Investing with Insight

Full Year
Investment Report 2024

December 2024

REQ
INVESTING WITH INSIGHT

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Dear Fellow Investors

REQ manages two ultra-long-term quality-based funds: REQ Global Compounders and REQ Nordic Compounders. 2024 marked a strong year for both funds.

REQ Global Compounders finished up 23.0%[1] , and REQ Nordic Compounders rose 17.6% in 2024. The performance was backed by the strong underlying fundamentals of the portfolio companies.

Compounding knowledge
During the year, we met with most of our existing portfolio companies and explored several potential investments. We see continuous learning as fundamental to our approach. Rather than being distracted by daily fluctuations or looking at share prices, we prioritize reading, analyzing, reflecting, and engaging with people who broaden our perspectives. Our curiosity and desire to learn only grow stronger with each new insight.

One of the most rewarding aspects of our work is bringing value to companies by sharing our insights and experiences. Our team has extensive experience presenting and teaching the core drivers of long-term value creation of acquisition-driven compounders to boards and management teams. And our unique knowledge and experience provide us with access to decision-makers, and during the year, we were invited to present our insights to several boards and senior management teams. This not only presents an opportunity for us to share our knowledge, but we also gain fresh perspectives on the companies we invest in. This process creates a flywheel effect—a continuous loop of compounding knowledge. The more we teach, the more we learn.

Over the past year, we also engaged in numerous discussions with fellow quality investors, employees from our portfolio companies, boards, large owners, and former management teams. We have also actively participated in numerous Annual General Meetings (AGMs) throughout the year, recognizing them as valuable opportunities to engage with employees beyond senior management. Notably, we have observed that, on occasion, we are among the few managers in attendance.

A particular highlight of our learning journey was our meeting with Mark Leonard, the founder and President of Constellation Software, a core portfolio holding since the inception of REQ Global Compounders. This conversation reaffirmed many of our existing convictions, challenged our perspectives, and opened the door to new insights. Key discussion topics included the art of scaling M&A, AI, and opportunities to expand beyond software. While Constellation's approach is well documented in Mark's shareholder letters until 2021, meeting the architect provides better insights into some of the important nuances driving its success. The group functions as a laboratory, driven by an unwavering culture of continuous learning. The conversation highlighted subtle yet important elements—such as the disciplined, scientific methodology behind its controlled experiments across different aspects, including hurdle rates, organic growth, and compensation, complete with rigorously designed control groups and feedback loops to ensure reliable outcomes. Constellation is a rare organization, a true outlier that warrants close study, where some learnings are domain-specific to VMS and some lessons are transferable to other companies in our universe.

During the year, we also spent time studying and meeting with several large, high-performing American conglomerates like Illinois Tool Works and Ametek. While the primary goal was to learn from their successes and apply these lessons to our companies—particularly in addressing scaling bottlenecks and identifying new opportunities—our research ultimately led to an investment decision in one of these names, an aspect we explore further later. Over time, we develop deep understanding

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[1] [1] Return in NOK for the "A" class. The fund has share classes in NOK, SEK, EUR, USD, CHF and GBP

of these business models, which provides us with insights we can use when looking for acquisition-driven compounders early in their growth phase. If our shared knowledge can contribute to the future success of our companies, we believe this will ultimately result in strong performance for our clients.

We are excited about the future compounding effects we can achieve as this flywheel of knowledge continues to spin. In this report, we go into the details of Momentum Group, which we think is in the early growth phase and where we expect strong multi-decade compounding.

Compounding capital
We manage ultra-long-term, unconstrained, and highly concentrated funds. Our strategy to invest in acquisition-driven compounders stems from these companies' ability to consistently reinvest a substantial portion of their cash flows into small private acquisitions at attractive prices over decades. Our portfolio companies are asset-light, and in combination with profitable organic growth, they generate attractive returns that translate into durable double-digit earnings growth.

If compounding were to have a twin sibling, it would likely be a high-performing, acquisition-driven compounder. This analogy aptly describes how the best among these entities have mastered the essential components for effective compounding. At their core, the fundamental elements amplify the critical aspects of compounding business value: the amount of capital that can be reinvested, the return on that capital, and the duration.

