# A secret tactic for quick growth: the roll-up

I recently wrote about , but I wanted to go into more detail about one type of M&A strategy: the roll-up. A roll-up is when you plan to buy multiple businesses within one industry. And there are many potential ways to execute a roll-up.

## Roll-up strategies.

You need to figure out exactly what your goal is, much more than simply growing revenues and market share. For example, you may be rolling up geographies for an expanded footprint: taking you from, say, Chicago alone, on into New York, Los Angeles and Miami too. Or, you could be rolling up products: taking you from a one-product company (e. g., search marketing agency) to a multiple-product company (e. g., adding email marketing, digital advertising andsocial mediamarketing).

Or, you could be rolling up industries to sell into: adding automotive, retail and consumer products, to your original insurance-focused business. Or, you could be interested in rolling up talent: seeing whether your marketing-driven business is able to add a strong sales team or strongtechnologydevelopment team into your arsenal.

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A roll-up can accomplish whatever is most needed for your business and put you wherever you need to be for long-term success.

## Roll-up financing.

One way you canfinancea roll-up is simply using your company's equity as a currency. For example, you own 100 percent of one business today, but you might own 25 percent of the company, after four businesses are rolled-up, with the shareholders of the other businesses owning the other 75 percent. Although, most sellers like to see some cash at the time of sale.

Another way to finance a roll-up is by finding a private equity fund to help you with the needed cash, with the fund making an investment in your company. Not all private equity funds do roll-ups, so you need to find the funds that prefer roll-up strategies in your industry. Firms that do bring a wealth of experience to the table. They can guide you past pitfalls they have learned to avoid over the years.

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Going in, assume the fund will not be financing the roll-up entirely with equity, and that there will be at least some debt involved. You will want to make sure, therefore, that the businesses you propose rolling up will have, altogether, at least $3MM of cash flow with which to service that debt.

## Roll-up integration.

My mantra for executing a roll-up of businesses is " Do No Harm!" Do not try to integrate these businesses day-one. There are too many personalities, company cultures and skill sets involved. Instead, think of it as three phases:

1. Phase one is simply rolling-up the financials into one entity, keeping the businesses running largely the same as they were before the deal;
2. Phase two is integrating all the back-office functions across all companies, e. g., payroll, insurance, overhead; and

3. Phase three is integrating the front-office functions, e. g., cross-selling products, cross-training sales teams, centralizing company-wide branding.

Don’t try to do it all at once, as it will most likely not work out as planned, and could result in disgruntled staff quitting and revenues falling far short of plan, which could endanger any debt service. Phase it in over a couple years.

## Roll-up pitfalls.

There are a lot of , but when you are rolling-up multiple M&A transactions, that potential multiplies and compounds. For example, merging two company cultures is hard enough, let alone merging ten company cultures. And, although the growth is exciting, the employees may not like the combined Newco company, comparing it unfavorably to how things used to be at stand-alone Oldco company.

So, get ahead of those issues and start pre-selling the future vision andcultureacross all the organizations from day one Make sure each company is involved in the creation of whatever plans are discussed. Moreover, small businesses are often times dependent on their founders, so make sure they are locked-in as employees of Newco for some mutually agreeable transition period (e. g., at least one year), to ensure a smooth transition and limited impact to revenues, post transaction.

## Roll-up economics.

I have previously talked about shooting for 1+1= 4 economics from M&A transactions. For example, two complementary products, selling into two different industries, gives two $10MM revenue businesses the chance to get to $40MM together, after they start cross-selling their products into the other company's clients. But, that doesn't always hold across all types of roll-ups. When only rolling-up geographies, for example, 1+1= 2 in a best case scenario if nothing goes wrong.

And, as we learned, the opportunity for things to go wrong is quite high. So, build cushions into your combined company revenue plans. Perhaps build in a 50 percent haircut on the target company's revenues when building your models and negotiating your deals (giving the seller an earn-out if things go to plan, but not overpaying if they don't).

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Roll-ups are often easier to transact than they are to execute post-deal. Get good advice and mentorship along the way from professionals or colleagues that have lived through this battle before. But, assuming you get past pitfalls and execute successfully, a roll-up of several companies is a quick way to grow your business and market share in a short period of time.