OMNIGENCE
ASSET MANAGEMENT

The Add-On Defense

Add-on acquisitions in a higher-rate private equity environment

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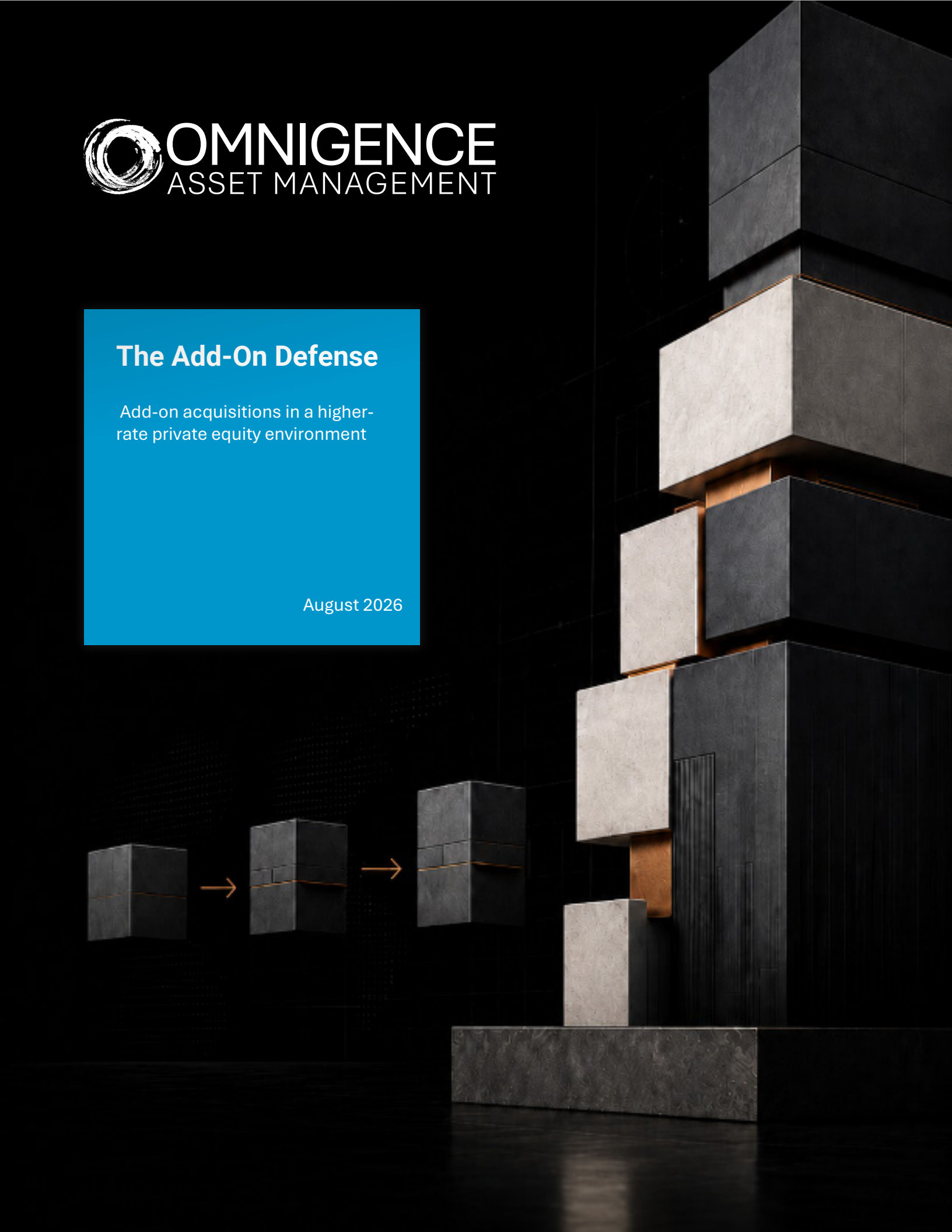

INTRODUCTION:

In 2025, add-on acquisitions accounted for 73 percent of all private equity buyouts in the United States. This represents one of the largest sustained shifts in buyout deal composition since the asset class was first widely benchmarked. It is a rational response to a set of mechanical asymmetries between add-on and platform transactions. An add-on is a structurally different transaction from a platform deal:

- The multiple paid is lower.
- The debt is incremental rather than new.
- The diligence cycle is shorter.
- The integration thesis is tested rather than untested.
- The buyer pool at exit is the parent platform's exit, not an independent auction.