We believe our investment approach offers the best of both worlds. On the return side, our companies have high and durable reinvestment rates, attractive returns on capital, and double engines of growth. On the risk side, they have some interesting and vital risk-reducing components: sustainable, long-lasting growth and intrinsically diversified operations, which reduce single exposure risk. Our portfolio companies also have a strong self-funded ethos with inherently low financial risk that stems from strong long-term owners who are focused on growing intrinsic value.

In our research report "A Deep Dive into Shareholder Value Creation by Acquisition-Driven Compounders", we go deeper into our strategy and research. You can access the report here.

A collection of all our insights can also be found here.

Long-term clients are essential for the effective execution of our equity strategy. We sincerely thank our investors for their continued confidence in our strategy and team. We are fortunate to have investors in our funds who believe in the long-term potential of investing in acquisition-driven compounders.

REQ Global Compounders

For 2024, the fund's A-class shares in NOK appreciated by 23.0%[2]. Since the fund's inception in June 2021, the fund has increased 62.0%.

The fundamental performance of REQ Global Compounders has been strong, highlighted by healthy organic growth rates and strong acquisition activity. Across our portfolio companies, a total of 185 acquisitions were announced during the year. The pace of acquisitions is inherently unpredictable, and we do not prioritize forecasting these fluctuations. Our focus remains on the operational systems and cash-efficient cultures these acquisitions tap into, which continue to foster strong organic and acquisitive growth throughout our portfolio.

In April, we added Ametek to the portfolio. Ametek manufactures niche-engineered products with 42 subsidiaries operating across a highly diversified range of industries, including aerospace, healthcare, energy, advanced technology, and more. With nearly a century as a public company and several name changes throughout its history, Ametek has undergone a remarkable transformation. Initially, 80% of its business was focused on commoditized electric motors, but over time it shifted to cutting-edge instruments, precision components, and specialty materials. Today, Ametek's subsidiaries operate with substantial entrepreneurial autonomy, each holding its own profit and loss responsibility. Within this decentralized framework, a common thread unites them: niche market leadership. Many of these business units are leaders in their niche markets, typically within markets with a total size under $300 million. This positioning allows them to dictate terms and avoid aggressive competition—illustrating the beauty of small markets, a defining characteristic of our holdings.

A key factor in Ametek's success has been its cultural continuity. Over the last 55 years, the company has had only four CEOs, all promoted internally, underscoring its focus on stability, internal growth, and alignment with long-term strategies. Similarly, 75% of its business unit managers are promoted from within, blending technical expertise with deep understanding of the company's culture. This approach has driven remarkable growth, with sales rising from $30 million in 1955 to nearly $7 billion today and operating margins improving from 12% in the early 2000s to approximately 26%. We are impressed by Ametek's long history of durable growth, its long-tenured management team, decentralized culture, and strong capital allocation mindset. With its proven track record of consistent margin improvement and a robust acquisition pipeline, we are confident in Ametek's incremental compounding journey as a portfolio holding.

In September, we decided to exit our position in Vitec, a Swedish vertical market software acquirer, following its third equity raise in just four years. Our investment philosophy prioritizes self-funded growth supported by a strong cash culture. Given Vitec's nearly four decades of history in the VMS industry, we believe it should be capable of achieving self-funded growth, which it has not demonstrated. The decision to sell was driven by several factors: the company's repeated equity raises stemming from high debt levels, weak incremental returns on capital as a result of high acquisition prices, and vague returns on organic investments. These issues collectively led us to conclude to sell our shares.

During November, DCC, a portfolio holding since the fund's inception, revealed an important strategic shift. The company plans to divest its healthcare and technology assets to focus entirely on its energy division. This division, which specializes in distributing energy products such as LPG to businesses and consumers, has always been the largest contributor to DCC's portfolio. The energy division accounts for 74% of the group's profits and has delivered an impressive 16.4% annual earnings growth over the past decade, with a return on capital employed nearing 20%. Additionally, the division has achieved

[2] Return in NOK for the "A" class. The fund has share classes in NOK, SEK, EUR, USD, CHF and GBP

an average cash conversion rate of 101% over the last 10 years, making it a highly attractive business. While DCC has been a weaker performer for us, delivering only a 7% total return since launch, we have continued to invest because of its strong underlying fundamentals and attractive valuation. The sale of DCC's other divisions is expected to generate extraordinary dividends.

