

FROM BRONZE TO GOLD

A QUALITATIVE CASE STUDY ON NORVESTOR'S INVESTMENT IN PHM
WITH A FOCUS ON BUY-AND-BUILD STRATEGIES AND INTEGRATION
PROCESSES

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Abstract

This thesis chronicles Norvestor's investment in the Finnish property maintenance service company PHM. Through a case study, this thesis analyses how PHM has implemented a successful buy-and-build strategy, completing over 150+ add-on acquisitions in under four years, allowing them to become the market leader in the Nordics. Moreover, the thesis investigates the strengths and weaknesses of a "hard" versus "soft" integration of add-on acquisitions. The purpose of this thesis is to further real-world knowledge within a space that has limited available public information, and it is therefore appropriate to use as a case-study for teaching purposes. This thesis finds that several factors have contributed to the success of PHM's buy-and-build strategy, such as a robust financial capacity, a strong management team and a soft integration approach. Moreover, we discover that the trade-off of a hard versus soft integration depends on factors such as the platform company's overall goals with the buy-and-build strategy, market dynamics and the nature of services provided. As this is a case study the findings are difficult to draw general conclusions from, however, the findings demonstrate an example of how a platform company can successfully consolidate a market through buy-and-build as well as how they can shift their integration approach as their company matures.

Keywords:

Buy-and-build, integration, private equity, case study, add-on acquisitions

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1. Introduction

Value creation is a vital part of private equity (PE), and the factors that contribute to successful value creation has been thoroughly studied within the academic and commercial world. As PE is a dynamic space in constant adaptation, how value creation has been implemented practically has shifted across the decades (Brigl et al., 2012). Typically, successful value creation includes a mix of operational, governance and financial engineering (Jensen, 1989).

A common strategy used for value creation by PE firms is the buy-and-build strategy, also known as “B&B”. According to Bovy et al. (2024), the B&B strategy is PE firms' most popular strategy across geographies. It is known for its ability to create significant value when executed correctly. The B&B strategy is a method that involves investing in a platform company and thereafter acquiring smaller companies which are known as “add-ons”. Value creation and synergies occur when combining these companies together.

Over the past decade, the execution of the B&B strategy for PE firms has increased significantly. The increasing trend can be clearly demonstrated in the Nordic region where the total deal value for B&B has increased from 6.9 EUR billion to 36.4 EUR billion between 2012 and 2022, demonstrating a compound annual growth rate of 18% (Pitchbook, 2022).

One of the leading PE firms in the Nordics that frequently uses B&B as a strategy for value creation is the Norwegian player Norvestor. Norvestor has implemented one of their most aggressive B&B strategies, in regard to the amount of add-on acquisitions executed, in their portfolio company PHM. In April 2020, Norvestor’s Fund VIII made its debut investment by acquiring the Finish property maintenance company. Under Norvestor’s ownership over 150+ add-ons have been executed and PHM has expanded to three additional geographies in under four years. Atypical to similar peers within the property maintenance market, PHM’s M&A strategy involves a soft integration approach.

In this thesis, we will examine Norvestor’s ownership of PHM with a focus on how PHM’s B&B expansion has been able to occur successfully at such a rapid pace along with investigating the strengths and weaknesses of different integration approaches. Moreover, we will shed light on how these components differ depending on overall market conditions as well

as conditions within the add-on companies. The research questions guiding this thesis are as follows:

- 1) What are the essential components of a successful buy and build strategy? How do they vary with market conditions and conditions in the target companies?*
- 2) What are the pros and cons of “hard” versus “soft” integration, and what factors determine which of these is best for a particular situation?*

This report is based on qualitative research. A single case study methodology is used to gain a comprehensive understanding of the subject and to be able to answer the research questions. Due to the lack of public information and scope of the research questions, we considered a case study the most appropriate method. The main scope of this report is the Nordic and the German market, with a focus on B&B and integration strategies.

The purpose of this report is to further real-world knowledge within the PE space, as it has limited publicly available information. It is rare to be provided insight into a private company that a PE firm still owns and actively manages. Therefore, the aim of this case study is to provide unique insights into an actively managed PE company, and understand their current approach to B&B strategies and integration processes. As PE strategies for value creation differ over time (Brigl et al., 2012) the findings provided by this thesis are consequently unique as they recollect current events in the Nordic and German market. We believe that this report will contribute to new findings by updated insights of a market that is constantly evolving. The material can therefore be suitable to use as a case study for teaching purposes when understanding B&B and integration strategies in the Nordics and Germany.

Our findings show that the key aspects behind PHM’s successful B&B strategy have been their soft integration approach, as this prevents bottlenecks, subsequently allowing them to keep a rapid M&A pace. Additionally, the development of an in-house M&A team as well as facilitating a sophisticated financing structure is also essential. Moreover, essential aspects have included requiring key stakeholders to reinvest, provide equity for the add-on investments as well as acquiring major competitors. Incentives have also been an important aspect of their B&B strategy, as this keeps employees engaged and ensures that key stakeholders do not leave post-acquisition.

We find that the key aspects for a successful B&B strategy, in PHM's case, do not change depending on market conditions, however, the strategy of how to approach the add-ons and what the negotiation process looks like differs depending on geography. Moreover, we find that the key aspects do change regarding conditions in the add-on companies, for example, the requirement to reinvest is dependent on how the management structure looks within the add-on.

Regarding integration, our findings show that the most appropriate integration strategy depends on the company's overall goals. If intention is to grow, soft integration is more appropriate whilst for realising synergies effectively a hard integration is better. Moreover, there are several other pros and cons with both approaches that we discuss more in depth in the case study.

We do recognize that the scope of the study is limited, since interviews are only conducted with one PE firm about one portfolio company. Additionally, the focus is on the Nordic market, with some light shed on Germany. Subsequently, the geographical scope is limited. The limited scope affects the generalisations of the discoveries in the study. The study is also limited as we are unable to discuss details regarding financials such as transaction sizes or scales of synergies due to confidentiality. Moreover, it is important to highlight that the individuals interviewed might not be able to disclose all relevant information for this study due to internal and external restrictions, seeing as PHM is still an active investment within Norvestor's portfolio.

This report is structured as follows; the study begins with a literature review, followed by methodology, limitations, case study, discussion, and finally, conclusion and further research.

2. Literature review

In this section, we will present a review of previous literature relating to the topics of PE and B&B. The section contains an outline of PE, value creation strategies, B&B alongside choice of financing and different types of integration approaches and negotiation tactics.

2.1 Introduction to private equity

The PE industry is included in the broader scope of non-public assets. Often, PE funds are structured as limited partnerships with a finite time horizon where funds are managed and operated by PE firms (Døskeland and Strömberg, 2018). PE firms that manage the funds are

often lean organisations consisting of a small number of investment professionals (Jensen, 1989).

PE firms are organised so that investors can delegate investment management to investment professionals, thereby theoretically, identifying the best types of investment opportunities (Demaria, 2010). Funds usually have a fixed life of ten years; however they can be subject to a three year extension. Extensions are often made in case the PE firm sees continued capabilities to increase potential returns even more. Generally, PE firms thereby have roughly five years to invest and deploy capital, and an additional eight to manage and generate returns to their LPs (Kaplan and Strömberg, 2009).

With increasing competition within the PE space, certain firms have begun niching themselves in an attempt to differentiate themselves from their competitors, to generate higher returns as well as have more successful fundraisers. For example, firms can choose to target specific geographies, solely invest in certain industry verticals, only complete portfolio deals, or limit their ticket sizes. Certain research argues that investment firms that are niched generate a higher return on their investments than their unspecialized competitors (Gompers et al., 2009, Zweig et al. 2014). Zweig et al. (2014) show in their research that specialist funds outperform generalists across all fund sizes which they believe is due to specialists' ability to successfully source investments, generate value creation during the holding period as well as having better exits. Across the PE space, research demonstrates that soft skills and knowledge are also important factors for successful returns. Not only do specialists generally outperform generalists, but they also create knowledge retention within the firm. Nevertheless, generalists have the strength of a more diverse portfolio, which can reap other benefits (Zweig et al. 2014).

2.2 Value creation methods

Following the distinction by Kaplan and Strömberg (2009), the economic value that PE firms create in their portfolio companies originates from financial, operational and governance engineering. PE firms use these three sets of actions to improve their portfolio companies' operations along with producing economic value (Jensen, 1989). Multiple expansion and EBITDA improvement are often the two aspects that are analysed when measuring value creation, which in turn is measured on returns on invest capital and IRR. According to Zeisberger et al. (2016), significant to increasing returns is growth in EBITDA which is often

driven by revenue. In the section below we will review these value creation methods and what they entail.

2.2.1 Operational engineering

Operational engineering involves leveraging industry-specific and operating expertise to create additional value in investments. Examples of common operational engineering actions include cost reduction actions, altering the customer offering and improving organisational infrastructure.

Most of the leading PE firms focus on specific sectors and often hire professionals that have hands-on work experience and a comprehensive knowledge of the sectors they are specialising within (Kaplan and Strömberg, 2009). Private equity firms leverage their expertise to specific sectors to identify opportunities and attractive investments more easily. For instance, they might experience fewer difficulties in recognizing cost-saving potentials, improving productivity, and identifying acquisition opportunities through specialisation (Kaplan and Strömberg, 2009).

Bernstein et. al. (2010) and Gompers et al. (2020) argue that operational engineering is especially important for firms that have performed poorly and are in financial distress. In such cases PE firms often have a more hands-on approach and the role of the manager of the portfolio company is diminished. Whereas if the firm performs well, operational engineering initiatives are not as important for the PE owner. Cronqvist and Fahlenbrach (2013) find that higher convex incentives for managers are created through a successful combination of operational and financial engineering.

2.2.1.2 Buy-and-build and add-on acquisitions

An important strategy in operational engineering, partially driven by the time limit PE firms must create value in a portfolio company due to their limited investment horizon, is add-on acquisitions and buy-and-build (Døskeland and Strömberg, 2018).

The main objective for the B&B strategy is to expand operations through incorporating smaller add-on acquisitions. Add-on acquisitions involve acquiring companies to build onto a portfolio company that acts as a platform. Acquisitions are considered one of the most important aspects of driving value and improving operations within PE portfolio companies (Dentons, 2023).

Several benefits come with add-ons, including lower multiples compared to the platform companies, allowing PE firms to create multiple expansions and arbitrage. This process results in an increase in the portfolio companies' multiple valuations. EV/EBITDA is the most used multiple in these contexts (Acharaya et al., 2013).

