at 4.42 years compared to the previously mentioned average, this is also visible in Graph 4. Hammer (2016) Has laid out the fact that there is a link between the buy-and-build strategy and the length of the holding periods. This is noticeable when you see that on the

surface the average holding period of Buy and Build firms is somewhat higher than non-buy-and-build firms with 5.29 years and 4.59 respectively.

Graph 4: This graph illustrates the distribution of the average holding period of all assets held before 2014 by each firm

Funds in the market

As the proxy for reputability and size, the number of funds in the market is set. This is not the volume of funds in the market but solely the number of funds that were in the market on Jan 1st, 2014. This wasn't publicly available data and together with the Preqin team, this was made available. The most well-known and reputable PE firms like Blackstone, Apollo, and Carlyle are again listed in the top 10 firms with the most funds in the market in 2014. There is an obvious similarity here and why this thesis uses it as a proxy for reputation as well as size, seeing as the more reputable, experienced, and bigger the firm is the more funds it will be able to manage. The distribution is very skewed to the right with only 1565 of the companies having any funds in the market and the top 100 firms having 32.97% of all the funds in the market. Besides this discrepancy, there is also one visible difference between listed and non-listed firms as well as the geographical distribution. Of the publicly listed firms, the average number of funds in the market is 2.01 and of the rest, this is 0.41. for the geographical distribution, this is visible in graph 5 and what becomes clear here is that Asia, Europe, and North America all have both a wider distribution as well as a higher average number of funds in the market.
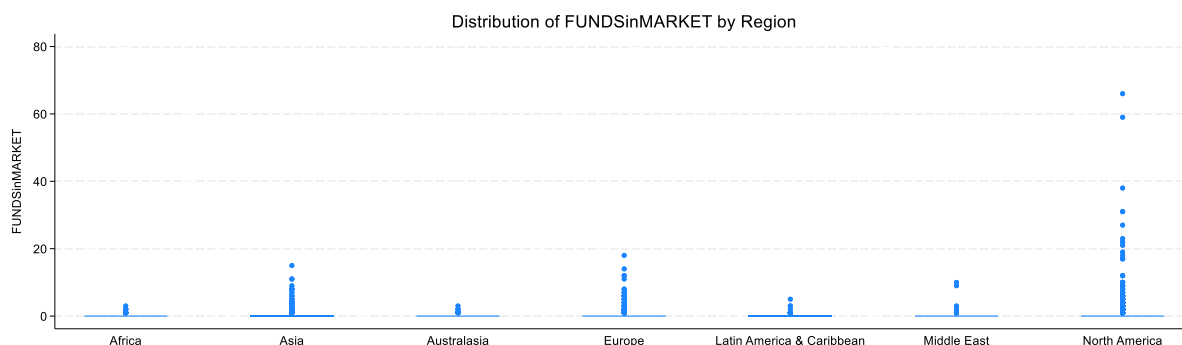
Graph 5: This graph illustrates the distribution of the number of funds each firm had in the market before 2014 divided by region