Our research pipeline remains robust, focusing on smaller companies, and we remain diligent in conducting maintenance work on our existing holdings and exploring new opportunities. The portfolio companies continue to deliver strong performance, driven by highly cash-generative business models that support substantial reinvestment levels at attractive rates of return, primarily through multiple small, accretive private acquisitions. Over time, this disciplined strategy should remain a reliable driver of attractive compounding for our fund’s investors.

At its core, rather than viewing the portfolio as a collection of individual companies, we like to see it as one high-performing entity—a collective of compounders, each with its own team of disciplined capital allocators and subsidiaries, all playing the long game of compounding and adhering to shared principles and disciplines. Below is a snapshot of the fund through the lens of a single company.

REQ Global Compounders - MUSD	Portfolio - Weighted average	Average	Median
# of holdings	23		
Market Cap (bn USD)	21.4	18.3	8.1
Years listed	46	51	32
Total shareholder return 10Y		662 %	598 %
Capital Allocation			
Reinvestment rate 5Y	70 %	77 %	78 %
Reinvestment rate 10Y	69 %	75 %	77 %
ROE (Net income / EQ)	21 %	21 %	19 %
ND/EBITDA	1.2x	1.2x	1.3x
EPS CAGR 5Y	13 %	14 %	15 %
Cash conversion 10Y (FCF/Net income)	89 %	112 %	118 %
Organic sales growth 5Y	4 %	4 %	4 %
Average # of acquisitions / year - L 5Y	12	10	7
People			
Total insider ownership	17 %	17 %	
CEO Ownership (times base salary)	447.9x	269.7x	19.7x
CEO Tenure (Years)	14	14	8
Decentralization			
# of subsidiaries	155	119	71
Subisidary size (sales in USDm)	46	50	35

REQ Nordic Compounders

For 2024, REQ Nordic Compounders fund's A-class shares in NOK appreciated by 17.6%[3]. Since its inception in January 2022, it has increased by 35.6%[4].

We believe the fund includes the highest-quality companies in the Nordics, with a proven track record of profitable growth and effective capital allocation. As the name implies, the fund invests in Nordic-listed compounders that pursue small acquisitions frequently, reinvest their capital at attractive returns, and generate strong profit growth over long periods. The companies in our portfolio have continuously reinvested around 75-80% of their cash flow into primarily acquisitions but also organic growth. With the support of strong balance sheets (portfolio-weighted Net Debt/EBITDA level of 1.5x as of 2024 Q3), our companies are well-positioned to take advantage of the growth possibilities presented. With a median sales of EUR 650m and a median market cap of EUR 1.1bn in the portfolio, we believe many of our companies are in the early stages of their growth trajectory.

Our companies tend to generate strong cash flows when organic growth is subdued. The year 2024, where organic growth on average for our portfolio companies has been -3% for the first nine months, has been no exception. For the first nine months of 2024, our companies have increased their operating cash flow by 22% despite weak organic growth. The main reason is that when organic growth slows down, our companies tend to release a lot of working capital. The companies funnel these funds into acquisitive growth, which supports the total growth. Our companies' cash flows are at all-time high levels as we go into 2025, and they continue their unwavering focus on cash flow through smart incentive systems, a framework for cost awareness, and a host of shared best practices.

Like the preceding years, 2024 has been an active acquisition year for our portfolio companies. The companies have collectively announced 146 acquisitions, increasing from 135 in 2023. It is also encouraging that 20 out of 22 holdings have announced acquisitions during the year. The most active acquirers for the year were Atlas Copco, Indutrade, Lifco, Addtech, Addnode, and Momentum Group.