Moreover, the scale and scope strategy helps portfolio companies strengthen their market position (Hammer et al., 2022) alongside boosting returns (Acharya et al., 2013). Although a popular strategy, evidence suggests that it is difficult to implement (MacArthur et al., 2019). Identifying the right acquisition is critical since it can help with market expansions along with creating opportunities in different geographical locations and establish a presence in a particular industry (Smit, 2001). Furthermore, it is important to find the platform with the right characteristics. These characteristics include platforms with a big market share, growth outlooks, strong financials with recurring cash flows and a strong management team (MacArthur et al., 2019).

The successful integration of add-on acquisitions is often the most important aspect to a well-executed B&B strategy (Steigenberger, 2017). Research has shown that the value creation following add-ons relies heavily on how well integrated the two entities become with one another (Haspeslagh and Jemison, 1991). An add-on acquisition can encounter many challenges, often related to company cultures not aligning, which in turn can affect the value creation thereafter. Certain PE firms pursue strategies with an intentionally decentralised model where the platform and add-on companies act independently, although certain research demonstrates that this does not maximise value creation (Steigenberger, 2017).

Different market conditions affect the likelihood of B&B occurring, such as debt market conditions and other market dynamics (Bansraj & Smit, 2017). Likelihood of a successful B&B implementation increases if an industry structure is stable and geographically fragmented where there are few identifiable platforms and many add-ons available in new and local geographies. They find the acquisitions should be “in the money” and of sufficient size for the add-on to add value to the platform. Moreover, Bansraj & Smit (2017) find that market volatility is negatively related to the occurrence of B&B. The likelihood of add-ons occurring increases when a high market and size premium is present and exit levels are high in relation to their continuation values. Bansraj & Smit (2017) also find that company levels such as size,

standalone performance, potential synergies affect the decision to invest in the add-on. Moreover, regarding the acquisition of PE backed B&B platforms, Hammer et al. (2022) state that multiples are often higher for these types of transactions. Smit (2001) also finds that the platform company as a whole is worth more than the sum of its parts.

2.2.2 Governance engineering

Governance engineering centres around PE firms' role as owners of their portfolio companies. There are several types of governance engineering that a PE firm can conduct, such as changing the members of the board of directors and management team. Other aspects include; mitigating agency problems through implementing incentive plans that are equity-linked, as well as changing the shareholder structure and legal structure of the portfolio company (Kaplan and Strömberg, 2009; Biesinger et al., 2020). Unlike public companies, boards of PE-owned companies often have fewer participants and meetings more often, allowing for effective and active collaboration (Kaplan and Strömberg, 2009). The reason behind this can be related to that PE firms wish for portfolio companies to reach certain performance targets within their limited investment horizon. According to Biesinger et al. (2020), one of the first initiatives after acquiring a company is changing seats on the board to PE partners who often have industry expertise or possess other important skills that can help improve the governance within the newly acquired company.

2.2.3 Financial engineering

Financial engineering is a value creation strategy that includes different financial initiatives that a PE firm can undertake. This type of value creation initiative can include different actions relating to financial aspects such as optimising portfolio companies' debt levels, implementing financial incentive agent programs, altering companies' capital structures, and changing the management of net working capital (Kaplan and Strömberg, 2009; Biesinger et al., 2020). Issues regarding principal-agent intermediaries and relationships such as agency overhang and induced distress can be also mitigated through financial engineering as this optimises risk management and resource allocation (Gryglewicz and Mayer, 2023).

PE firms often utilise external debt when acquiring companies, as this allows them to acquire controlling majority of companies using lower amounts of equity. In turn, this allows for leveraged returns and the ability to execute more acquisitions in a fund (Kaplan and Strömberg, 2009). PE firms often have the advantage of receiving a lower cost of debt due to their

credibility and their lower reputational risk (Demiroglu and James, 2010). However, too much debt increases the cost of financial distress which can be concerning for overleveraged companies (Kaplan and Strömberg, 2009). Financial engineering is reliant on and sensitive to market conditions, including debt markets and the interest rates (Axelson et al., 2013; Gompers et al., 2016).

2.2.3.1 Financing options

In the context of financial engineering, examples of B&B initiatives include how firms choose to finance acquisitions. Previous research has shown that companies who are present in competitive markets with strong bargaining power, valuable investment opportunities, and a high growth potential, are more prone to issue bonds than bank loans. Companies with lower bargaining power tend to prefer a bank loan since loan terms are renegotiable (Morellec et al., 2015) whereas public debt, such as bonds, is not renegotiable (Gertner and Scharfstein, 1991). The findings of Goel and Zemel (2018) show that only a small number of firms choose to switch from loans to bonds during economic uncertainties. Generally, banks have more influence on levered firms as financial covenants are included in bank loans. If a firm breaches its covenant, banks have the right to accelerate the loan (Lian, 2018).

2.3 Integration strategies

There are two main approaches that are used for the integration of add-on acquisitions: “soft” and “hard”. Both approaches present strengths as well as weaknesses, and which integration strategy companies should choose has been studied on several post-acquisitions (Birkinshaw et al., 2000; Haspeslagh and Jemison, 1991). When implementing changes, the acquiring firm generally has the upper hand as they are the owners and often the bigger company (Pierce & Dougherty, 2002). This shift in power dynamic can have negative effects on the integration process, such as decreased motivation and willingness from employees to collaborate well (Very et al., 1997). Excessive authority and control from the acquiring firm can also lead to decreasing status and autonomy in the add-on (Hambrick and Cannella, 1993).

The hard integration approach often includes activities that aim for synergy realisation, such as discontinuing or transferring assignments between the entities (Kroon et al., 2022). Although these initiatives are effective in creating value, they can alter the relationship dynamics within the organisation. For example, they can shift hierarchies and reporting authorities (Meyer, 2001), which are actions often met with disagreement from the employees (Vaara, 2003).

Birkinshaw et al. (2000) argue that the soft approach creates a more positive attitude among employees than a hard integration. Activities such as joint training schemes and informal events are often conducted in the soft integration to strengthen the connection between the companies (Birkinshaw et al., 2000; Meglio et al., 2015; Schweiger and Goulet, 2005). Although this fosters a positive attitude among employees, this approach can result in delaying the potential value creation (Seth, 1990). Haspeslagh and Farquhar (1994) further argue that focusing solely on the soft approach can lead to confusion and uncertainty among the acquired firms' employees. Moreover, Chao et al. (2020) find that the soft approach increases talent retention post-acquisition.

Rooted from the discrepancy in task- and human integration (Birkinshaw, 1999; Birkinshaw et al., 2000), there is often tension and disagreements between the hard and soft approaches during the integration phase (Larsson and Finkelstein, 1999; Schweizer, 2005). As a consequence of the possible tensions that can occur, certain acquiring firms act more cautiously and choose to implement a soft approach (Ranft and Lord, 2002). To minimise tension between the companies, the recommended strategy from Birkinshaw et al. (2000) is to first focus on human integration, then successively implement task integration.

The two most common approaches during the implementation of soft and hard integration are the top-down and bottom-up approach (Heyden et al., 2017). Securing the balance between keeping employees motivated and realising value creation and synergies is vital (Graebner et al., 2017). Clark et al., (2010) and Zaheer et al. (2013) find that a degree of autonomy as well as consideration of cultural and behavioural aspects is important for the integration process. However, according to Puranam et al. (2006), certain levels of control and task integration are required from the acquiring firm to realise synergies.

According to Haspeslagh and Jemison (1991) which integration strategy to choose should be determined by the company's need for autonomy and interdependence. When both integration and autonomy are necessary the choice of strategy becomes especially important. In these instances, "*symbiosis*" is an appropriate integration strategy. The symbiosis strategy is when the acquiring firm and the target firm under the initial period coexist, and then successively become more interdependent (Haspeslagh and Jemison, 1991).

Subsequently, which integration approach to choose can be difficult for managers (Zaheer et al., 2013). According to Kroon et al., (2022) the best approach is to combine both types and align them with the aimed integration level.

2.4 Negotiation processes

Interpersonal interaction is crucial in a negotiation process (Brett & Thompson, 2016). Studies have found that intuition is a common factor that affects decision-making, for instance, gut feelings and past experiences. Negotiators are therefore prone to systematic biases which have an impact on the negotiation process and outcome (Bazerman et al., 2000; Brett and Thompson, 2016; Kesting and Nielsen, 2020). Culture also affects the negotiation process. Brett (2010) finds that the negotiation process can be affected by language and cultural differences. He observes that different cultures have varied interests, priorities, and strategies in negotiations.

Moreover, previous research has shown that different sizes of firms value relational capital differently, which in turn can also affect the negotiation process. For instance, smaller firms emphasise relational capital more than larger firms. Smaller firms value negotiation and collaboration with other firms more as they are more aware of their limitations when it comes to fundamental resources (Welbourne and Pardo-del-val, 2009).

3. Methodology

3.1 Empirical methodology

Given the industry's characteristics, detailed information regarding transactions in the PE space is frequently kept confidential, and publicly available information is thereby scarce. This can in turn result in issues relating to data quality (Kaplan and Sensoy, 2015). Moreover, according to Axelson et al. (2009), investment professionals rarely tend to think in terms of theoretical frameworks or well-known financial theories when executing their work, such as when evaluating investments or conducting value creation strategies.

Considering these aspects, case studies can be an appropriate way of studying PE firms and their investments as they present the opportunity to evaluate their actions in a real-life context. Additionally, it is argued by some research that case studies can be particularly appropriate to

understand the relationship between a phenomenon and context, as it is conditioned by an environmental context (Dubois and Gadde, 2002).

To mitigate the challenges stated above and to answer our research questions, we have chosen to conduct a qualitative case study. The case study methodology allows us to investigate our thesis questions in depth in a real-life context. Although the case study methodology output provides less generality (Otley and Berry, 1994) the insights provided are pivotal for us to answer our research questions in detail. Instead of only focusing on insight from raw data, which can be difficult to obtain, the case study approach enables us to get a profound understanding of insights and perspectives from individuals who are closely involved with our subject.

3.2 Data collection

For this paper, the main data resources were interviews conducted with individuals with professional proximity to the case, as well as internal and public information provided by Norvestor and PHM. Norvestor provided certain confidential information, such as the commercial due diligence report of Kotikatu.

Substantial efforts were put into the preparation and conduction of the interviews as it was our main data source. The interviews were recorded and conducted in a semi-structured way. This meant that we prepared a set of questions to ask, however, the interview was in a conversational setting allowing the interviewee to discuss the points that they considered most important (Merriam, 1994). To be provided a broad and unbiased insight into the topic, both individuals at PHM and Norvestor were interviewed. Additionally, the investment professionals at Norvestor had different seniorities, which allowed us to gain insight into different perspectives within the firm. The interviews were conducted online between the dates of 13th March and 5th April 2024 and lasted approximately sixty minutes.

