

HOLD PHASE

What happens to your MIP when you do an add-on acquisition?

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In a buy-and-build strategy, the add-on acquisition is the moment a MIP stops being a static arrangement and becomes a living one. A new company arrives, with a new management team, often in a new jurisdiction, sometimes with an incentive plan of its own. Every one of those facts touches the plan you set up at closing, and none of them resolves itself.

This article walks through the decisions an add-on forces, in the order they should be taken, and then looks at the administrative work each decision creates. The short version: the add-on is a MIP event, and the programmes that handle it well are the ones that treat it as part of the deal timetable rather than as something to sort out once the dust settles.

The four decisions every add-on forces

1. DOES THE INCOMING TEAM PARTICIPATE AT ALL?

Usually the answer is yes for the top of the incoming organisation: the fund wants the people running the acquired business aligned with the same exit it is driving toward. But the answer is a decision, not a default. It depends on how central the incoming team is to the value-creation plan, how long they are expected to stay, and what was promised during the negotiation. Whatever is decided, decide it explicitly, because an incoming CEO who assumes participation that was never agreed is a dispute with a start date.

2. WHERE IN THE STRUCTURE DO THEY PARTICIPATE?

Incoming managers can be brought into the existing plan at the top of the structure, or a parallel arrangement can be created closer to their own entity. Participation at the top aligns everyone with the same exit and keeps the architecture simple; a local arrangement can be easier for tax or legal reasons in the new jurisdiction. This is a design question for counsel and tax advisers, and the right answer varies. What matters operationally is that the answer is recorded, because the register now has to reflect an additional entity, and possibly an additional instrument, without losing coherence.

3. ON WHAT TERMS, AND AT WHAT VALUE, DO THEY ENTER?

Earlier articles in this series have made this point at onboarding and at leaver events, and it returns here with force: the entry value for the incoming team is a valuation moment, and it is rarely the same value as at the original closing. The business has grown, an acquisition has just completed, and the incoming managers are entering a structure whose equity is worth more than it was. Setting their entry terms casually creates exactly the discrepancy that surfaces at exit, when every participant's outcome is compared with every other's. Vesting is a parallel question: does the incoming team's schedule start at the add-on, or is it aligned with the original plan's timeline? Both are defensible; only one can be true, and the documents must say which.

4. WHAT HAPPENS TO THE PLAN THEY ALREADY HAVE?

If the target has its own incentive arrangement, it does not disappear by being ignored. Broadly there are three routes: settle it at completion (cash it out as part of the deal), roll it into the acquirer's structure (convert entitlements into the new plan), or run it off on its old terms alongside the new plan. Each has consequences for cost, tax, and morale. The one route that never works is the informal fourth option, leaving it undecided, because two plans covering the same people with different terms is a reconciliation problem that compounds monthly.

DECISION	THE OPTIONS	WHAT DRIVES IT
Participation	Full, partial, or none	Centrality to the value-creation plan; commitments made in the deal
Level	Top of structure or local arrangement	Tax and legal position in the new jurisdiction; structural simplicity
Terms	Entry value, vesting start, leaver terms	Current equity value; consistency with the existing participant group
Existing plan	Settle, roll over, or run off	Cost, tax treatment, and what keeps the incoming team motivated

The most expensive version of an add-on is the one where these decisions are made verbally during the deal and documented "later". Later arrives at exit, when the incoming CFO's entry value turns out to exist in an email, the vesting start date in someone's memory, and the fate of the target's old plan in nobody's file at all.

The administrative work the decisions create

Once the four decisions are taken, the add-on becomes an administration project with a familiar shape. New participants have to be onboarded with the same discipline the original team received: correct entry values, explicit vesting start dates, signed adherence to the shareholders' agreement. The register has to absorb a new entity, and possibly a new jurisdiction, without splitting into parallel versions. The pool arithmetic has to be redone, because a meaningful allocation to an incoming team either consumes headroom that was reserved for it or dilutes someone, and that difference should be a decision on paper rather than a discovery in a spreadsheet.

There is also a quieter task that determines how the next five years feel: communication. The incoming managers are joining a plan they did not negotiate, mid-flight, at a value higher than the founders' entry. Explaining clearly what they hold, how it vests, and what it could be worth at exit is the difference between a team that experiences the MIP as alignment and one that experiences it as fine print.

A practical test for whether an add-on was absorbed properly: six weeks after completion, could you produce a single register that shows every participant, old and new, with entry values, vesting positions and documents complete, and could the incoming CEO explain their own package accurately? If both are true, the add-on is done. If either is not, it is still in progress, whatever the deal tracker says.

What this means in practice

FOR FUND MANAGERS

Put the MIP on the deal timetable. The four decisions belong in the transaction workstream, with names and deadlines, not in the integration backlog. They are cheapest to take while the deal team is still assembled and the incoming management is at the table.

Insist on a valuation for the incoming team's entry. The equity is worth more than at closing, and the entry price should reflect that with support in the file. This protects the fund, the company, and the incoming managers alike.

Ask the six-week question. One register, complete documents, an incoming CEO who understands their package. If the answer is vague, the reconciliation debt has already started accruing.

FOR CFOS AND MANAGEMENT TEAMS

Treat incoming participants as new onboardings, not additions. The full discipline applies: entry value, vesting start, signatures, register entry at the time. Copying the original team's paperwork with new names is how errors propagate.

Resolve the target's old plan before completion if you can. Every month it survives undecided, it accrues entitlements on terms nobody is tracking.

Redo the pool arithmetic explicitly. Record what the allocation consumed, what headroom remains, and who approved it. The next add-on will ask the same questions, and the answers should be in the file, not in memory.

One last thought

An add-on acquisition is, in miniature, everything this series has described: an entry event, a valuation moment, a pool decision, and a documentation exercise, all arriving at once, mid-hold, while everyone's attention is on the deal itself. That is precisely why it goes wrong so often, and precisely why it rewards being treated as a first-class MIP event.

The programmes that absorb add-ons cleanly are not the ones with the most sophisticated structures. They are the ones where someone owned the question early, took the four decisions deliberately, and onboarded the incoming team with the same care as the first. That is the discipline, and it is the work we do at MIP Desk.