Our portfolio companies also continue to allocate more capital outside the Nordics. 62% of the acquisitions announced were located outside the Nordics, compared to 55% in 2023. For example, the runway for growth only in EU markets is estimated to be 15x compared to the Nordics, and our companies are continuously communicating pipelines filled with interesting opportunities. The companies in our portfolio have demonstrated that the decentralized model appeals to sellers beyond the Nordics. Additionally, they have acquired assets of comparable or even higher quality at more attractive prices, resulting in higher returns[5].

Despite the persistently challenging market conditions and uncertain outlooks that remain a concern, our portfolio companies have adeptly navigated through these difficulties, showcasing their resilience and adaptability. The superior long-term performance of our holdings is cultivated through large owners with a multi-decade mindset of value creation and owner-operator mindsets. Our companies generally have high insider ownership, aligning their interests with shareholders. For our Nordic Compounders portfolio, the Board of Directors and large families hold 20% of the capital, while management, on average, holds 3%. In general, we have very high insider ownership among CEOs of, on average, 88x their base salary in equity holdings (10x on median), showcasing a high interest in creating long-term shareholder value.

[3] Return in NOK for the "A" class. The fund has share classes in NOK, SEK, EUR, USD, CHF and GBP

[4] Return in NOK for the "A" class. The fund has share classes in NOK, SEK, EUR, USD, CHF and GBP

[5] According to a Carnegie study from November 2024: "Swedish M&A compounders - In focus: Early innings"

We continue to see attractive opportunities for new investments, and we have made just a few changes to the portfolio during the year, as the criteria for new companies to enter the fund are stringent. By the end of 2024, the portfolio consists of 22 holdings. Among the changes in the portfolio during the year was the addition of Idun Industrier in June and the decision to sell Vitec Software in September.

Idun Industrier is a Swedish acquisition-driven compounder with c. SEK 2.2bn in sales and EBITA margin of 14%. Idun was founded in 2013 and listed in 2021. We believe Idun has a highly qualitative and capable management team with high skin in the game (>50% of shares and >80% of votes held by insiders). The company has delivered an FCF per share growth of >30% since 2015 and since its foundation, Idun has had zero turnover in the management team. The company has a high-quality portfolio of Swedish companies that has been resilient historically, as well as during the last couple of years, despite economic uncertainty. Although we prefer self-funded growth for companies with mature characteristics, Idun is still in the early phases and ticks many of our qualitative criteria. Therefore, we also participated in Idun's share issue in September, which strengthened its balance sheet, and enabled the company to execute on an attractive acquisition pipeline. As Idun Industrier matures, we expect the company to become self-funded.

In September, we decided to exit our position in Vitec, a Swedish vertical market software acquirer, following its third equity raise in just four years. Our investment philosophy prioritizes self-funded growth supported by a strong cash culture. Given Vitec's nearly four decades of history in the VMS industry, we believe it should be capable of achieving self-funded growth, which it has not demonstrated. The decision to sell was driven by several factors: the company's repeated equity raises stemming from high debt levels, weak incremental returns on capital due to high acquisition prices, and vague returns on organic investments. These issues collectively led us to conclude to sell our shares.

Below is an insight into the financial metrics of the REQ Nordic Compounders fund (EUR)

REQ Nordic Compounders - MEUR	Portfolio - Weighted average	Average	Median
# of holdings	22		
Market Cap (bnEUR)	5.7	5.9	1.1
Years listed	17	19	20
Total shareholder return 10Y		940%	818%
EV/EBITA 2025E	19.8x	20.0x	20.5x
Capital Allocation			
Reinvestment rate 5Y	76%	78%	78%
Reinvestment rate 10Y	72%	75%	77%
ROE (Net income / EQ)	21%	20%	19%
ND/EBITDA	1.5x	1.7x	1.6x
EPS CAGR 5Y	16%	17%	14%
Cash conversion 5Y (FCF/Net income)	92%	92%	89%
Organic sales growth 5Y	6%	6%	6%
Average # of acquisitions / year - L 5Y	6	6	4
Average deal size (MEUR) - L5Y	11	13	8
People			
Total insider ownership	24%	27%	
CEO Ownership (times base salary)	70.4x	88.0x	11.1x
CEO Tenure (Years)	8	9	6
Decentralization			
# of subsidiaries	90	95	42
Average subsidiary sales (MEUR)	14	15	12

The Harder We Practice, the Luckier We Get

Over 50 years ago, Gary Player famously sank three consecutive bunker shots during practice, prompting someone to remark that he was lucky. Player replied, "*The harder I practice, the luckier I get*." Similarly, when Picasso sketched a masterpiece on a napkin in mere minutes, an admirer was shocked by its high price. Picasso responded, "*My dear, it took me a lifetime to be able to draw this sketch*." These well-known examples illustrate a vital truth: what may appear as luck or effortless skill on the surface is often the result of countless hours of hard work and dedication.