Max rev

The Proxy for size is the maximum that the revenue of the target can be according to the PE firm. The thought behind this is that it will relay whether a company is a small- mid- or large-cap firm. So if the max rev is higher the firm is interested in larger firms. Not every firm filled in their parameters of the target revenue however for 25.33% this is known. For this thesis, we find everything up to 100 million to be a small-cap, everything up to 500 million to be a mid-cap, and everything above that to be a large-cap. This is very generalized as there are different multiples for different industries and it isn't clear what the equity or total investments would be but it is believed to be the best way to go when defining the different interests of the firms. What we can see for the funds of which the target revenue is known, is that the vast majority (57.95%) is in the small-cap category after that mid-cap with 34.78%, and only 7.27% of the firms are defined as large-cap firms. When looking at the geographical distribution one visible thing is that Asiatic firms tend to have much larger targets compared to the rest of the world.
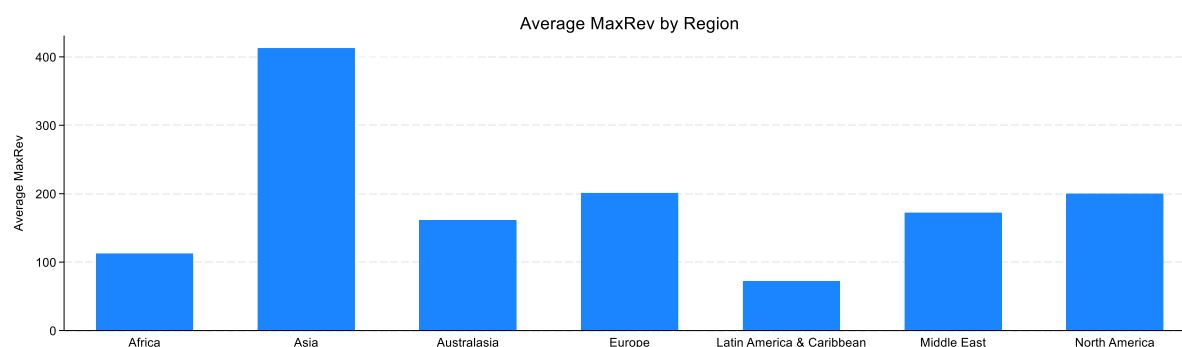
Graph 6: This graph illustrates the average maximum revenue a target company could have divided by region

Year established

The best proxy for experience is the year the firm came into existence. This number is thankfully for the vast majority of firms available (90.94%). Some firms are very old. The eldest firm in this dataset is the Wendell, a French Private equity which started in 1704 although then and in the early history it wasn't close to what we would now call a private equity firm also because there wasn't such a thing. What can be seen in the data is that buy-and-build firms are on average a lot older than the average firm with the average buy-and-build firm having been established in 1997 on average. There have been certain times that were good and bad for private equity. Wright et al. (2018) talk about these boom and bust eras for private equity starting in the 1970's although they pose that private equity as we now understand the term came about in the 1980s. Here they locate the first buyout boom. As a visualization tool, a histogram of the firms without the outliers has been made in graph 7 and this first buyout boom is also visible as a growth in the established firms. The subsequent booms and busts recognized by Wright et al. (2018) are also visible in the number of established firms at that time. Including the 2007-2008 bust and the 2012-2014 recovery period.
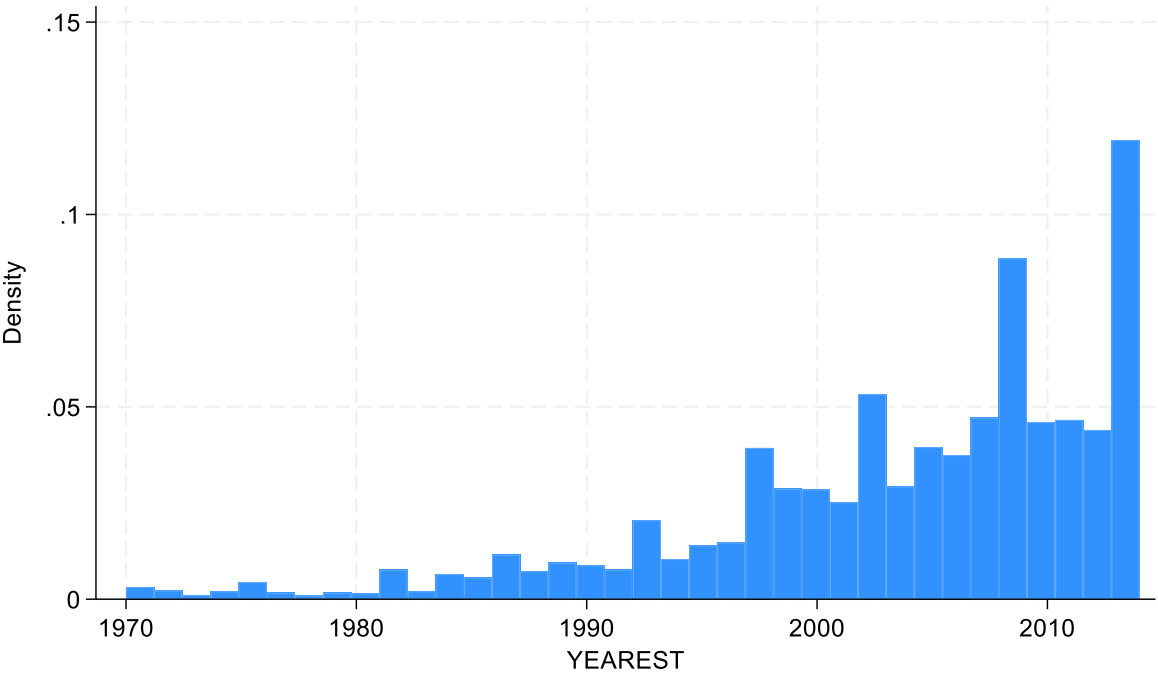
Graph 7: This graph illustrates the distribution of the amount of firms that were established over time

