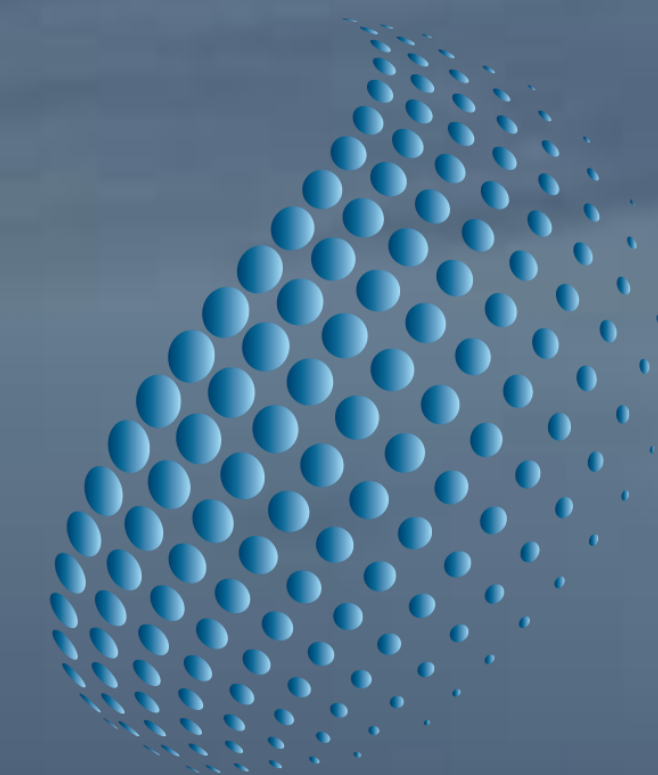


“When are they
running out of
companies to buy?”



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“When are they running out of companies to buy?” It is a quite common question that we often receive regarding the length of the growth runway for acquisition-driven compounders and the number of companies they can find and acquire.

Generally speaking, when studying acquirers with a sector-agnostic/generalist approach, their strength lies in the decentralized model where the acquired companies continue to operate according to their own way of doing business, complemented with best practices and smart incentive structures.

Having that sector-agnostic approach means that these companies have a large pool of companies within many different industries to fish from. Still, questions arise about how many companies there are to buy and how to scale M&A properly to other geographies. We believe that the "duration" aspect of many of these companies is underestimated by the market, because the pool of future acquisitions is large. So, what does the "pool of companies" look like?

Our findings show that just in the Nordics there are close to 60,000 independent companies with the following characteristics:

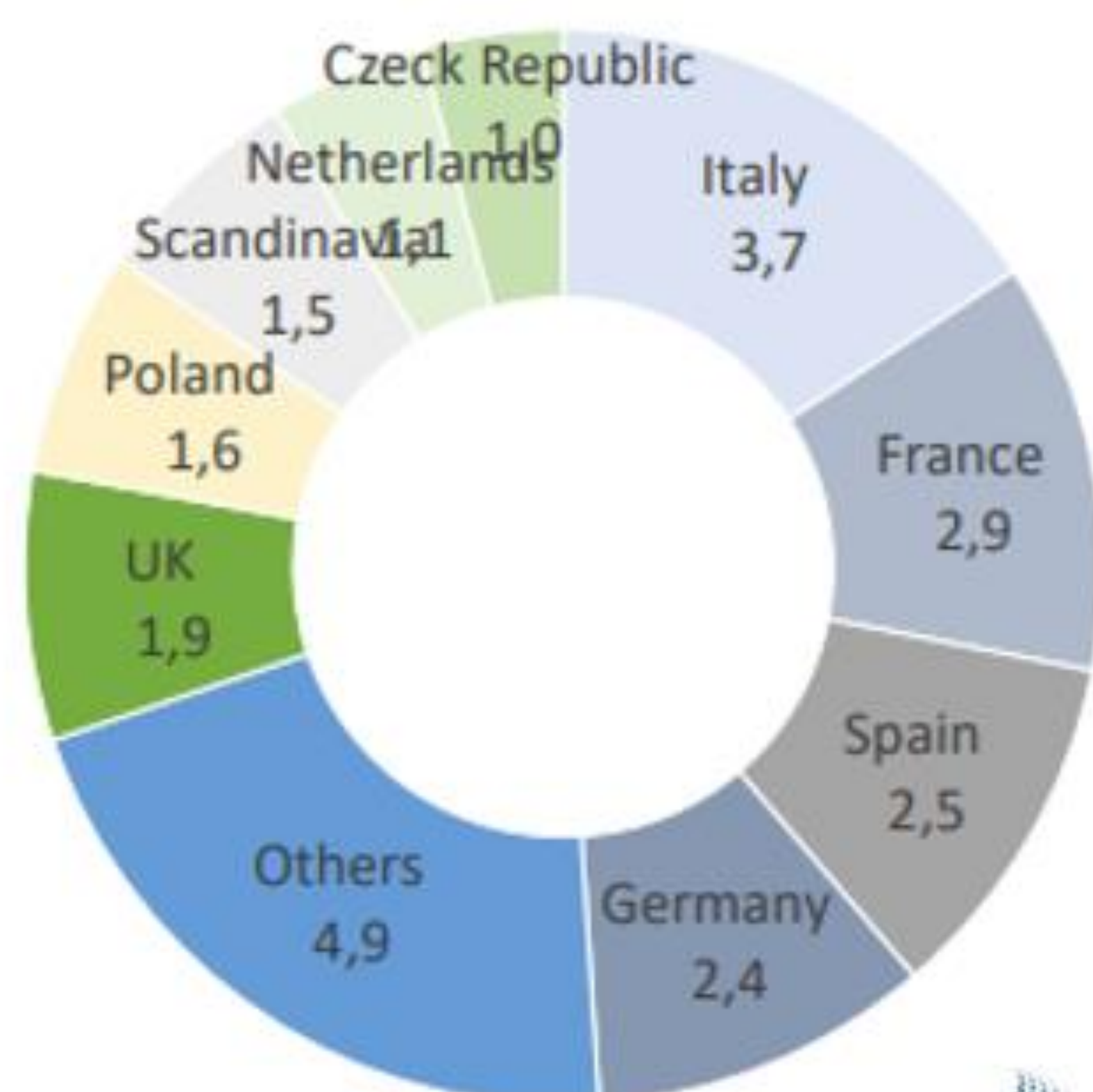
Sales < SEK 500m (USD 50m)

EBIT > SEK 5m (USD 0,5m)

EBIT-margin of > 8%.

This is the “sweet spot” for acquisition-driven compounders with acquisition of SME companies at the heart of their strategy. Looking into the EU, according to Statista there are around 1.3 million companies within EU with 10-249 employees and in total 22 million companies with <10 employees, of which a decent percentage over time will grow and qualify for the sweet spot and hence increase the fishing pond.