Each of these is a relative advantage in a higher-rate regime with tight credit and elongated holds. This paper sets out how add-on math differs from platform math, why the differential widens when financing costs rise, and what disciplined add-on programs look like in practice.

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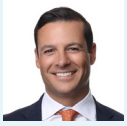

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Key arguments:

- Three asymmetries - multiple, financing, and integration - favor add-ons over new platforms.
- Each asymmetry widens with the cost of capital.
- The dominant LMM private equity program in the current cycle is a small number of well-chosen platforms with a disciplined add-on program against each.
- Manager selection matters more in add-on-heavy strategies

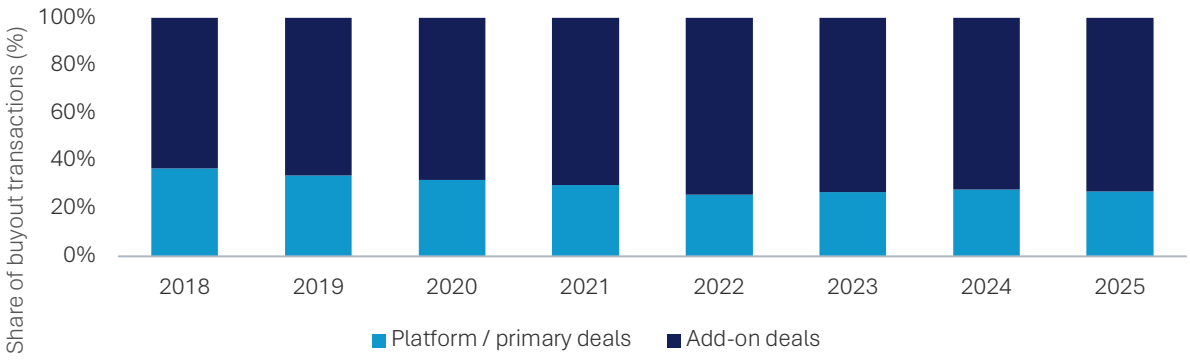
The conclusion is that, for the foreseeable horizon, one of the most reliable sources of incremental return for LMM sponsors is a disciplined add-on program executed within a portfolio of well-chosen platforms.

THE VOLUME SHIFT:

The composition of buyout deal flow has moved decisively. Add-ons accounted for 73 percent of all US buyouts in 2025 and have averaged in that range for five years. The shift began before the rate cycle turned and has accelerated through it.

Two forces explain the dominance. The first is supply-side: the volume of PE-backed platform companies has grown for over a decade, and each platform is itself a generator of add-on demand. The second is demand-side: rising rates raised the cost of platform underwriting more than the cost of add-on underwriting. The pattern appears consistent across major geographies and cycle phases. Add-on share rose when platform supply tightened in 2022. It held when financing conditions improved in 2025. Nor has the add-on share meaningfully retreated as rate-cut expectations have periodically firmed.

Figure 1: Add-On Share of US Buyout Volume, 2018 to 2025



Source: PitchBook; Cherry Bekaert PE Report 2026; RSM analysis. 2025 = 73%.

THE MULTIPLE ASYMMETRY:

Platforms command a premium of roughly 1x – 2x of EBITDA over comparable add-ons in the same sector. The gap is wider in fragmented industries and narrower in already-consolidated ones. The premium reflects three components: the platform's standalone scale, its existing systems and management bench, and its strategic optionality as a future acquirer.