Listed

As a proxy for reputation in this thesis Listed is used as a variable. It is used as a measure for reputation because with being publicly traded, the level of compliance goes up which in turn should garner a reputation boost as the added regulations make for a safer investment. Perhaps this added compliance is the reason for an absolute minority of firms to be listed, with only 2.30% of them being publicly traded which makes this a very niche control variable. Perhaps somewhat surprisingly, most

firms that are listed are located in Europe with 35.15% of the listed firms being located there compared to 29.09% located in North America. While on the whole only 23.86% of the PE firms are from Europe and 45.46% from North America, this could mean that going public isn't as important for the PE firms in North America. This is somewhat in line with previous research by Bergmann et al. (2009) who found that 50% and 24% of the private equity firms were located in Europe and North America respectively.

Industry specialization

As stated in the previous section, the number of industries that the firms focus on was counted and taken as a proxy for industry specialization. There were only 47 firms that didn't fill in any industries that they focus on. What can be seen in Table 1 is that they tend to be pretty specialized with a quarter of the firms having only 3 industries that they focus on and a majority focusing on 7 industries. Younger firms tend to not have as many industries that they are invested in and/or interested in. This is visible from the correlation coefficient which is, with -0.32 pretty negative. What else is noticeable from the data is that listed firms tend to be less specialized with on average focusing on 14.48 industries whereas privately held firms focus on 9.52 industries.

3.4 Methodology

Firstly for the probability like in previous literature, a logit regression is taken to suit the binary nature of the dependent variable of the dummy outcome which is whether funds were raised in the last decade. Secondly for the volume, an ordinary least squares (OLS) regression was taken with the funds raised in the last 10 years as the dependent variable.

The models have the constant term listed and a robust variance measure is taken for each of the results. In checking for multicollinearity we adopt the correlation matrix mentioned in Table 2. This is only for the independent variables and what can be seen here is that no correlation coefficient is anywhere near 0.5 besides the one correlation between the listed dummy variable and funds in the market. Besides this, there was a check for variance inflation factors. This check also gave the right result with none of the tolerance levels coming close to 5 and being above 0.2. With these two checks checked there doesn't seem to be a big problem regarding multicollinearity.