Distribution of European small private companies

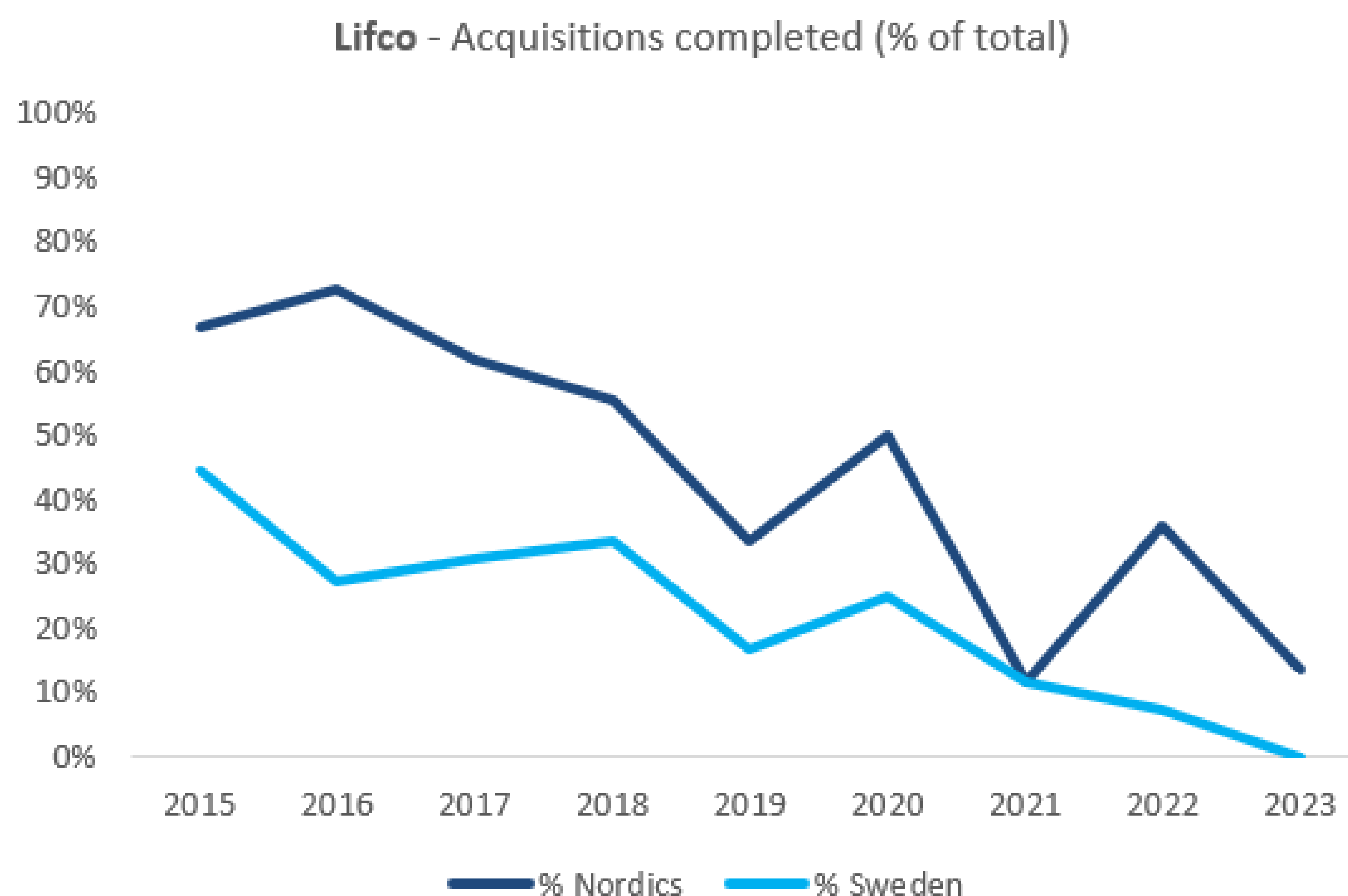


Looking at the larger Swedish generalist acquisition-driven compounders Lifco, Indutrade, Addtech and Lagercrantz, they have together the last 10 years made around 175 acquisitions outside the Nordics, more or less a drop in the ocean compared to the total potential acquisition targets. While Lagercrantz is the smallest among these companies and is going through similar phases as the larger ones, it has more recently placed more emphasis on scaling M&A outside the Nordics.

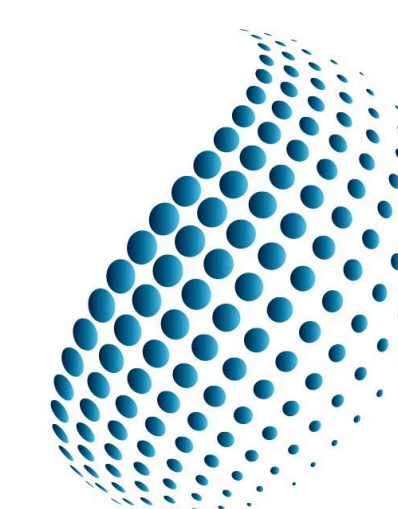
Establishing a stable foundation in their core market (the Nordics) has allowed these companies to gradually expand geographically, while still maintaining their disciplined approach and applying their best practices to M&A.

Moreover, companies that are already successful in M&A within their home markets can reduce risks and increase optionality compared to companies in the early phases of geographic expansion. However, it's crucial to note that this trial-and-error approach needs to be monitored more closely by shareholders.

For this reason, it's interesting that these companies have, in recent years, begun acquiring more companies outside the Nordics by building them brick-by-brick and avoiding rushed decisions. Ten years ago, acquisitions in the Nordics accounted for over 70%, compared to the current range of 30-50%.