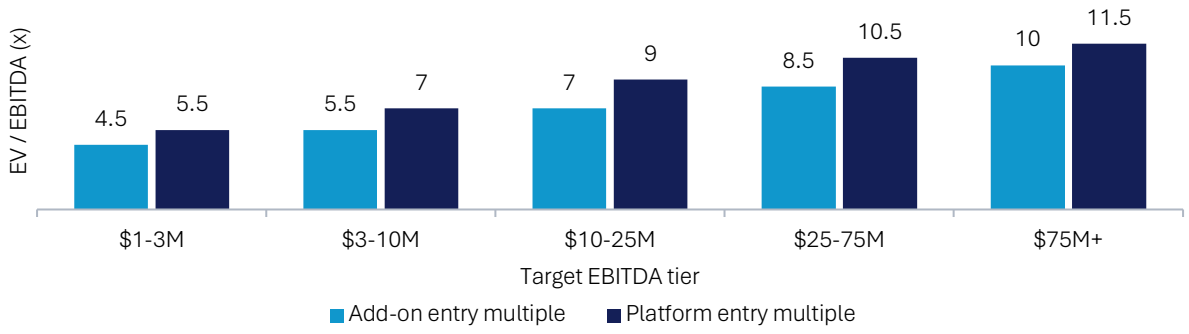
For a sponsor, this premium operates on both sides of the transaction. Paying it at entry locks in a higher cost basis. Capturing it at exit, if the add-on can be sold as part of the platform, unlocks a portion of the spread. In a fragmented industry with active add-on supply, the sponsor purchases EBITDA at the add-on multiple and exits the combined entity at the platform multiple. The arithmetic is straightforward and well-documented. A platform purchased at 7x EBITDA acquiring add-ons at 5x EBITDA blends its average entry multiple lower with every transaction. If the platform exits at its original multiple, the spread is captured in full. If the platform exits at a higher multiple due to scale, the spread is captured with multiple expansion on top.

> An add-on is not a smaller platform. It is a transaction that converts add-on multiples into platform multiples without requiring the buyer to underwrite either side from scratch.

The mechanics matter most in the LMM, where the add-on universe at $3M to $10M of EBITDA remains deep and the platform exit at $15M to $100M of EBITDA opens onto a materially broader buyer universe. In the upper middle market, the spread compresses because the add-on universe at $20M to $40M of EBITDA is shallower and the marginal buyer is already operating at platform multiples.

An add-on program is therefore a multiple-management exercise as much as a growth exercise. The sponsor that systematically pays 5x for high-quality EBITDA at the bolt-on level and integrates it cleanly into a seven-turn platform, captures a spread that does not require any operating improvement to materialize. The improvement, when it comes, is additional return on top of the spread that the platform structure has already created.

Figure 2: Platform Versus Add-On Multiples by EBITDA Tier



Source: PitchBook deal database, practitioner data, Omnigence analysis. Illustrative central tendencies.

THE FINANCING ASYMMETRY:

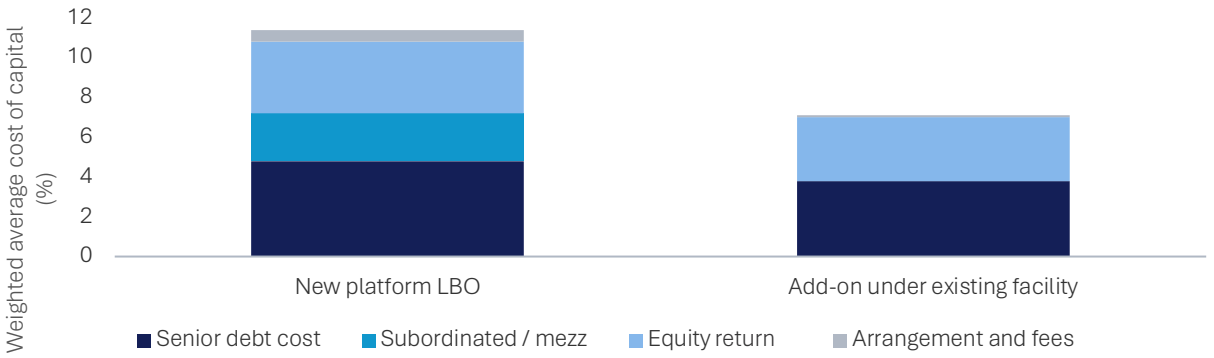
The financing differential is also a source of add-on advantage in a higher-rate regime. A new platform acquisition is a complete financing event. Senior debt must be syndicated. Mezzanine or unitranche must be priced. Covenants must be negotiated. Equity sizing must absorb whatever the credit market will not. Each of these steps imposes a cost that scales with the absolute cost of capital. A 100 basis point rise in debt spreads on a 6x leveraged buyout increases annual interest expense by roughly 6 percent of EBITDA.