Table 1 Summary statistics

Variable	Obs	Mean	Std. dev.	Q1	Median	Q3
Fundraised last 10 Years	3,118	1842.633	7653.521	60.02	231.515	857.3
Probability of Fundraised	7,245	0.430	0.4951	0	0	1
Past transactions						
B and B firm	7,245	.010	.101	0.00	0.00	0.00
Average IRR	1,134	14.153	14.166	7.948	13.139	19.855
Average Holding Period	3191	4.597	2.449	3.091	4.422	5.710
Pe Firm Characteristics						
Funds in the market	7,245	0.449	1.815	0	0	0
Max REV	1,834	203.137	414.979	50	100	200
Year Established	6,591	2003.771	8.921	1999	2006	2011
Listed	7245	0.0229	0.150	0	0	0
Industry specialization	7245	9.690	8.567	3	7	14

This table presents a summary of the most important aspects of each of the variable

Table 2: Correlation Matrix

	B&B Firm	Year established	Max Revenue	Funds in the market	Listed	Average IRR	Average Holding Periods	Industry specialization
B&B Firm	1.0000							
Year established	-0.1138	1.0000						
Max Revenue	0.0515	-0.0994	1.0000					
Funds in the market	0.114	-0.1076	0.2722	1.0000				
Listed	-0.0335	-0.1915	0.1242	0.5401	1.0000			
Average IRR	0.0161	0.1672	0.0532	-0.0087	-0.0587	1.0000		
Average Holding Periods	0.0304	-0.2539	-0.0250	-0.0476	0.0493	-0.1216	1.0000	
Industry specialization	0.1037	-0.2721	0.1301	0.1656	0.1524	0.0458	0.0410	1.0000

This table presents the correlation coefficient between the variables in the models.

CHAPTER 4 Results & Discussion

The objective of this thesis is to determine the impact of being a buy-and-build firm on the fundraising probability and volumes with the stated purpose of determining whether this might, besides the proven return impact, be a beneficial strategy to take if a firm is looking to raise capital.

In Tables 3 and 4, five model settings were looked at. The first one is only regarding the buy and build firm variable, after that the past transactions laid out in section 2.1 were looked at as the stand-alone basis for this as a proxy for determining fundraising volumes. After this, the Pe firm characteristics are considered as other variables. This was taken by hypothesis so first the combination of the past transactions with the 5th hypothesis of industry specialization. Next is the standalone combination of past transactions and the 4th hypothesis of size, reputation, and experience. After that, all the variables are taken together in the result.

4.1. Past transactions

4.1.1 Buy and Build strategy

There is no discernible effect between being a Buy and Build PE and the probability of raising new funds. In the first place, there is a significant positive effect between being a Buy and Build firm and fundraising probability however this is captured by the IRR and holding period in other model settings. This entails that even though there appears to be a relation between being a Buy and Build firm and fundraising probability, when including these correlated variables this relation disappears. There is a positive significant link to be seen between being a buy-and-build firm and the volume of fundraising, this could be because LPs know that for the buy-and-build strategy, there is a need for added resources as inorganic growth is cost-effective but expensive. What is seen is that this positive significance only arises when the PE firm characteristics are added. This could be because the strategy of buying and building companies through inorganic means is only relevant in combination with the size, experience, and reputation of said PE firm as executing this strategy requires several qualities that come with size, experience, and reputation. So, in conclusion, there is a link between fundraising volume and being a buy-and-build firm but there is not such a link between the probability of fundraising as it is captured in the added variables of IRR and holding period.

Because of this small but significant result when it comes to the volume of fundraising, it can be stated that there is only slight evidence for the support of hypothesis 1: Being a Buy and Build Firm yields higher probability for and volume of fundraising.