Table of interviewees

Name	Company and role
Karl Solzvik	Partner at Norvestor and Chairman of the Board at PHM
Ian Poppelman	Investment Director at Norvestor
Oliver Bond	Head of M&A at PHM
Petri Pellonmaa	Chief Financial Officer at PHM
Lauri Tanskanen	Senior Associate at Norvestor
Ville Rantala	Chief Executive Officer at PHM

3.3 Methodological evaluation

As mentioned above, the case study methodology has been criticised for providing less generality than other methods as well as for a lack of rigour (Otley and Berry, 1994). Siggelkow (2007) and Yin (2014) also discuss that it should be with caution that general conclusions are drawn from the study of a single organisation. Additionally, according to Idowu (2016) the case-study method can be at a disadvantage as it is non-replicable.

Our aim for this paper is to study specific research questions in a real-world context relating to relevant literature, not to provide generalised conclusions. To address the issue of lack of rigour, we follow well defined research questions and a clear structure in our workflows. To minimise the inability to replicate risk, we followed structured questions. However, ensuring the same responses if the interviewees were to be interviewed again is not possible.

To minimise an incorrect recollection of events and misunderstood questions, which is a risk with the interview methodology according to Yin (2014), we tried to cross-check recollections of events with other interviews and data sources such as press releases to create a more accurate recollection of events.

It is notable to mention that all information about the case has been collected from Norvestor as well as from PHM's management. There is therefore a risk present that the information might be subject to bias, however we do not see why this information would be contingent on this.

4. Case study

In this section we present Norvestor and their acquisition of PHM in chronological order. Firstly, we provide a background into Norvestor as a firm, their investment philosophy and deal process. Then we introduce the property maintenance market, PHM and Norvestor's investment rationale behind the investment. Lastly, we provide details into the actions Norvestor took in PHM that helped initiate value creation. To date, in May 2024, under Norvestor's ownership period of roughly four years, PHM has entered three new geographies as well as executed over 150 acquisitions.

4.1 Introduction to Norvestor¹

Founded in 1989, Norvestor is a Norwegian private equity company headquartered in Oslo with offices in Helsinki, Stockholm, Copenhagen, and Luxembourg. With 47 investment professionals, the team has executed over 91 investments, 61 exits, 16 IPOs, and over 450 follow-on M&A transactions. Alongside investment professionals, the firm also has in-house experts within fields of financing, ESG, and legal to support the investment teams and its portfolio companies.

Norvestor mainly focuses on acquiring businesses in the Nordics, however, their portfolio also includes investments in Germany and the United Kingdom. The firm focuses on mid-market investments and its covered industries are consumer markets, business services, engineering, and industrial products. Most commonly, their investments involve companies providing services. Norvestor's goal is for their portfolio companies to grow substantially both organically and through M&A during their holding period, which is often an interval of three and six years. However, if they see continued potential, they sometimes choose to hold companies for longer periods. They focus on acquiring and developing portfolio companies that are or have the potential to become market leaders within their field. To help companies achieve leading positions in their respective markets and achieve their growth potential, add-on investments, and M&A plays an important role in Norvestor's ownership strategy.

¹ Information regarding the firm was collected from Norvestor's website.

Regarding their investment philosophy, Norvestor has a partnership approach, seeking to acquire companies that have a strong management team and often buying companies straight from the founders themselves. They believe ESG is an essential source of value creation and focus on investments in markets where their team has strong networks and vast experience.

4.2 Norvestor's investment process

Norvestor seeks to acquire businesses that have an attractive growth potential and a strong financial profile. They aim to do so by identifying markets with strong underlying growth drivers, identifying opportunities through market consolidation, and investing in companies that have a competitive platform with a strong ability to increase market share either organic or through M&A. Although different industries are considered for investments, the firm most often focuses on companies in which the Norvestor team has a well-developed network, strong previous experience, and/or specialist skills. The companies often have a strong financial profile, demonstrating profitability and stable non-cyclical cash flows. The sizes of acquisitions vary, but most often they are mid-size companies with revenues of 20-300 EUR million.

Potentially attractive investments can be identified in various ways and the acquisition process can therefore be structured differently, for example, advisor led transactions and bilateral processes are different. Typically, investment opportunities are found through screening, where they are organised by different parameters such as FTE size or revenue. Thereafter the investment is assessed from a commercial and financial perspective. If identified as a possible attractive investment, the advisors or owners of the targeted entity are contacted by Norvestor, usually with a presentation of an indicative bid. If the owners or advisors are interested in a potential deal, the investment is looked at more thoroughly by Norvestor, often bringing in external advisors to complete different types of due diligence (DD) such as financial, legal, and commercial. DDs are conducted to identify strengths, opportunities, risks and threats to the company and its market. Once all DDs are complete, the investment is approved by the investment committee and the final bid is presented to the target.

4.3 Introduction to the property maintenance market²

Property maintenance services aim to support the functionality and value of properties including services such as maintenance, facility cleaning, and waste management. Prior to making their investment in PHM, the property maintenance market was a space that Norvestor had been interested in for some time according to Norvestor's Investment Director Ian Poppelman.

The property maintenance market in the Nordics presented an attractive investment opportunity for several reasons. It has underlying strong drivers such as urbanisation, ageing building stock, and an increasing structural need for technical services. Additionally, clients are sticky and the demand for property maintenance services along with client's ability to pay remained the same through economic downturns and economic shocks. This was an attractive aspect of the property residential maintenance market which was in line with Norvestor's investment rationale that it is non-cyclical with recurring revenues. Moreover, the market is a relatively unregulated landscape.

The property maintenance market primarily consists of small, local providers, accounting for 64% of the total market. These providers usually have limited resources and capabilities, subsequently restricting their ability to provide the same broad range of services as their larger competitors.

Independent housing companies drive the most of the activity within the space, and the demand is fragmented due to the large quantity of buildings in the market. The demand for the services comes from two main types of customers, housing companies which account for 65-70% of the demand and from investor, and municipality owned properties. The market has grown significantly due to the growth in the number of registered residential housing companies and their prevalence of outsourcing property services. The result of such growth permits providers negotiation power as well as low customer dependency.

Although attractive, risk is associated with the property maintenance market as housing managers tend to choose service providers based on pre-existing relationships. It is time efficient and minimises administration costs for customers to continue with pre-existing

² All information regarding the property maintenance market was collected from an advisor's CDD report, provided by Norvestor.

providers. Moreover, residents also place greater emphasis on the actual quality of the service rather than spending time choosing which provider to pick. This can lead to agency problems since the housing managers may lack the motivation to find new service providers that could enhance the value of both the housing companies and residents.

The three main scenarios that contribute to change of service providers are if the residents are unhappy with the service, which represents 60 to 70% of the cases. 20% of the cases are caused by the housing managers actively seeking out better or more cost-effective providers and the remaining cases represent service providers directly approaching housing managers or chairmen of housing companies.

4.4 Introduction to PHM

Founded in 1992, PHM is a residential property maintenance company, offering broad recurring maintenance services such as property management and housekeeping. Their product offering includes annual and monthly maintenance services with base contracts including services such as daily upkeep and the cleaning of properties. They also offer technical services, primarily offered on an occasional basis (PHM, 2024).

In 2018 PHM was acquired by Intera Partners, previously being fully founder-owned. Intera Partners is a Finnish private equity firm founded in 2007 with a presence in Sweden and Finland, investing in smaller ticket companies than Norvestor. After becoming the majority owner of PHM, they helped the company enter a new phase of growth and accelerate in size, quickly reaching a revenue from 40 EUR million to 60 EUR million. Intera also assisted PHM in entering the Swedish market through M&A according to PHM's CFO Petri Pellonmaa.

When acquired by Norvestor in the spring of 2020, PHM was one of the largest and fastest growing property maintenance providers in Finland, with a significant presence in Sweden as well. The company was at the time headquartered in Porvoo with 1,200 employees and had annual revenues of approximately 120 EUR million (Norvestor, 2020).

4.5 Investment rationale³

In March 2020, Norvestor acquired the majority of shares in PHM from Intera through a leveraged buyout. Intera remained a small shareholder.

PHM was a company that fit into Norvestor's investment philosophy well, with stable historical cash flows and a strong balance sheet. For PHM, Norvestor was able to see the potential for strategic repositioning, market consolidation, positive top-line growth, and the potential for operational improvements.

“Norvestor has a long history of backing successful business service companies in the Nordics. We are enthusiastic about the prospect of supporting the continued rapid growth of PHM. Building on the impressive track record of Ville and the management team, and together with Intera, we believe the Company is well positioned to become the undisputed property maintenance services market leader in the Nordics. We aim to take lead in consolidating the fragmented Nordic residential property maintenance market.” said Karl Svozilik, Partner at Norvestor in a press release at the time of acquisition.

According to Svozilik, PHM was an attractive investment as they had a high customer retention and a recurring service revenue model with diversified incomes from thousands of customers. The high margins and strong-cash flow generation provided a solid B&B platform with further growth avenues such as new services, accelerated M&A, and expansion into other Nordic geographies. The company differentiated itself from its peers as it had a geographical presence in both Sweden and Finland. Svozilik explained that PHM had a broad service offering, providing the possibility for cross-selling as well as a unique management model with clear roles and P&L responsibility. The company also had a high customer density in existing areas which enabled efficient operations. Norvestor saw scale benefits from investment capacity in new services, tools, and M&A. The company had a solid historical M&A track record with a strong management that Norvestor saw themselves being able to collaborate with to scale and continue the expansion together.

Although the underlying investment attractions and identified value creation levers were strong, Norvestor did identify a big risk associated with the investment. The biggest risk that

³ Information has been collected from interviews with Karl Svozilik conducted on the 26th March 2024 and Ian Poppelman conducted on 5th April 2024.

posed was the Finnish competitor Kotikatu owned by the PE firm Vaka Partners. Kotikatu had a similar approach to PHM and was also aiming to consolidate the property maintenance market. Moreover, Kotikatu was a company coming to market shortly, therefore presenting the risk of being acquired by another PE firm with similar value creation plans as Norvestor.

4.6 The decision of PHM versus Kotikatu⁴

In the fall of 2019, Norvestor opened its Finnish office. During that time, they were actively seeking out Finnish market opportunities and they recognized potential in the property maintenance market in both Finland and Sweden.

Norvestor observed that the market in Sweden had a high growth potential since it was fragmented and did not have any major players that had dominating market share. At the time, in Finland the market for maintenance services was starting to grow and PE firms had already begun investing in such companies. Norvestor therefore saw an opportunity to indirectly enter the Swedish market by first acquiring the major player in Finland and then expanding to Sweden.