An add-on is a marginal capital event. In most cases, the existing platform facility has covenant headroom and accordion capacity sized to absorb tuck-ins without a full refinancing. The lender that underwrote the platform did so with the expectation of incremental debt issuance to fund growth. The marginal cost of funding an add-on is therefore the blended cost of the platform's existing capital structure, not the prevailing all-in cost of new platform debt. In a cycle where new-issue spreads have widened and underwriting standards have tightened, this distinction is worth several hundred basis points on incremental capital.

The asymmetry compounds with deal size. A new platform requires a fully underwritten financing package even at small scale. The fixed costs of arrangement, legal, and rating do not scale linearly down. An add-on at five million dollars of EBITDA can be funded out of existing facility capacity with negligible incremental fixed cost. For many LMM add-ons, the break-even point at which standalone new-issue financing becomes competitive sits well above the relevant deal-size range.

There is a second financing advantage. A platform requires a check large enough to materially shift portfolio construction. An add-on can be sized to the platform's free cash flow, the platform's existing equity cushion, or the sponsor's pacing needs. The flexibility on equity sizing is itself a feature of add-on transactions that platforms do not offer.

Figure 3: All-In Cost of Capital, New Platform LBO Versus Add-On



Source: LCD, S&P Capital IQ, Omnigence modeling. Illustrative; assumes 5x leverage on platform, marginal debt on add-on.

THE INTEGRATION ASYMMETRY:

Every platform acquisition carries integration risk that has not yet been tested. The sponsor underwrites a thesis about how to professionalize the business, build a second line of management, integrate systems, and prepare the company for follow-on acquisitions. An add-on is integrated into a thesis that has already been tested. The platform's ERP, financial reporting, treasury, and management framework exist. The integration playbook is not new. Bringing a $2M EBITDA bolt-on onto the platform's systems is operationally demanding, but it is not novel risk. The sponsor knows what works because it has done it before within the same platform.

The diligence cycle reflects this. A new platform may require up to 20 weeks of preparation across commercial, financial, operational, legal, tax, and IT workstreams. An add-on can be diligenced in materially less time because the platform-level questions have already been answered. The diligence cost per dollar of incremental EBITDA acquired is materially lower for add-ons.

> A platform acquisition requires underwriting an untested operating plan, while an add-on has the benefit of hindsight.

Time-to-value is also an important asymmetry. A platform begins generating returns from integration improvements only after the integration is complete. An add-on begins generating returns from synergy capture and multiple compression on the platform's blended entry multiple more quickly. The compounding effect over a five-year hold is meaningful and underweighted in most return models.

THE MATH:

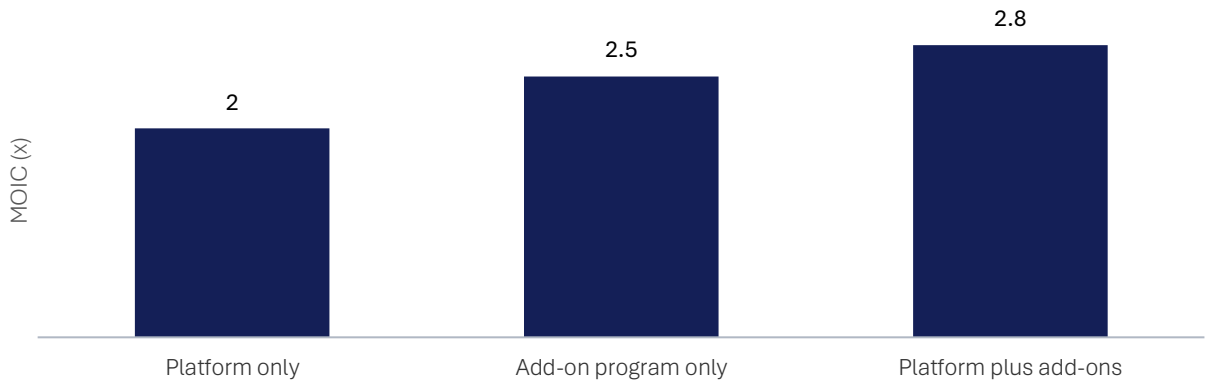
An illustrative comparison makes the cumulative effect of these asymmetries visible. Consider a sponsor with $100M of equity to deploy. The sponsor has a choice: acquire a new platform with $15M of EBITDA at 9x EBITDA, or acquire four add-ons with $5M of EBITDA each at 6x EBITDA and integrate them into an existing platform. The example is illustrative and assumes identical EBITDA growth across both scenarios, unchanged exit multiples except where specified, and available incremental debt capacity under the existing platform facility. It further assumes that, in the add-on scenario, the sponsor has an existing platform with $10M of EBITDA against which the four add-ons are integrated; the platform's original equity basis is not included in the $100M deployment comparison.