This analogy can also be translated to acquisition-driven compounders. Their programmatic M&A strategy (closing many small deals continuously) may look like a straightforward strategy from the outside. Still, these companies have cultivated and built up invaluable experience in the art of acquisitions for decades. For these companies, acquisitions are an integral part of daily business activities, creating an illusion of simplicity for outside observers.

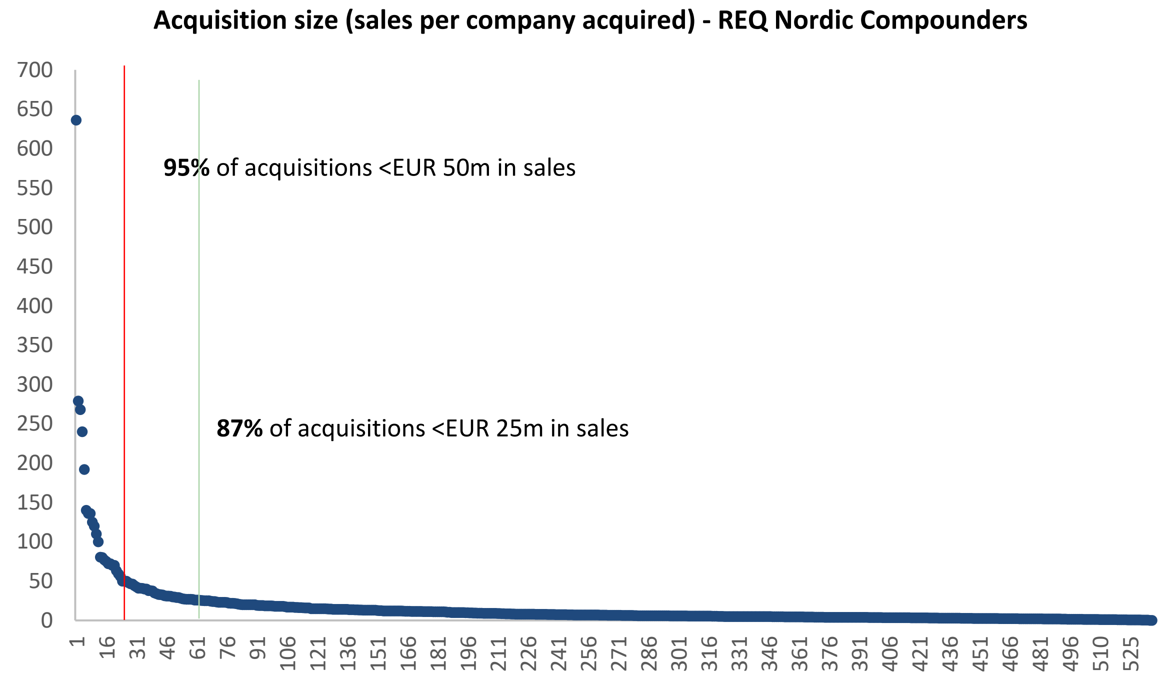
Unlike traditional M&A strategies that rely on infrequent, large deals, programmatic acquirers emphasize a steady stream of smaller, more frequent acquisitions. The acquisition-driven compounders we invest in primarily partner with family-owned businesses that value the freedom and responsibility a decentralized culture provides—offering capital and the trust to run their operations with autonomy. The acquired companies are sometimes merely requested to report only monthly KPIs.