Initially, Norvestor considered the company Kotikatu as a potential target, as they at the time were the company with the biggest market share within the maintenance service industry in Finland. Additional aspects that made Kotikatu an attractive investment was that they had service contracts as a base, providing a stable recurring revenue. According to Svozilik, Norvestor also had previous experience of owning a contractually similar business which further amplified their interest for Kotikatu. Between 2014 to 2019 Norvestor owned the pest control service company *Nomor* which was similar to the property maintenance market as it was a fragmented local market, without the need for international contracts.

Norvestor therefore set their sights on acquiring Kotikatu, owned by Vaka Partners. As the company had been part of Vaka Partners portfolio for five years, Norvestor knew that the company was approaching a sale. The investment professional in Norvestor's Finnish office had extensive connections within the industry and had therefore understood that the asset was coming to market.

⁴ Information has been collected from interviews with Karl Svozilik conducted on the 26th March 2024, interview with Ian Poppelman conducted 5th April 2024 and interview with Lauri Tanskanen conducted 2nd April 2024.

Norvestor quickly realised that Kotikatu was an asset that several PE firms were interested in acquiring. Svozilik explained that they realised that this investment was a unique opportunity and that Norvestor had to focus on how to position themselves to stand out from competing bids. Vaka Partners were not interested in a bilateral process and wanted the asset to go to auction as they had received a lot of interest in it.

In an attempt to position themselves, Norvestor started entertaining the thought of acquiring a competitor to be able to realise synergies when placing a bid for Kotikatu. This would position them well in an auction process as they would be considered a strong buyer and would be able to bid high. As a result, Norvestor started to focus on a potential acquisition of PHM instead of Kotikatu.

A few years prior Norvestor had assessed a potential investment in PHM but deemed it a too small company to invest in at the time. However, under Interas ownership PHM had expanded to Sweden and as a result 35% of their revenue was generated from the Swedish branch. This expansion had grown PHM's geographical presence and size, making it now an interesting investment for Norvestor to look further into. According to PHM's CFO and CEO, they had themselves considered acquiring Kotikatu together with Intera Partners but lacked the financial muscles to do so.

A partner at Norvestor has close connections with Intera Partners and approached them with Norvestor's proposition to acquire PHM. Although Intera Partners had made their investment in PHM in 2018 and Norvestor approached them in late 2019, Intera Partners recognized the growth opportunity and the competitive nature of the market. They understood that by partnering with Norvestor they could gain momentum and benefit from Norvestor's financial capabilities. Additionally, Intera Partners were presented with a high bid for PHM, resulting in 3x returns for them which was especially attractive for them as they were in fundraising. Moreover, Intera Partners realised that PHM could grow more rapidly if owned by Norvestor than by themselves. They were also allowed to keep a small ownership in PHM. Simultaneously, another PE firm also showed interest in acquiring PHM, however Norvestor outbid them. Norvestor received exclusivity to do DDs in January 2020 and eventually acquired the company in March 2020.

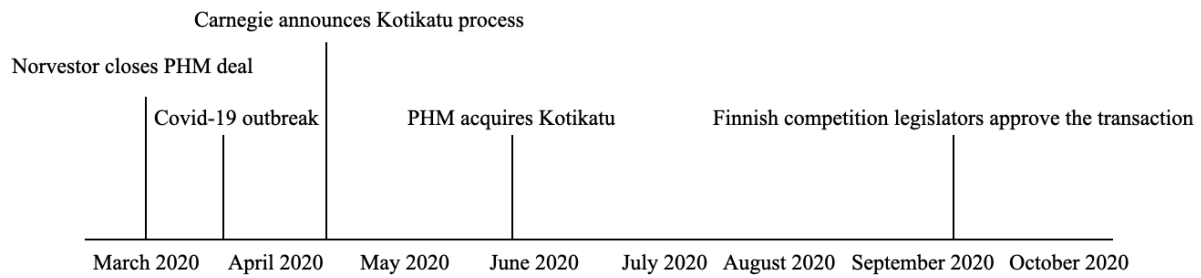
Norvestor saw their investment in PHM as a strategic move. Following the acquisition, Norvestor was now an attractive buyer for Kotikatu since they could realise cost and revenue synergies with an acquisition. The synergies were expected to be worth roughly 20-30% of Kotikatu's EBITDA.

After Norvestor acquired PHM, their strategy was to acquire Kotikatu when it would reach the market. This was a plan that PHM was aware of and on board with from the start. The Covid-19 outbreak, and social distancing regulations did not affect Norvestor interest in Kotikatu, Svozilik explained, as the services the company provided were already socially distant.

In April 2020, Carnegie announced that Kotikatu was entering a sales process. Several strategic players showed strong interest in the process, including the PE player who also placed a bid on PHM. Although the sale was intended to be a regular auction process, this did not occur due to the Covid-19 pandemic and following restrictions such as inability to travel. As the sales process was announced closely following the outbreak of the pandemic, several players chose not to engage in the process due to market downturns and overall uncertainty. A process was therefore maintained with only four interested parties. Norvestor demonstrated a clear interest in the company despite uncertainty following the Covid-19 outbreak. Following a demonstration of strong interest, Norvestor conducted due diligence during the auction process. The DD was conducted not under exclusivity; however, this was obtained later during the process.

After a narrow auction process, Norvestor closed the deal in June 2020, outbidding the other players as they had several millions in synergies that they could realise. According to Svozilik, Norvestor was the only bidder with significant synergies. The acquisition led to consolidation in Finland, with no need to competitively seek out competitors. As the acquisition led to consolidation, the deal had to be approved by Finnish competition legislation which it was during Q3 in 2020. Rantala explained that the acquisition of Kotikatu was their most important add-on as it made PHM a sizable company in the Nordics and a market leader in Finland.

Figure 1: Timeline of the Kotikatu acquisition



4.7 Choosing PHM's approach

As mentioned above, one of the first steps that Norvestor took under their PHM ownership was acquiring the competitor Kotikatu. Although similar in revenue size, Kotikatu was a bigger company and Norvestor acquired them for roughly two times of PHM's acquisition price. Kotikatu was larger due to having the biggest market share in Finland as well as having mature internal organisational capabilities, such as ERP systems. PHM did not have as sophisticated internal capabilities and lacked certain organisational infrastructure, Pellonmaa explained.

Following the merger, PHM became market leading in Finland. The transaction created a group that approached 250 EUR million in revenues with 2,750 employees and is considered to date the most important acquisition that PHM has made, as it removed their main competitor.

The companies shared several similarities, such as the growth strategy of completing add-ons to consolidate the market. However, there were differences in the company's B&B approach. Kotikatu adopted a hard integration strategy where they would rebrand their add-ons and ensure that they would be fully integrated into their business. This was the opposite of PHM's approach, who executed a soft integration approach. All companies that PHM acquired would continue to operate under their own name and brand, whilst being fully integrated with PHM's systems. Although Kotikatu was the bigger firm, PHM decided to continue to implement their soft integration approach. There were several reasons behind this decision, relating to the choice of integration strategy, which is elaborated later in the case study.

The acquisition of Kotikatu was valuable for PHM as it allowed them to recognize cost and revenue synergies as well as acquire new technology. Kotikatu had strong organisational capabilities, with well-developed internal support functions such as ERP- and HR-systems.

PHM adopted this operational structure as well as Kotikatu's strategy of having local "directors" who would be responsible for the add-ons in different regions. The local heads acted as important pillars in the local geographies, as these were often trusted by the entrepreneurs due to being known figures within the space.

"With the strong start to our Nordic expansion and the combined development resources and know-how of Kotikatu and PHM, we are now very well positioned for further developing our service offering to ensure premium customer satisfaction across the Nordics.", said Ville Rantala, CEO of the combined PHM and Kotikatu Group at the time of acquisition in a press release.

According to Svozilik, one of the most critical decisions after the merger was selecting the group CEO. Although Kotikatu was the bigger firm, Norvestor chose to keep the CEO and CFO of PHM. Norvestor chose PHM's CEO, Ville Rantala, because of his international experience with exposure to the Netherlands and Germany, his entrepreneurial drive, as well as successful tenures in different companies before joining PHM in 2014. Previously, Rantala had roles such as Vice President and Chief Financial Officer, as well as a background as a serial entrepreneur. They believed that Rantala was a good fit for continuing the extensive M&A expansion, especially abroad due to his previous international experience.

Norvestor also chose to keep PHM's Petri Pellonmaa as group CFO. Pellonmaa had previous experience working in DD and restructuring, making him a good fit for the expansive M&A strategy that Norvestor had planned. Additionally, Pellonmaa had more M&A experience than the typical CFO, making him an appropriate fit to keep onboard, Svozilik explained.

Norvestor's choice of management was based on the most appropriate background for the job and for Norvestor's future value creation plans for the company. Additionally, since they chose to blend the two firms towards PHM's soft integration approach, it was also appropriate to keep key members from PHM's management.

4.8 Creation of an in-house M&A team and their B&B strategy

Under Norvestor's leadership, PHM began developing an in-house M&A team and a well-defined execution strategy. Initially, prior to Norvestor's leadership, the CEO and CFO

would lead all the M&A activity, from sourcing to pitching, using external advisors when necessary. Pellonmaa explained that this process was time-consuming as they both had other responsibilities and were unable to fully focus on M&A, allowing for fewer add-on acquisitions to be executed. Norvestor as well as PHM quickly realised that this was not the most effective way to source companies and would not enable PHM to grow at the desired pace.

PHM therefore began the process of setting up an internal in-house M&A team to source and acquire companies. As a first course of action, they hired a Head of M&A called Oliver Bond who took away the M&A sourcing and execution responsibilities from the CFO and CEO. Initially, Bond was hired under the role of M&A Director, and thereafter promoted to Head of M&A. Bonds responsibilities included sourcing and exploring new potential investment opportunities but also executing the transactions. In his role, he was able to successfully leverage his background in private debt, investment banking, and investment management.

Bond explained that during Norvestor's ownership period, the in-house M&A team grew to consist of four individuals. One based in Finland, one in Germany, and an additional team member in the Stockholm office working alongside himself.

By creating an in-house M&A function, PHM was able to transition from relying on external advisors to insourcing, thereby building internal institutional knowledge that they could utilise. Bond explained that this had several benefits, such as cost-effectiveness and allowing PHM to effectively manage transactions. This also helped PHM to understand the potential investments better, in turn helping them build stronger relationships with key personnel in the potential add-ons.

Additionally, through placing M&A professionals in different geographies, Bond explained that individuals were able to specialise themselves in one market, allowing for a more focused and structured approach. Furthermore, the local representatives share language and cultural similarities to personnel in the potential add-ons, which creates a better understanding of how to best approach the companies and how to optimise soft skills.

Bond further explained that the sourcing process also changed as a result of moving the M&A function to in-house. The consolidation of pipelines from different advisors created a more

effective workflow and allowed for better maintenance of relationships with potential targets. Bond would keep an active overview of how discussions have gone with different targets, allowing for a standardised process of following up and maintaining regular contact.