The platform option requires an entry enterprise value of $135M. Funded with 5x of senior debt, the equity commitment is $60M, leaving $40M in dry powder. The remaining capital must be deployed elsewhere. The four add-ons require an aggregate enterprise value of $120M. Funded at the platform's incremental leverage capacity of 4x under existing facility terms, the equity check across the four transactions is $40M, leaving $60M in dry powder.

Now consider the exit. If the platform exits at 9x with 20 percent EBITDA growth over five years, the enterprise value at exit is $162M and the equity return is meaningful but constrained by the entry multiple. If the four add-ons are integrated into a platform that exits at 8x with the same 20 percent EBITDA growth, the combined platform EBITDA exits at $36M and the enterprise value at exit is $288M. The add-on contribution to the platform exit is $20M of EBITDA acquired at an average of 6x, exiting at 8x, with the platform's growth on top.

The numbers are stylized but they reproduce a pattern visible in real LMM portfolios. The platform deal is not bad. The add-on program is mechanically better because it captures the multiple spread between 5x and 8x, the financing advantage of incremental debt, and the time-to-value benefit of integration into an existing operating model. The sponsor that runs both in parallel, a single platform with four add-ons, captures both sets of returns from the same $100M of equity.

Figure 4: Illustrative Equity Outcome at Exit (MOIC)



Source: Omnigence illustrative model. 5-year hold, identical EBITDA growth assumptions across scenarios. MOIC outcomes include EBITDA growth and exit multiple effects. For comparability, MOIC is calculated only on the equity deployed in each illustrated scenario and assumes no interim distributions, no debt amortization, and unchanged net debt at exit.

IMPLICATIONS FOR SPONSOR SELECTION:

The dominance of add-ons in current deal flow is observable. The dispersion among add-on programs is not. Two sponsors with similar headline statistics on add-on volume can produce materially different outcomes.

- The first diligence question is the historical multiple gap between the sponsor's add-on entries and platform entries. A sponsor that has paid an average of 5x for add-ons against a seven-turn platform multiple is operating in the spread. A sponsor that has paid 6.5x for add-ons against a seven-turn platform is not. The gap is observable in the sponsor's own deal data.
- The second question is the integration capacity of the platform itself. How many concurrent integrations can the platform absorb without operational degradation? What is the documented integration runway from signing to systems consolidation?
- The third question is acquisition discipline. What is the maximum multiple the sponsor will pay for an add-on relative to the platform's blended entry? What governance gates further acquisitions on integration milestones rather than on calendar pacing? A sponsor without explicit acquisition discipline will, under pressure, drift toward indiscriminate acquisition. The bottom-quartile outcomes in add-on-heavy strategies sit predominantly in this category.
- A fourth question is post-close measurement. How does the sponsor track add-on performance against the original underwriting case? Sponsors that maintain a documented variance log between underwritten and realized synergies are operating with feedback. Sponsors that do not are operating without one.

For an LP, the implication is that exposure to LMM PE through add-on-heavy programs is exposure to a distribution of execution quality within a single strategy. The selection cost of distinguishing among managers is correspondingly higher than it is for strategies with less execution dispersion. The reward for distinguishing well is correspondingly higher too.

CONCLUSION:

Under current financing conditions, the marginal dollar of equity is often better deployed into an add-on than into a new platform. The differential is widest in higher-rate regimes, where the multiple, financing, and integration asymmetries each become more valuable.

For the sponsor, the dominant LMM program in the current cycle is a small number of well-chosen platforms with a disciplined add-on program against each. For the allocator, the dispersion among such programs makes manager selection a higher-stakes decision than the strategy label suggests.

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