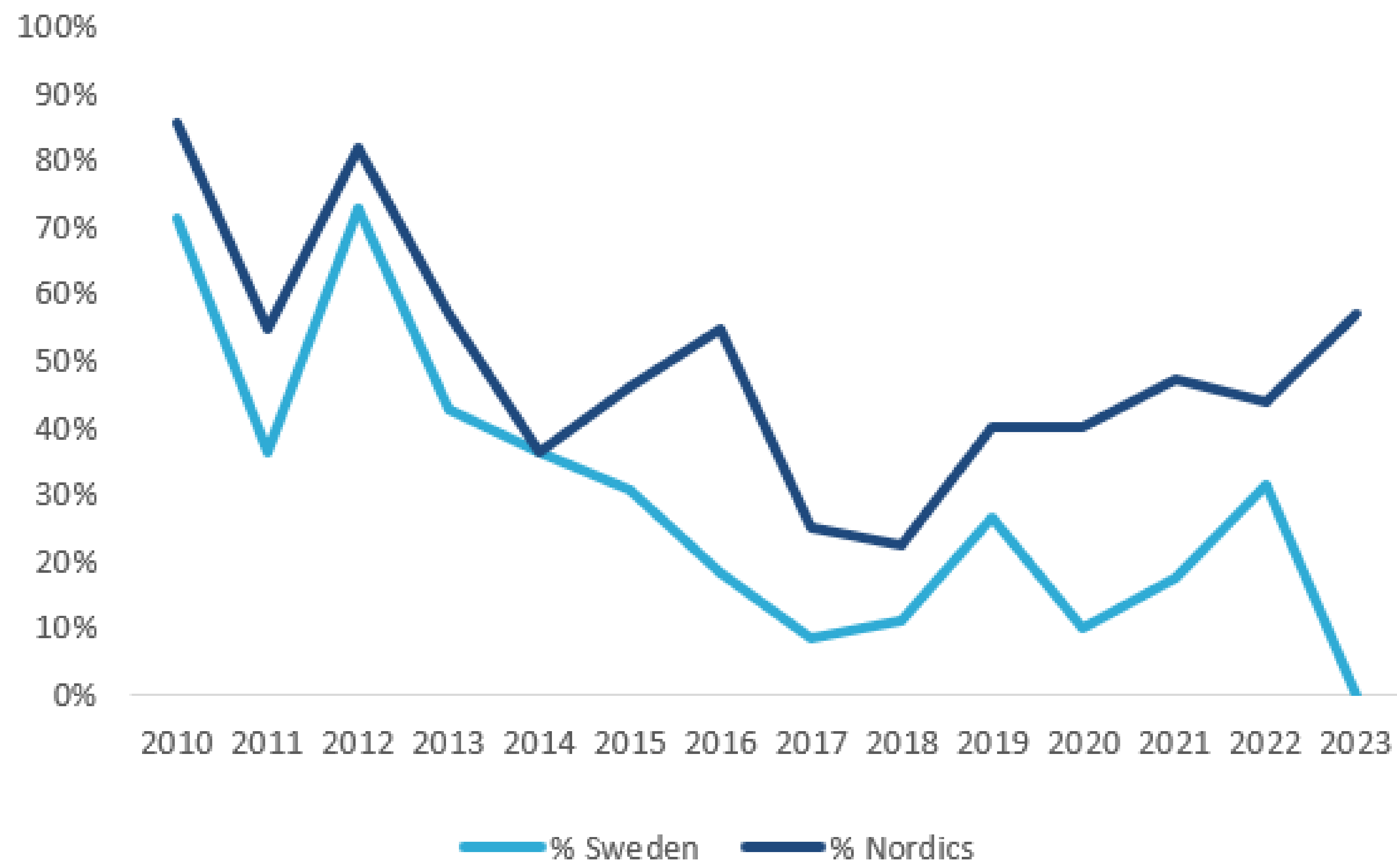


Source: company reports



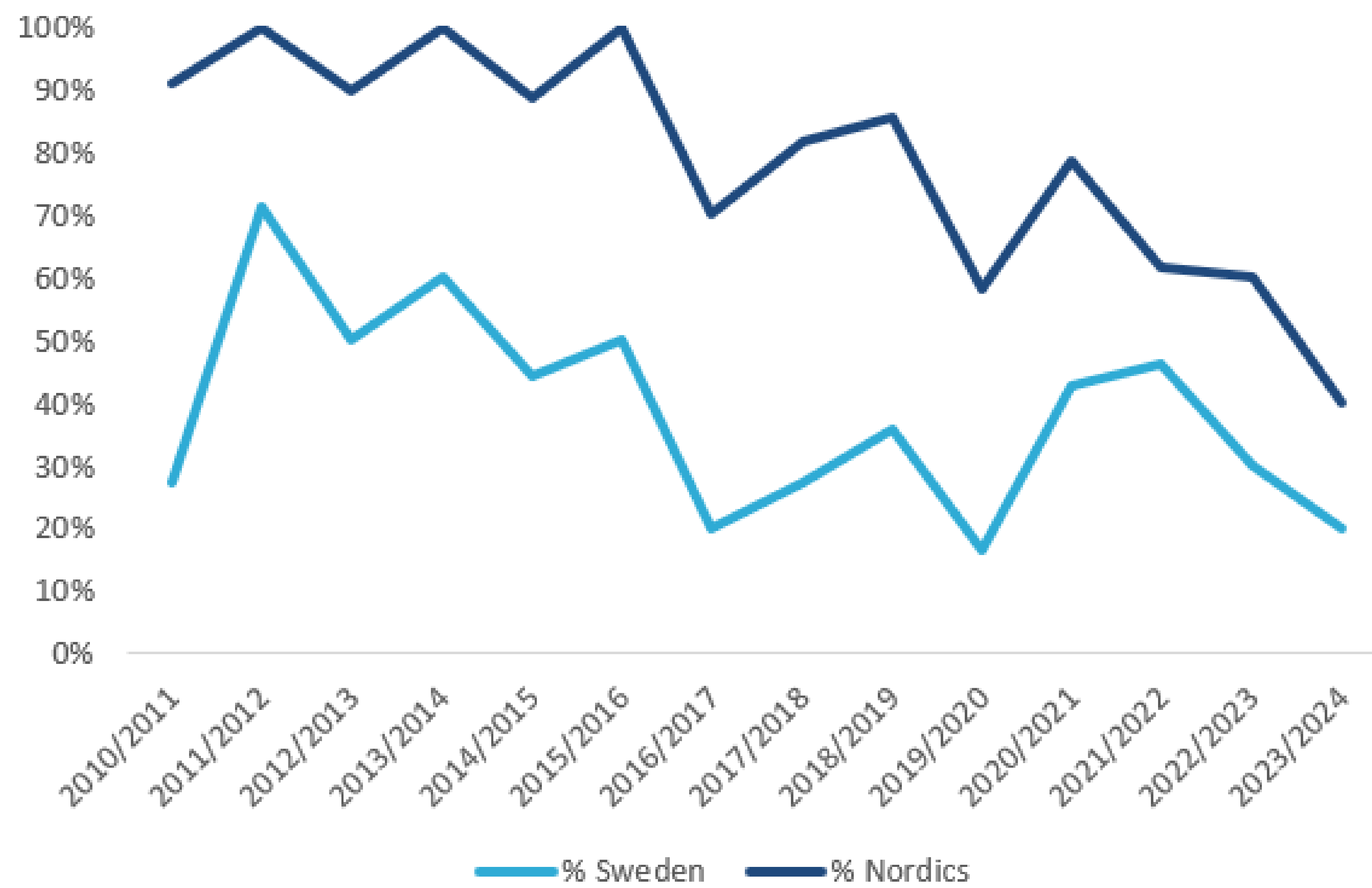
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Indutrade - Acquisitions completed (% of total)