The strategy for identifying and contacting companies thereby became more refined and efficient. Strategies for identifying companies included leveraging personal networks and asking already acquired companies for recommendations which improved the efficiency of sourcing potential targets according to Bond. This was an especially effective method as it would save time and resources. Additionally, the recommendation was also valuable as the entrepreneurs are often well-connected and have a good understanding of who the valuable players are. According to Bond, the recommended companies were also more inclined to listen to PHM's pitch if they were first contacted by a peer.

PHM would also source companies through advisors' recommendations. However, as the internal M&A team has grown and become more experienced it has been able to rely less on advisors for identifying potential acquisitions.

In addition to creating an in-house M&A team, the strategy for M&A was also set by the new Board of Directors. The potential acquisitions were evaluated on several aspects, such as service offerings, revenue sources, customer base, and organisational maturity. Bond explained that potential acquisitions did not have to offer a full array of the services that PHM offered, however, companies were more attractive if they offered a broad range of services. PHM looked for add-ons that had a diverse customer base, including a mix of smaller clients and larger housing associations with long-term contracts, as these provide stability of revenues and strong potential for growth. These types of contracts are often prolonged under the circumstance that the housing association is happy with the services according to Bond.

Maturity was also an important aspect of potential add-ons. It was important that the target acquisitions would have a strong management structure that would function independently after the acquisition, as PHM adopted a decentralised approach to add-ons. Maturity was crucial for ensuring a successful and smooth integration.

PHM acquires several different sizes of companies, with revenues ranging from 20-100 EUR million, with certain exceptions for bigger transactions. Pellonmaa explained that smaller

companies are the most common type of investment with revenues of 10 to 20 EUR million. The size difference affects how the companies were sourced. In general, according to Pellonmaa, PHM did not engage in turn-around cases, unless there were strong strategic reasons behind it.

At the final stage before the execution processes, all M&A acquisitions must be approved by the Board of Directors. The board themselves, according to Svozilik, are mostly engaged in bigger acquisitions. They spend more time deep-diving into strategy than specific acquisitions, for instance when entering new geographies or in the initial part of the acquisition.

4.9 The three-step integration process

PHM adopted a decentralised approach to add-ons which proved the appropriate alternative to Kotikatu's hard integration for several reasons.

The soft integration approach was especially effective when approaching potential acquisitions according to Bond. Through the soft approach, PHM offered business owners an attractive opportunity that incentivised them to consider selling. PHM offered add-ons a decentralised integration approach allowing acquired companies to keep their brand identity and their day-to-day operations while also receiving support from PHM's through back-office functions and finance. Other benefits included being part of a network that enabled more effective client routes resulting in less time spent in the car. Through PHM's systems, client groups would be grouped together, meaning that entrepreneurs did not have to travel across the cities but could serve a more concentrated area of clients.

Being able to keep their own brand was something that Bond explained was important to add-on companies. Companies were often founder-led, where the founder was proud of the brand they had built up. Additionally, keeping the brand made the integration process smoother for PHM as they did not have to rebrand the acquisition. Keeping the brands would keep the customer recognition that the brand had built up over the years.

PHM offered the owners a cash amount for the company that they would receive directly at the sale. The sellers were however required to reinvest a small amount of equity in exchange for shares in the PHM parent company. Although the property maintenance market is a simple and

straightforward business overall, providing financial incentives to add-ons is pivotal for PHM's success. Often, according to Pellonmaa, these types of companies are dependent on a few key players who have all the client connections and are the glue of their organisation, which makes it important to ensure that they remain in the organisation. Requiring the add-ons to reinvest is therefore a strategic move according to Pellonmaa. It keeps the acquired companies focused and motivated as PHM success will benefit them. Moreover, it also motivates the key individuals to stay in the company, which is pivotal for the add-on to keep executing their work successfully after the sale, according to Bond. This is also in line with PHM's core reasoning in following the soft integration approach, as the nature of the business is dependent on the entrepreneurs staying active and motivated after the sale .

In situations where the owner is retiring, or PHM is involved in an asset deal with an existing management structure in place, reinvestment by key individuals may not be necessary. However often some form of reinvestment is expected but with varying percentages according to Tanskanen.

After acquiring an add-on, PHM would begin a decentralised integration process in three phases: bronze, silver, and gold. The integration process was complex and took time to implement, as it included standardising ERP systems and consolidating operations along with centralising the financial functions. PHM would gradually introduce these systems and structures which would both allow add-ons to implement the new systems in line with their internal capabilities; but also allow PHM to complete several acquisitions simultaneously.

Bond described that the first integration step, which was completed within the first months, was the integration of financial reporting. The add-ons were onboarded to PHM's HRM and CRM systems. There they would report their monthly results, alongside any comments regarding the company's financial performance. At this step, the budget would also be set alongside and monthly checks were organised.

The second "silver" level of the integration process delved deeper into operational and system integration. At this step, procurements were rolled out and management was centralised. The company was also onboarded onto PHM HR capabilities which streamlined the payroll processes. Although HR was streamlined, each add-on company is individually responsible for

the recruitment of staff to their business; however, PHM provides a recruitment portal for job applications that the business can utilise if they wish.

The final stage of the integration process is called “gold” and is when a full integration is achieved. What a full integration entails varies based on geographies, as certain geographies do not have certain functions yet. At the gold stage, regardless of geography, ERP systems are in place and accounting- and payroll-systems are integrated.

4.10 Changing the integration process

According to PHM, one of the reasons why they have been able to have an aggressive M&A strategy is that they have had a soft integration system in parts. Bond explains that this allows them to spread their focus and resources on both integration and execution. If they were to implement a “hard” integration process, for example like their peer Kotikatu did before PHM acquired them, they would spend more time and resources intensively on a specific acquisition, taking time from acquiring new potential targets. A three-step approach was therefore the most effective strategy for PHM, as a hard integration would prevent them from pursuing their B&B agenda as effectively as their focus primarily was growth, Rantala explained. According to Poppelman, it is easier to implement changes effectively across all branches with hard integration.

Moreover, according to Poppelman the companies that PHM acquires are often independent entrepreneurs that have been promised independence and autonomy when starting their journey with PHM. Poppelman argued that entrepreneurs are averse to being constrained and receiving an overload of directive tasks. He explained that it decreases their motivation. The simplicity of the property maintenance market allows the soft integration approach to be successful, as the companies can continue to conduct their work regardless of how integrated they are into the parent company as the service itself remains the same.

However, according to the CEO of PHM, the integration strategy is shifting towards a harder integration as the company grows. Rantala explained that it is common for companies to explore markets with different integration strategies, the most appropriate strategy is dependent on what the company's aim is. Often the main goal is to increase in size, thereafter, shifting towards maximising value creation. Rantala continued by explaining that PHM does not

maximise value creation by letting the different add-ons work independently. Their strategy has helped them to grow but now due to their size, it is time for a strategic shift.

“Is it maximising value creation by letting every flower shine in a different way? No, it is not. When selling this size of the company it has to be one company led in a good and appropriate way and that is not by letting 170 companies work differently.” Rantala stated in his interview for this thesis.

Rantala furthermore argued that the customers do not realise that there is a shift in owner since the property maintenance service is not noticeably visible. The service is not expensive and as long as the service is executed well, the customer will not give thought to that the service exists. At their current size, Rantala therefore does not believe that letting the add-ons keep their existing brands will increase the value creation for PHM, whereas hardening the integration process will.

Poppelman explained how the shift from soft to hard integration will unfold. PHM will adopt an indirect strategy that will make the subsidiaries willingly embrace a deeper integration. The companies that will move towards a harder integration will receive benefits from PHM, such as better prices or being able to outsource tasks they no longer wish to handle. This will create a sense of envy for the other companies which will motivate them to seek similar advantages and thereby progress to a deeper integration level. As it is the entrepreneurs themselves who express interest for deeper integration, the negative consequences of hard integration will be less noticeable. Poppelman further explained that creating comparability between subsidiaries is the best approach when implementing hard integration, regardless of industry.

Finding a balance between soft and hard integration is difficult. According to Poppelman, if the parent company chooses the soft approach this could lead to uncertainty amongst the add-ons, however, if the parent company chooses hard integration subsidiaries motivation and engagement can decrease. It is therefore important that the entrepreneurs believe that the shift towards hard integration comes from themselves.

4.11 Securing financial capabilities

PHM leverages the capital markets extensively for financing its acquisitions. Under Norvestor's ownership, PHM has developed a sophisticated financing strategy according to Senior Associate Lauri Tanskanen. At the core of this strategy is a balanced approach to leveraging both equity and debt financing mechanisms.

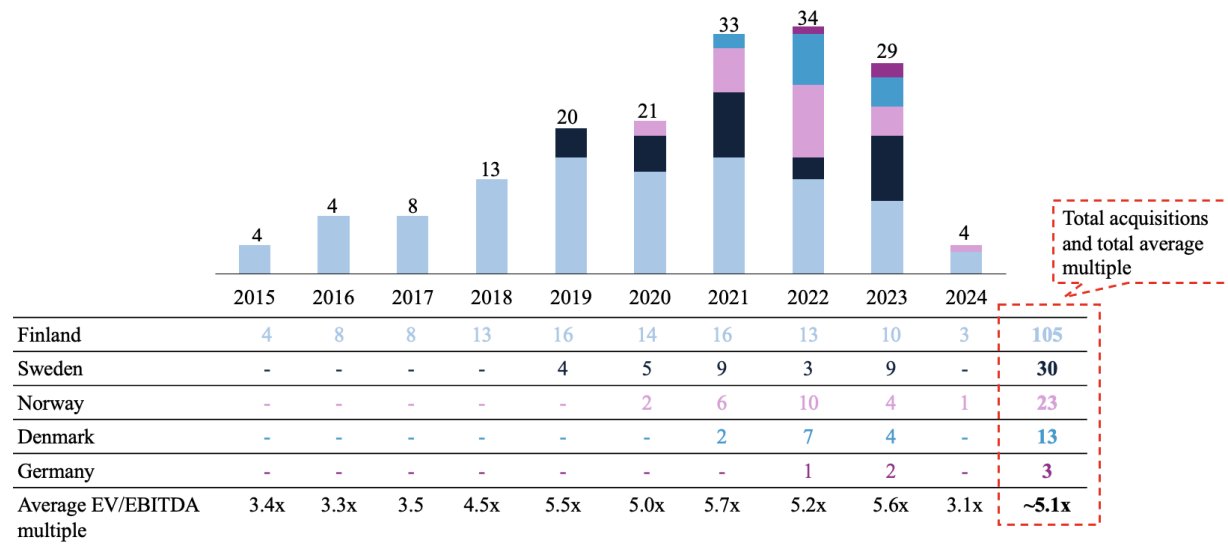
Before the decision to issue bonds was made, Norvestor together with PHM explored different financing options for the B&B strategy such as traditional bank loans, high-yield bonds, and private credit solutions. As bank loans are the less flexible option due to being cumbersome and easily running out of capacity, Norvestor quickly decided that high-yield bonds or other private credit solutions would be the more appropriate option. The problem with banks, Tanskanen explained, was that they present the issue of having to be re-levered over time. This prevents issuing as high debt levels, and they are therefore more dependent on equity. As PHM was dependent on having capacity for their expansive B&B strategy, the bond market offered them the best solution. Within the high-yield bond market and credit solutions, PHM was able to keep high leverage and be almost fully funded with debt.