Table 3: Results of Fundraising probability

	(1)	(2)	(3)	(4)	(5)
Past Transactions					
Buy & Build firm	0.751***	-0.281	-0.348	-0.678	-0.868
	(0.238)	(0.455)	(0.458)	(0.785)	(0.791)
Average IRR		0.063***	0.061***	0.039***	0.037***
		(0.012)	(0.012)	(0.0137)	(0.014)
Average holding period		-0.224***	-0.227***	-0.186**	-0.192**
		(0.057)	(0.056)	(0.093)	(0.093)
Pe Firm Characteristics					
Max Revenue				0.001	0.000
				(0.001)	(0.001)
Listed				0.481	0.221
				(1.313)	(1.114)
Year established				0.019	0.024*
				(0.013)	(0.013)
Funds in market				1.872***	1.807***
				(0.598)	(0.595)
Industry specialization			0.038***		0.043*
			(0.011)		(0.022)
Cons	-0.290***	2.135***	1.630***	-37.152	-46.516*
	(0.024)	(0.339)	(0.353)	(25.475)	(25.344)
N	7245	973	973	397	397
Wald X2	9.94	44.59	56.47	25.59	27.52
P -value	0.002	0.000	0.000	0.000	0.000
Pseudo R2	0.001	0.105	0.121	0.197	0.211

This table shows the marginal effects of logit regressions that estimate the likelihood of having raised a fund in the past 10 years. A robust variance estimator is applied, and standard errors are indicated in parentheses. Statistical significance is denoted at the 10% (*), 5% (**), and 1% (***) levels.

Table 4: Results on Fundraising volume

	(1)	(2)	(3)	(4)	(5)
Past Transactions					
Buy & Build firm	2905.369 (1873.96)	2215.302 (2849.524)	1718.298 (2977.053)	8419.837* (4302.047)	8409.86* (4382.48)
Average IRR		-11.18 (15.406)	-14.184 (17.034)	18.898* (11.468)	18.844* (11.406)
Average holding period		20.319 (207.469)	-116.665 (214.707)	-63.227 (158.524)	-63.286 (158.745)
Pe Firm Characteristics					
Max Revenue				1.843 (1.304)	1.840 (1.353)
Listed				-152.084 (5515.25)	-164.371 (5391.227)
Year established				-54.659** (25.330)	-54.0346* (29.480)
Funds in market				2814.08*** (432.479)	2813.541*** (427.68)
Industry specialization			331.906*** (78.141)		2.835* (53.496)
Cons	1797.907*** (135.9724)	4991.139*** (1143.304)	405.149 (1253.726)	108287.4** (50677.05)	107001.7* (59371.5)
N	3118	820	820	342	342
F	2.4	0.41	5.01	10.47	9.6
P -value	0.1211	0.744	0.000	0.000	0.000
R2	0.002	0.0012	0.06	0.708	0.708

This table displays the marginal effects of OLS regressions estimating the volume of fundraising over the past 10 years. A robust variance estimator is used, with standard errors shown in parentheses. Statistical significance is indicated at the 10% (*), 5% (**), and 1% (***) levels.

4.1.2 Return track record

Average IRR is very important and highly significant in the decision-making whether to invest and this is noticeable in the fundraising probability numbers. It is positive and significant at 1% for every iteration of the model. This is consistent with previous literature by for instance Kaplan and Schoar (2005) who found that the IRR is highly significant when it comes to future fundraising probability. These results do however point out that the average IRR is rarely significant when it comes to the amount the LP is looking to invest and only becomes significant when the PE firm characteristics are considered. On this difference in significance whether to invest and how much to invest as well as the rise in significance when considering PE firms' characteristics, a reason could be that in the investment criteria of whether to invest the historical IRR is considered as it is the most important performance measure in determining the success of a fund and a firm according again to Kaplan and Schoar (2005). However, when deciding how much to invest this historical IRR falls into the background because of the risk-return contemplation. This is that first the return of the firm is considered when deciding whether to invest but when the decision to invest has been made then it becomes more important what the risk is with the firm and the investment in the firm. In this risk, it is enclosed that more sizable, reputable, and more experienced firms have a lower risk attached to them. Therefore, this risk is primary in that decision and the return in the form of the Average IRR is secondary and only important in the combination. Another thing that can be seen is that the significance as a factor in fundraising volume moves in the same manner as the Buy and Build firm variable and is distinguishable from each other. This means that in this instance as opposed to the probability of fundraising the IRR doesn't capture the effect of being a Buy and Build firm.