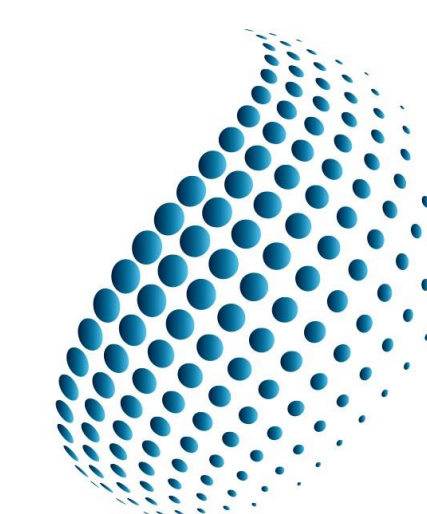


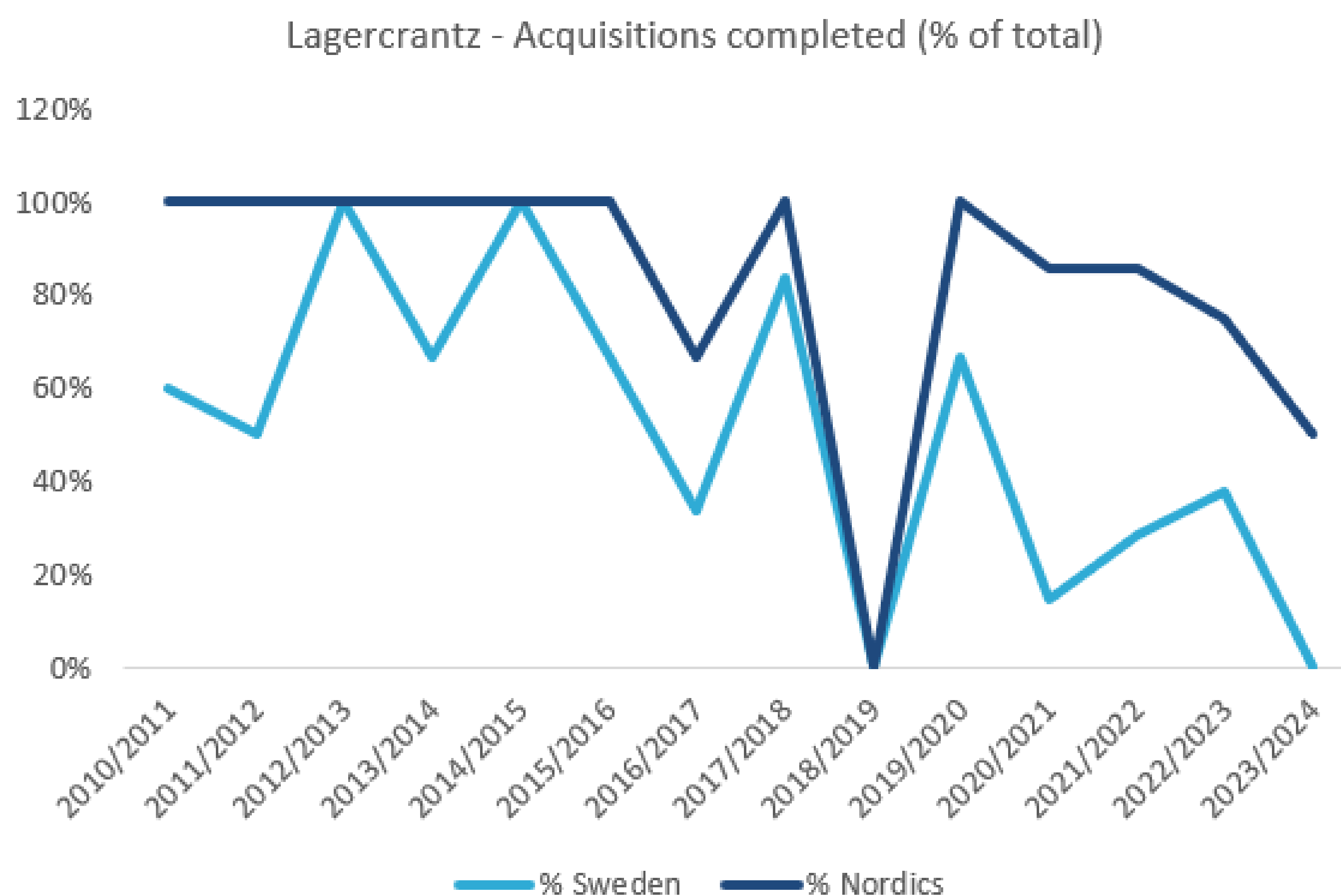
Source: company reports

Addtech - Acquisitions completed (% of total)



Source: company reports





Source: company reports

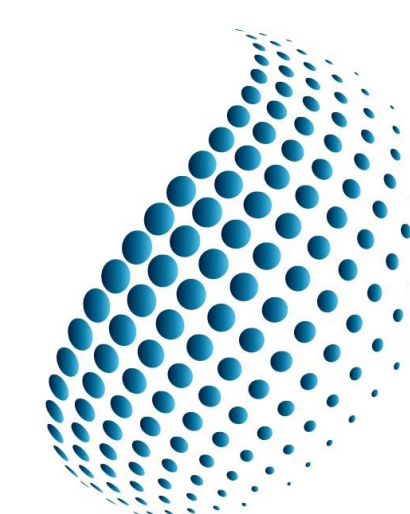
In summary

Acquisition-driven compounders take advantage of the highly attractive features of the SME market. An extensive pool of acquisition opportunities serves as a strong starting point for acquisition-driven compounders. Long runways of growth opportunities, coupled with highly disciplined acquisition approach, will lead to strong long-term value creation.

Sources:

-Company reports

- “Statistics on small and medium-sized enterprises” by George Papadopoulos, Samuli Rikama, Pekka Alajääskö, Ziade Salah-Eddine (Eurostat, Structural business statistics), Aarno Airaksinen, Henri Luomaranta (Statistics Finland)



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