By tapping into the capital markets and utilising bonds, Tanskanen explained that PHM was able to secure funding for their acquisitions and fuel their expansion. Bonds played a pivotal role in PHM's financing since it secured the company with access to long-term capital at favourable terms. Not only did bonds cover costs related to their B&B strategy, they were also used to refinance drawings of their revolving credit facility, Tanskanen explained. During Norvestor's ownership PHM has issued and tapped into several bonds. Most recently, in June 2021, PHM issued a bond of 300 EUR million.

On average the add-ons that PHM acquired cost below 5.5 times the EBITDA and through their financing structure PHM can access financing for up to 5.5 times the EBITDA of their add-ons. In combination with the acquired companies required to invest, which generates equity of approximately 20-30% of the add-ons enterprise value, PHM does not need access to the full funding for their investments. Subsequently PHM borrowing capacity grows with every acquisition. This also leads to PHM securing a stronger financial position since the equity in PHM increases after all the add-ons transactions. Hence, the more acquisition PHM executes, the better borrowing capacity they get along with increased equity on their own balance sheet

from the reinvestments. Although a successful strategy, bond financing is heavily affected by global economic conditions, which can lead to uncertainty and hence be risky. Moreover, the reinvestment program also dilutes the shares in the parent company. However, Tanskanen explained that the dilution of shares is positively met by existing shareholders, as this structure avoids them having to invest equity to fund new acquisitions.

Figure 2: Number of acquisitions and average EV/EBITDA multiples⁵



In figure 2 it is clearly demonstrated that the multiples paid for the acquisitions have increased in recent years. According to Poppelman and Tanskanen, this is due to two factors: increased awareness of M&A, as well as overpayment. Poppelman explains that PHM has the financial resources to pay higher multiples for certain companies, for example, the previously PE-owned firm Sefbo. This is due to PHM's multiples trading much higher than the acquisition multiples. PHM's sophisticated financing system, developed using Norvestor's guidance, is a reason why they can pay higher multiples for the acquisitions.

4.12 Expanding geographies

Under Norvestor's ownership, PHM has grown their presence in existing markets as well as expanded into Denmark, Norway, and Germany. Although a challenging process, expanding geographies has created value for PHM, enabling them to be market leaders in Finland, Sweden, and Norway. Geographic expansion was a pivotal part of Norvestor's value creation strategy according to Svozilik.

⁵ Financials retrieved from PHM's Investor Presentation from the 8th March 2024.

4.12.1 Expanding into Norway

PHM began their Nordic expansion in Norway, aiming to acquire a big player in order to gain market share and other valuable industry insights. It was important for them to acquire a company that could provide guidance into the Norwegian market dynamics as well as an entry into the entrepreneurial circles to gain credibility, Svozilik explained.

According to Svozilik, the choice of Norway as a first geographical expansion was a natural one. Norvestor had extensive experience within the Norwegian B&B market, having successfully conducted similar add-on strategies for other portfolio companies such as the camping company First Camp and the pest control company Nomor. Despite their experience not being within property management, learnings from previous expansions were valuable and Norvestor was able to support PHM in their expansions.

Additional aspects that called for Norway as the first strategic choice for expansion was that the market conditions were similar to Finland and Sweden. It was a fragmented market with several attractive M&A opportunities according to Poppelman. The cultures were similar between the countries, allowing for the B&B strategy to be conducted in the same way. PHM used external advisors in the beginning of the entry into Norway in order to be provided a detailed overview over the market.

In the fall of 2020, PHM acquired their first Norwegian company Din Vaktmester. With its main operations in Trondheim, Din Vaktmester targeted different types of customers, including customers from the public sector, corporate and housing companies. They had a wide range of product offerings such as property maintenance, landscaping, carpentry, and cleaning services. The company has continuity and stability through several long-term contracts with the public sector which was in line with PHM's B&B strategy.

In a press release, Trond Tørhaug, the CEO of Din Vaktmester stated that he was happy being a part of PHM and excited to get to work under the new ownership. *“Being part of PHM Group has provided us with numerous benefits. The Group offers complementary support functions, procurement-related advantages and economies of scale.”*

PHM has continued to acquire several different size players in the Norwegian market. An acquisition important to highlight is the strategic acquisition of Sefbo. Sefbo was previously owned by the Swedish PE firm Valedo. By acquiring Sefbo, PHM minimised the competition in the Norwegian property maintenance market. According to Rantala, acquiring Sefbo was their only way to obtain a leadership position in Norway.

Rantala continued by explaining that they paid a high price for Sefbo, however they motivated the high price as it was a strategic necessary move. If PHM did not acquire Sefbo, then some other PE firm would have Rantala stated. This would have increased competition in the market and threatened PHM's leadership position in Norway he explained.

According to Bond, the M&A processes in Norway have gone smoothly, and negotiating with Norwegian companies was experienced to be similar to Swedish companies. Bond mentioned that Norwegians are slightly more engaged in the negotiation process, but overall quite straightforward and easy to do business with.

4.12.2 Expanding into Denmark

Alongside expanding to Norway, PHM also focused on establishing a presence in Denmark. Denmark was a natural strategic choice of expansion, especially as Norvestor was opening an office in Copenhagen, Poppelman explained. The market was fragmented and presented a similar customer base as the other markets that PHM was active in. This allowed for a similar strategic approach according to Svozilik. PHM aims to take the leading position in Denmark but it has not been an easy task, Rantala explains. Poppelman mentioned that the main difference with the Danish service market is that within most service industries, for example, electrical services and property management, the profit margin is generally lower in Denmark than in other Nordic countries.

PHM's initial approach when entering Denmark had certain flaws and therefore lacked immediate success according to Poppelman. He explained that they had underestimated the complexity of the market. They began their entry in Denmark by collaborating with a smaller advisory firm that was responsible for reaching out to potential add-ons. The advisory firm underperformed and subsequently Norvestor alongside PHM changed strategy. They took the matter into their own hands by contacting the potential add-ons themselves. Moreover, Norvestor also opened an office in Copenhagen, which enhanced their credibility with add-ons

and made communication smoother with the Danish companies. After implementing these changes, the advancements in the market took off.

Although the property maintenance market in Denmark is similar to the other Nordic countries, both Norvestor and PHM found entering the Danish market more difficult than its neighbours, Rantala explained. They speculated that it might be due to cultural differences and in general their experiences when doing business in Denmark have been more challenging than in its neighbouring countries. Bond mentioned that he noted more engagement in the Danish negotiation processes and that new perspectives and unexpected factors often showed up in the process. Moreover, Bond explained that the Danish entrepreneurs were not as open to new ideas compared to when PHM did business with a Finnish or Swedish company. Additionally, the interviewees had the impression that Danish entrepreneurs preferred doing business with other Danes, and this is why Norvestor's office in Copenhagen was essential for assisting with the M&A processes. As a result of the challenging market dynamics, PHM has not been able to reach their goal of being a market leader in Denmark yet.

PHM's first Danish acquisition was in 2021 with the acquisition of Ejendomsvirke AS and to this day, early May 2024, PHM has made a total of 13 acquisitions in the country.

4.12.3 Expanding into Germany

During the fall of 2021, PHM's Board of Directors decided that the company should expand further into continental Europe. Germany's property service market was an attractive target for PHM according to Rantala because of the market size, dynamics, culture, and growth potential. According to Bond, they decided to take help from external advisors to enter the market. This was efficient as German advisors were more familiar with the business culture, overall market dynamics and what investments could be considered attractive.

In October 2022 PHM expanded into northern Germany by acquiring Schultz Gruppe. Schultz Gruppe was a family-owned company that had over a thousand employees. The company was known for their property services in northern Germany and had their headquarters in Hamburg. Schultz Gruppe was an attractive investment for PHM since the company has a loyal customer base and has maintained strong relationships with its customers for several decades. This acquisition has allowed PHM to grow in new geographic markets and reach new customers. There were however challenges with the Schultz Gruppe expansion, Svozilik explained.

Schultz Gruppe and PHM were not aligned on the core customer focus as Schultz Gruppe were mainly focused on commercial buildings and not housing associations. One year after the acquisition of Schultz Gruppe PHM decided to continue expanding their German presence by acquiring Marnach Hauswartung. Thereafter their add-ons took off.

Although they have completed several acquisitions, PHM's expansion into Germany has been challenging. According to Pellonmaa, the M&A process has taken time and has required more resources especially due to a lack of public and accessible information, but also because of cultural differences. During their M&A processes, Germans have been more cautious when approached by PE firms. They are less familiar with B&B processes in comparison to the Nordics. B&B is common in the Nordics, resulting in a quicker and smoother acquisition process, Svozilik explained. Svozilik continued and described the B&B process in Germany as more emotional, since the companies are often family-owned and have been passed through generations. The selling process therefore needs time to mature.

Bond explained that the German market requires a structured process and shows more emphasis on the legal and notarial procedures. For instance, legal advisors for the counterparts are important during the B&B process in Germany whereas in the Nordics there have been occasions where legal advisors are not present at all. Hiring an M&A team member in Germany has been important in navigating the market.

Despite the challenges that came with expanding to Germany, Rantala considers the decision to enter the market to be one of the best decisions that PHM has made. He explained that it was a strategic move that provided the company with different opportunities and demonstrated that the PHM concept also works outside the Nordics.

4.13 Continuing expansion in Sweden and Finland

Not only has PHM focused on expanding to new geographies, but they have also strengthened their position in the Swedish and Finnish market. PHM has executed several acquisitions in Sweden and Finland. An acquisition important to highlight is Flow Fastighetsvärden. Flow Fastighetsvärden was a leading property maintenance service provider and was owned by the Swedish PE firm MVI. This acquisition was a strategic move since it decreased the competition on the Swedish market. The combination of PHM and Flow Fastighetsvärden

creates an exclusive platform that enhances client service in Sweden and establishes accelerated growth, making PHM the leading consolidator in Sweden.