 Given the disparity between the two results, it can only be concluded that there is medium evidence for hypothesis 2: The higher the average IRR of the firms' funds, the higher the probability for and volume of fundraising.

4.1.3 Speed of capital turnover

The Average Holding period is highly significant at a 1-5% level and has a negative effect on the probability of fundraising. However, there is no significant link to be found at 1, 5, or 10% for the effect that the average holding period has on the fundraising volumes. The fundraising probability is consistent with previous literature among which is Cumming et al. (2005b) who makes it clear that there is a negative impact of illiquidity on future fundraising capabilities. The results show that although there is a link between the decision to invest by an LP, for the decision of what the amount should be the average holding period is not considered. This could be because there is a convergence of the investment strategy and liquidity preferences which entails that the longer holding periods attract investors who don't necessarily care about the longer holding periods. This does exclude a lot of investors from the outset and therefore the holding periods influence the decision to invest once these investment strategies are lined up, but when the decision of how much to invest arises the average holding period is no longer

that relevant as the LP's have already conscribed to a longer investment horizon and have internalized an illiquidity in their investment decision.

Because of the difference between the very strong evidence for the connection between the probability of fundraising and the lack of evidence for the link with the volume there is overall medium evidence for hypothesis 3: The shorter the average holding period of past transactions, the higher the probability for and volume of fundraising.

4.2 PE firm characteristics

4.2.1 Size, experience, and reputation of PE firms

What can be gathered from the results is that only one proxy for size, experience, and reputation is highly significant in both the fundraising probability and the volume of fundraising, this being the number of funds in the market in 2014. The more funds a firm has in the market the more probable it is that it possesses more dry powder and therefore more available capital, which is a reason why it moves with the buy and build firm variable.

The proxy for size, in Max revenue, has proven to be insignificant in all the iterations and both the models which entails that small- mid- and large-cap firms all have their investor base and that investors seem to diversify their assets between these target-sized PEs. The proxy for experience with the year the firm was established is significant ranging from 5-10% with only one iteration with its inclusion proving not to be significant. When looking at the fundraising probability it is positive meaning that younger firms have a higher probability of raising funds. On the other side when looking at the fundraising volume it is negative meaning that younger firms raise less in fundraising volume. Concerning the buy-and-build firms, as previously mentioned, the Buy and Build firms are on average almost a decade older than the average firms. This makes the negative coefficient for year-established work an enhancer of magnitude for the buy-and-build firm variable in the model concerning the volume of fundraising.

The last proxy was purely on the reputation with the variable listed which proved to not be significant in any setting and any model proving that at the very least this form of reputation is not important in determining the drivers of fundraising capabilities.

Because of the differing significance and size of the drivers together with the seemingly linked importance with the rise in significance of investment strategy and risk-return profile, this thesis gathers that there is inconclusive evidence for the fourth hypothesis: If the firm is larger, has more experience and is of higher reputation, the probability of volume of fundraising will be larger.

4.2.2 Industry specialization of PE firms

Industry specialization is a variable that is positive and significant for both the probability of and volume of fundraising, this with 1-10% significance. This entails that there is also a connection between the fact that an LP is interested in industry specialization both in the decision to and how much to invest. What is noticeable as well is that when the PE firm characteristics are added to the model, the industry specialization becomes less significant to the outcome. It drops from 1 to 10% significance. This again follows the thought pattern of risk-return considerations with risk being primary in the consideration of how much to invest and seeing as industry specialization could be considered risky as it is less diversified. There is a seemingly numbing significance in combination with the less risky variables like size experience and reputation.

However, for both models, it still counts that there is a significant positive effect between the number of industries a firm is involved in and the fundraising probability and volume. Therefore, it can be stated that industry ambiguity has a positive and significant effect on the probability and volume of fundraising. This is in line with the previous literature by Loos and Schwetzler (2017) who found the same relation. It is however in contrast with the fifth hypothesis: The more industry-specialized the PE firm is, the higher the probability- and volume of fundraising.