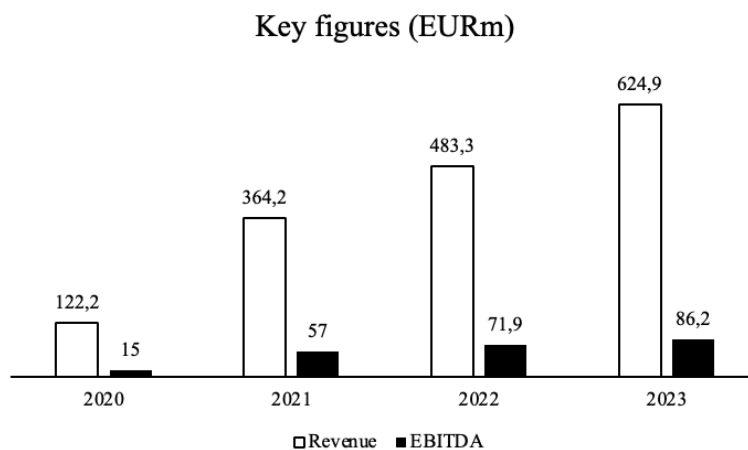
5. Discussion

In the discussion section, we present our analysis regarding our research questions in relation to the literature revised.

- 1) *What are the essential components of a successful buy and build strategy? How do they vary with market conditions and conditions in the target companies?*

Through engaging in governance, operational, and financial engineering, Norvestor has implemented several value creation initiatives in PHM. Figure 3 demonstrates value created by EBITDA improvement. Additionally, multiple expansion has occurred, and the valuation of PHM has increased according to Poppelman. All of these changes represent successful value creation (Zeisberger et al., 2016). Buy-and-build has been the most important aspect for driving value for PHM, a common approach according to Dentons (2023) findings.

Figure 3: Key financial figures during Norvestor ownership⁶



There are several aspects that have allowed PHM to conduct a successful expansion strategy through B&B which has resulted in rapid growth. Firstly, PHM has had the financing capabilities which has allowed them to fund as well as pay a premium for add-ons.

⁶ Figures collected from PHM's 2023 annual report.

Prior to Norvestor's ownership, PHM relied on bank loans for financing. Due to the capacity constraints and limited flexibility of bank loans, Norvestor replaced the loans with issuing bonds, despite the uncertain financial times following the Covid-19 outbreak. Switching to bonds is an atypical action in times of financial uncertainty (Goel and Zemel, 2018). Bond financing has allowed PHM to access more capital and be more flexible with their actions due to fewer constraints. This can be linked with the findings of Lian (2018), which discuss how banks have more influence on firms with loans due to the restrictions they implement. Generally, companies with growth potential, strong bargaining power, and valuable investment opportunities are more prone to issue bonds over bank loans (Morellec et al. 2015). Securing stable financing has played a crucial role in enabling PHM's fast pace of acquiring add-ons.

PHM's financing strategy is structured according to the premise that the entrepreneurs reinvest in the parent company. Through this structure, PHM has been able to minimise using its own equity and can thereby rely mostly on bond financing and reinvestments. Additionally, PHM's borrowing capacity increases with each acquisition, since they rarely need the full funding of 5.5 times EBITDA. Hence, the more acquisitions PHM executes, the more their borrowing capacity improves, as their equity increases and balance sheet is strengthened. Not only does reinvestment provide equity - it also creates incentive. Reinvestment ensures that individuals who hold key positions remain in the add-ons and are motivated to meet their performance targets. Keeping key people in the firm has been crucial for PHM's successful B&B strategy, according to Tanskanen.

Due to their financing structure, PHM has the capacity to pay higher multiples for acquisitions, which allows them to outbid the competition. An example of this type of transaction is the Sefbo acquisition Rantala mentioned. According to Poppelman, PHM retains the ability to acquire the add-on as long as the paid multiple remains lower than the valuation of PHM. This has been especially valuable in recent times when multiples have increased due to higher M&A awareness and demand in the market. PHM's strong financing abilities have been essential for their B&B strategy as it has allowed them to gain market share and eliminate competition.

In addition to having the financial capacity, PHM's soft integration approach has also been an essential factor for their B&B strategy. The soft approach has let them grow rapidly according to Bond, which is an essential component of B&B according to Hammer et al. (2022). A soft approach has allowed PHM to prevent bottlenecks in their integration process as they reduce

the concentrated time and resources needed for one company's integration. They can spend less time and resources as they only have to implement a few changes to their add-ons at once. This provides PHM with more time to focus on acquiring new potential targets, Bond explained. Pellonmaa mentioned that hard integrations can act as bottlenecks as those types of organisational structures are dependent on the add-ons being fully integrated before being active. Implementing a soft integration has also enabled PHM to keep their add-ons motivated and easy to collaborate with according to Poppelman. A soft integration is by several interviewees considered to be the most important reason why PHM has been able to keep the rapid M&A pace.

The soft integration approach has been successful due to the nature of the property maintenance market. The market is fragmented with sticky customers often based on pre-existing relationships. By letting their add-ons operate independently under their old brands PHM maintains customers' brand recognition, Bond explained.

Moreover, PHM established an in-house M&A team which has also been essential for their strategy. Bond explained that creating an in-house M&A function has contributed to cost-effectiveness by building institutional knowledge internally that PHM can utilise instead of being dependent on external advisors. Moreover, the M&A function has allowed PHM to effectively manage transactions as well as understand potential investments better, subsequently building stronger relationships with potential acquisitions. Through the M&A team, they are also able to streamline the M&A process and consequently execute more deals.

Creating an M&A team with varied expertise, experiences, and background has also been important as they expanded to different geographies Bond stated. Local employees generally have a better understanding of the market and can leverage their soft skills, which is an important element for successful returns and in line with Zweig et al. 2014 findings.

The M&A team has also been an effective channel for reaching potential add-ons. This outcome can be linked to certain culture research that states that individuals are more aligned in negotiations if the same culture is shared (Brett, 2010) and that they are affected by systematic bias (Bazerman et al., 2000; Brett and Thompson, 2016). Therefore, having employees that come from different backgrounds enhances PHM's ability to execute investments along with smoothing the negotiation processes overall.

Additionally, through having sophisticated internal M&A functions and creating a strong management team, Norvestor has not had to be hands-on as an owner, Pellonmaa explained. This can be linked to Bernstein et. al (2010) and Gompers et al. (2020) findings that operational engineering is less important for firms that have a strong track record and are performing well.

Moreover, an important factor for PHM's successful B&B strategy has been that they have identified attractive investments. Identifying the right acquisition with the correct type of characteristics is critical for market expansion and value creation (Smit, 2001; MacArthur et al., 2019). PHM has chosen to invest in companies with growth outlooks, strong financial profiles, and strong management teams, which are all important factors according to MacArthur et al., (2019).

Alongside the M&A team, Norvestor has also helped PHM identify certain B&B opportunities. An essential component for their B&B strategy can therefore be linked to Norvestor's thought ownership. For example, Norvestor's sourcing output from their extensive experience within the service industry can be linked to Kaplan and Strömberg's (2009) research who find that through leveraging expertise within a certain sector, PE firms have an easier time identifying attractive investments and discovering opportunities.

An additional aspect for the successful B&B strategy can derive from the size of the add-ons and market dynamics. The property maintenance market primarily consists of small, local providers who have limited resources and capabilities. According to Welbourne and Pardo-del-val (2008) the size of a firm can influence the motivation and engagement of collaboration with other firms. Welbourne and Pardo-del-val (2009) findings can be linked with PHM's B&B strategy, since they have primarily acquired smaller firms who have been inclined to cooperate well. Additionally, Tanskanen explained that smaller firms are often more reasonably priced. Although smaller transactions might not yield substantial returns immediately, the cumulative effect of a high volume of smaller core acquisitions can lead to considerable value creation over time, which has been PHM's case according to Tanskanen. Tanskanen's reasoning is in line with Smit (2001) research that states that the B&B platform is worth more than the sum of its parts.

PHM's subsidiaries have also been a valuable asset for establishing connections between PHM and other potential add-ons. Companies are more receptive to familiar contacts and to recommendations from people they know, Bond explained. This reasoning can be linked with research from Brett (2010) who finds that culture is a factor that influences negotiations.

Market conditions such as type of industry and financing levels can affect a company's B&B strategy. For example, there is a higher likelihood that B&B will be executed in more fragmented industries and that a strategy is more likely to be successful if the industry shows less uncertainty (Bansraj & Smit, 2017).

In PHM's case, the essential components for their successful B&B strategy have not varied with market conditions according to the interviewees. As explained in the case study, the property maintenance market is a non-regulated, non-cyclical market with a stable consumer demand. Generally, it is a rather low cost "must-have" service that is not affected by economic downturns such as inflation or dependent on sensitive asset prices. Additionally, as Poppelman mentioned, the market is not subject to technical disruption and the competitive landscape is therefore rather stable. There is no competition that can disrupt the market through for example an invention Poppelman explained. Due to these stable market conditions, PHM has been able to implement the same B&B strategy throughout, something that was exemplified through the Covid-19 crises Svozilik explained. PHM's B&B strategy remained the same before, during and after the pandemic. Additionally, PHM is able to conduct the same strategy regardless of geography, which Rantala said that they demonstrated through their expansion to Germany.

Worth highlighting is that Norvestor benefited from the market conditions following the Covid-19 outbreak which put them in a unique situation that enhanced their B&B strategy. Kotikatu was an attractive investment that several firms expressed interest in, following the pandemic uncertainty spread and the auction process was much smaller than anticipated. This, in turn with their significant synergies, provided Norvestor with a unique angle Svozilik explained.

Generally, debt market conditions affect deal activity and lower interest rates increase the number of B&B acquisitions (Bansraj & Smit, 2017). Conversely, in PHM's case, Tanskanen explained that the shift in capital markets has not affected their B&B strategy or agenda. PHM

still managed to secure financial muscles to conduct their add-ons rapidly and will do so regardless of less favourable market conditions.

Although the types of companies that PHM aims to acquire are similar regardless of location, how to successfully source and negotiate transactions differ between the geographies. Cultural differences in how business is done does exist and certain prejudices are explained by the interviewees to be true. This can be connected with the findings of Brett (2010), who finds that different cultures have different priorities and interests during negotiations. Moreover, PHM discovered that soft skills are especially important during the negotiation process, which aligns with Zweig et al. (2014) research. In Brett (2010) findings it is shown that the negotiation process can be affected by different languages and cultures. This aligns with PHM's understanding that the appropriate ways to approach companies differ between geographies. For example, Norvestor and PHM noticed that the expansion became more successful and smoother as they established regional offices, hired local business heads as well as took help from local advisors and entrepreneurs.