CHAPTER 5 Conclusion

The different drivers of fundraising and the purpose of buy and build transactions on the firm level in connection with the fundraising capabilities is what is being studied in this thesis to further the information that PE firms have in their search for additional capital and future fundraising efforts.
In this study, a backward-looking approach was utilized by mapping the buy and build transactions and linking these to the private equity as global ultimate owners as well as linking fundraising efforts and firm and transaction characteristics to the firm level.

What is clear from this study is that firms that the probability of fundraising is positively linked with a transaction track record that has higher IRRs and lower holding periods and PE firms that are industry and sector ambiguous. The effect of being a firm where buy and build is the primary strategy for growth does not have an effect on the probability of fundraising and is captured in the correlation with the higher IRR and shorter holding periods. Considering the volume of fundraising, this is positively linked with firms that are again sector ambiguous. There is also a positive link if the previous transactions have a higher IRR and the firm is a Buy and Build firm, however, these two variables are only important for the volume of fundraising if the firm's size experience, and reputation are considered. The reason behind the difference in importance between probability and volume for Buy and Build firms is that even though the strategy is captured in the IRR for the decision to invest, in the decision how much to invest other considerations come into play. For instance, LPs know that this growth strategy requires certain capital-intensive investments and are therefore more likely to invest larger sums of money if the firm operates with a buy-and-build strategy as primary. The reason why being a Buy and Build firm is only significant in the fundraising volume in combination with the size experience and reputation of the firms is that the successful implementation of this strategy of inorganic growth requires certain features that are attached to firms with certain size, experience, and reputational characteristics.

This study contributes to the research surrounding the understanding of drivers of fundraising capabilities especially focused on the buy and build strategy concerning these efforts. Whereas previous studies on the fund level found no significance in the adoption of the buy and build strategy this study does find a relation between having this strategy as primary and the fundraising volume. This is possibly because of a limitation that a previous study who looked at this by Loos and Schwetzler (2017) already pointed out. In this study, almost all their fundraising events and the buy and build transactions linked to it were before 2007 while they also pose that buy and build transactions gained in relevance after the global financial crisis in 2008. Besides what this study adds on the importance of the Buy and Build strategy in both the probability- and volume of fundraising. This study also adds to the literature regarding understanding the fundraising drivers by looking at it from the firm level. The look on the firm level has different considerations compared to the fund level approach which is more event-situated

and less linked to a firm's characteristics, next to possessing less thorough track record details. Altogether this study adds to the understanding for GPs of what is important to highlight in future fundraising efforts.

Concerning the limitations the data availability is one. Even though this study has a couple of great proxies for size there was one that wasn't available due to the lack of data, this was the historical AUM for the firms. This could be a great addition to the research as this would be a great opportunity to determine the effect of size on the fundraising capabilities and the connection to the buy-and-build strategy.

Looking at addition to the scientific literature there could be an effort taken to include qualitative research like interviews with institutional investors as well as PE firms to find out the efforts taken in investing and fundraising and the importance of buy and build strategies in this effort.

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APPENDIX A

Variable	Definition
Fundraised 10Y	The volume of funds that have been raised in the last 10 years by the firm
Year established	The year the PE Firm has been established
Max Rev	The maximum target revenue that the PE firm focusses on
Funds in the market	The amound of funds that the PE firm had in the market on the 1st of january 2014
Buy and Build firm	A dummy variable that is 1 when the buy and build percentage deals is over 5% and 0 when it is lower then 5%
Listed	A dummy variable that is 1 when the firm is publicly listed and 0 otherwise
Average IRR	The average internal rate of return of all the funds attached to the firm
Average Holding Period	The average period that an asset is held by the firm
Pe Industry count	The number of industries that the firm highlights as an industry in which they are actively invested in

This appendix presents the definitions of all the variables used in all the analysis