Different conditions in the target company alter the aspects considered essential for a successful B&B strategy. For example, reinvestment has been important in PHM's case, however, whether reinvestment is required and to what degree should be determined by the firm's management structure and how dependent it is on key personnel, Tanskanen explained. Tanskanen further argued that for PHM, as the add-ons have mostly been small companies, these have been dependent on key personnel which in turn has made reinvestment necessary. Whereas in situations where the owner is retiring or an asset deal is involved with an existing management structure in place, reinvestment requirements may not be required.

Whether the potential add-on is PE-owned or not is an additional condition that can alter the strategy. In PHM's case, the engagement from Norvestor is higher when they are bidding for a company that is PE-owned. In these cases, they are more inclined to overpay to ensure that they win the bid and that they can remove the potential competition from the market. Generally, overpaying for assets is not seen as something optimal in a B&B strategy (Bansraj & Smit, 2017) but can be required occasionally depending on the target companies, in order to secure market share and to remove threats from other strong players Poppelman mentioned. Rantala exemplified this rationale with the Sefbo acquisition. Paying a high multiple for PE backed B&B companies is common according to Hammer et. al (2022).

2) *What are the pros and cons of “hard” versus “soft” integration and what factors determine which of these is best for a particular situation?*

As stated in several of our interviews, an important decision a company makes in their B&B strategy is whether to implement a hard or soft integration for their add-ons. The different approaches present both advantages and disadvantages.

According to Rantala, hard integration is important for maximising value creation. His reasoning can be linked with Kroon et al. (2022) research who find that when a platform company's goal is synergy realisation, then a hard integration is the most effective approach. Seth (1990) further explains that potential value creation can be delayed when implementing a soft integration.

According to Poppelman, it is easier to harmonise and implement changes effectively across all branches with hard integration as they all have the same structure within the group. A hard integration also creates a cohesive brand, which in turn can increase returns at sale. This is an additional strength that hard integration offers. However, too much power and authority through a hard approach can create a decrease in autonomy (Hambrick and Cannella, 1993) and in turn lead to lower motivation (Very et al., 1997). PHM experience is in line with these findings as they mentioned that their soft integration approach keeps the entrepreneurs active. A soft integration avoids culture clashes within the companies, in turn resulting in higher employee retention (Chao et al., 2020).

The soft approach and promised autonomy have been essential components for convincing the add-ons to sell their business. PHM argued that it has been easier to convince entrepreneurs to sell when offering a soft integration process versus a hard one. According to Poppelman, entrepreneurs desire autonomy and do not want to feel constrained by prospective owners. The promised autonomy that PHM offers its subsidiaries is therefore an important part of their value offering to add-ons. This is in line with Haspeslagh and Jemison (1991) research who find that the integration approach should be determined by the need for interdependence and autonomy. It is therefore important to understand who the owners of the potential add-ons are, what keeps them motivated post-acquisition, and what inclines them to sell when choosing integration strategy.

An additional strength of the soft integration approach is that it allows for a higher volume of acquisitions to be conducted simultaneously. The soft approach allows for a leaner use of resources during the integration phase, preventing bottlenecks. This contrasts with a hard integration, which requires a more intensive use of resources and is often dependent on a full integration before the add-on can be active post-acquisition. In turn, this allows for less B&B activity to be conducted as fewer resources are available Bond explains.

Which integration approach to choose is a complex decision for platform companies (Zaheer et al., 2013) and according to Poppelman it is essential to find a balance. Implementing a too soft approach can result in uncertainty whilst a too hard integration can lead to lower motivation amongst employees and thereby lower profitability. Poppelman's statements can be linked to the findings of Haspeslagh and Farquhar (1994) who find that a soft integration can often result in uncertainty within the add-ons.

The appropriate integration method to choose is dependent on what the goal of the B&B strategy is, according to Rantala. Implementing a soft integration has been essential for PHM's strategy since their aim has been to consolidate the market and grow. Having a soft integration, Rantala explained, has allowed them to fulfil their goal of growing rapidly and gaining market share quickly.

Market conditions are an additional factor that determine which integration approach to choose. Poppelman explained that since the property maintenance market is stable, Norvestor does not feel the need to rush their actions or exit quickly. He described that he does not see any market disrupting threats or trends. As owners, Norvestor therefore feels that they have considerable time to realise synergies and maximise value creation. Norvestor are thereby open to extending their investment period in PHM if they sense continued capabilities to increase potential returns. This is a common action according to Kaplan and Strömberg (2009). Hence, for PHM the appropriate integration approach has been to firstly focus on a soft integration and thereafter shift towards a hard integration. This process can be connected to Birkinshaw et al (2000) findings that explain that the integration strategy first becomes effective when the human integration is completed, thereafter the task integration can begin.

Moreover, an important aspect that determines the appropriate method of integration is the nature and complexity of the acquired companies. The property maintenance market is a relatively unregulated landscape that consists of straightforward services that are conducted the same way pre- and post-acquisition according to Bond. In PHM's case the add-ons are therefore not dependent on the platform company for conducting their services and they can function autonomously.

PHM are successively changing their approach towards a tougher integration and are aiming to shift their companies from the bronze level towards silver and ultimately gold. As they have reached considerable scale, Rantala explains that it is now time to focus on the maximisation of value creation. Rantala describes that due to PHM's size they now need to start working as a team and not individual actors.

However, the need for both integration and autonomy remain significant. With its shift in approach PHM is implementing a "symbiosis" strategy according to Haspeslagh and Jemison (1991) definition. This strategy entails that the acquiring firm and the target firm in the first period coexist and then successively become more interdependent.

Haspeslagh and Jemison (1991) argue that firms integration strategies should be determined by the companies need for autonomy and interdependence. If the need for both is important, the appropriate action is to start off with a soft approach and then gradually move towards a hard integration. This is what PHM is currently doing.

The approach PHM will take to achieve the symbiosis strategy is to encourage the add-ons to willingly shift towards a harder integration. According to Poppelman, this is the best approach, regardless of industry as it does not affect the motivation or engagement. Poppelmans opinion about the importance of carefully balancing a top-down and bottom-up approach during the integration process in order to maximise value creation as well as maintain employee motivation, is in line with several research papers (Graebner et al., 2017; Heyden et al., 2017).

6. Conclusion

The purpose of this study is to provide unique insights into PE firms' current approach to B&B and integration strategies in the Nordics and Germany. The aim is to do this by analysing the

essential factors of a successful B&B strategy and how these factors differ depending on market- and company conditions. Moreover, we analyse how the decision looks between a hard and soft integration process, as well as the approaches' respective strengths and weaknesses. The analysis has been conducted through a case study of Norvestor's investment in PHM, with the aim of answering the following research questions:

- 1) What are the essential components of a successful buy and build strategy? How do they vary with market conditions and conditions in the target companies?*
- 2) What are the pros and cons of "hard" versus "soft" integration, and what factors determine which of these is best for a particular situation?*

B&B has been the most important aspect for driving value creation in PHM, a common approach according to Dentons (2023) findings. The aggressive B&B strategy has enabled PHM to become the biggest property maintenance service provider in the Nordics. It has also allowed them to enter new geographies as well as to remove competition from similar firms and PE actors. This has in turn increased revenues and multiple arbitrages. All of these benefits from B&B are in line with previous literature such as findings from Døskeland and Strömberg (2018), Acharaya et al. (2013) and Hammer et al. (2022).

The essential components in PHM's B&B strategy involve having access to financing capabilities without being exposed to excessive risk and having a strong management team. Other essential factors include having M&A capabilities that allow for an effective sourcing and execution process. Moreover, internalising knowledge and becoming experts in how to approach companies in different geographies is important. Additionally, a soft integration approach is essential as this allows for effective use of resources as well as inclines entrepreneurs to sell, and later fosters collaboration and motivation post-acquisition.

Important to note is that these components have been essential in PHM's case, where they have the goal of rapid growth and acted in a fragmented market, within simple services and limited competition. There is no "one size fits all" essential components approach for a successful B&B strategy. The components differ depending on factors such as market conditions, conditions in the platform company and the add-ons as well as the overall goal of the B&B strategy. Examples of market conditions are; whether or not an industry is heavily affected by economic downturn, is sensitive to asset prices, has an elastic demand, a complex business

model or is heavily affected by taxes and regulations. Factors within the add-on that determine the essential components include the organisational structure, employee incentives, ownership, and culture. Certain aspects remain important regardless of these conditions, such as possessing financial capacity to fund B&B, being able to source the right type of company and securing strong management.

The case of PHM's integration strategy underscores the importance of flexibility and autonomy for add-ons. Our findings demonstrate that there are several pros and cons with both soft and hard integration strategies. As Svozilik mentioned, the soft integration approach is used beyond the realm of property maintenance and in industries with varying complexities and service delivery models, such as in Norvestor's pest control company Nomor.

Although soft integration has enabled PHM's expansion, as exemplified in Kotikatu, the hard-integration can also be an appropriate strategy for B&B within property maintenance services. As the case study demonstrates, a hard integration has the strength of harmonisation and synergy realisation, however, it does not allow for rapid growth as it is more difficult to convince the entrepreneurs to sell and requires more resources to implement. Additionally, when add-ons are often founder-owned, choosing a hard integration can lead to decreased motivation. In these cases, a soft integration can be positive as it keeps the employees motivated. A soft integration also allows for brand recognition for the customers, however, Rantala mentioned that he does not think that the brand recognition is as important in PHM's case, as property services are "invisible".

Ultimately, the dichotomy between soft and hard integration presents the question to companies of how they should balance standardisation and autonomy. A hard integration offers efficiency, a harmonised brand and consistency, however, it is time- and resource consuming thereby slowing down potential M&A pace. On the other hand, a soft approach allows for a rapid expansion, keeps motivation for key-personnel, yet can create uncertainty. It also presents the risk that a platform company will consist of smaller unharmonized subsidiaries.

The best approach to integration is according to the interviewees as well as certain literature (Haspeslagh and Jemison, 1991; Kroon et al., 2022) to combine both soft and hard and align them with the aimed level of integration. The level of aimed integration depends on what the company's goal is with the strategy, for example to grow in size or maximise value creation.

What the most appropriate option is also depends on factors such as market dynamics and who the sellers are.

The majority of our findings align with previous literature whilst certain takeaways differ. For future research, there are therefore several interesting areas to look deeper into. It would be interesting to understand how integration strategies can look in the customer-facing sector, for example in dental- or optical clinics. As PHM offers an “invisible” service, understanding how market conditions and conditions in add-ons differ in relation to a customer-facing company is interesting. In this case, it is especially interesting to understand brand dynamics and how the value of a brand affects the chosen B&B and integration strategy.

Moreover, understanding this type of B&B expansion outside the Nordics would be interesting. During the interviews of the investment professionals at Norvestor they explain that the Nordics has a well-developed B&B market, it would therefore be interesting to see if a similar strategy would work in other geographies and for other types of service-related industries.

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