Unlike large deals, the deals that programmatic acquirers execute do not require integration. With managerial autonomy and a balanced degree of control, the decentralized governance structure accelerates growth in ways that organic expansion alone cannot achieve. And the more acquisitions our companies conduct, the better they become at sourcing and acquiring new companies. Over the decades, the best acquisition-driven compounders have refined and developed an acquisition playbook with countless opportunities. The more these companies practice small acquisitions, the “luckier” they get.

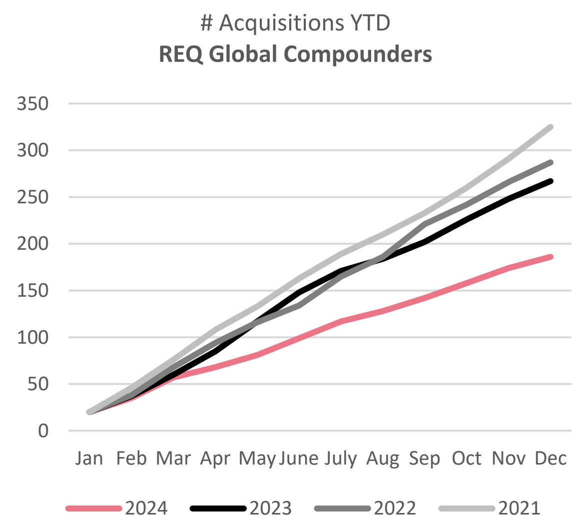
The companies in our portfolios typically make acquisitions of modest size, ranging from EUR 1 million to EUR 20 million in sales, with each acquisition usually contributing less than 1% to the parent company's total revenue. This is important for several reasons.

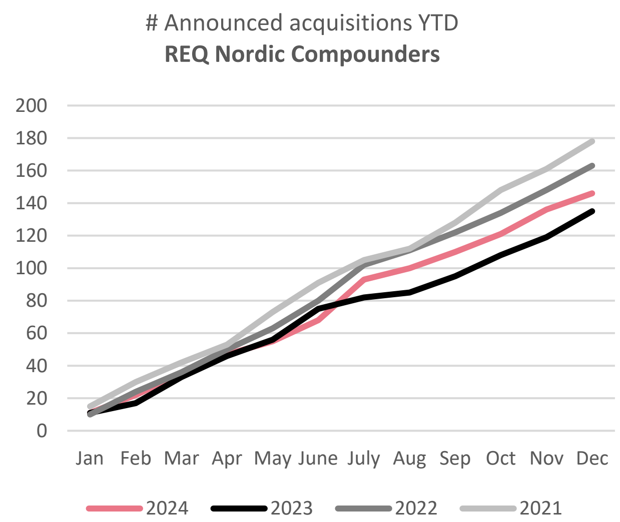
First, private equity often overlooks smaller acquisition targets, creating prime opportunities for our portfolio companies. Secondly, private markets, while less liquid and efficient, present more attractive pricing dynamics. Finally, the smaller sizes of these deals allow for a trial-and-error approach, offering the flexibility to experiment without material risk. Missteps, when they occur, do not significantly impact the company's financials, allowing for continuous refinement and compounding growth over time.

We closely monitor every acquisition made by the companies in our portfolio. As example, for all the acquisitions tracked in REQ Nordic Compounders since 2021, the average and median sales per company acquired are EUR 15m and EUR 7m, respectively.



Below is an overview of the consistent acquisition activity among the companies in the REQ Nordic Compounders fund over the past few years. These companies have acquired between 130 and 180 private businesses annually, averaging 6 to 8 acquisitions per company each year. The acquisition pace has ranged between 250-300 acquisitions annually for REQ Global Compounders. For 2024, the acquisition pace looks ocularly lower, which is primarily explained by our sale of Boyd Group (announced 64 deals in 2023, as an example) in early 2024.





Over the long term, we typically see our companies grow earnings by around 15% per year, with two-thirds of growth coming from acquisitions and the remaining third driven by organic expansion.

In 2024, acquisition activity remained steady, with approximately 150 and 190 private companies added to the REQ Nordic Compounders and REQ Global Compounders portfolios, which align with historical averages.

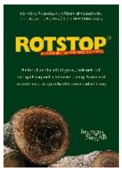
Below are a couple of examples of acquisitions announced during the year.

Lagercrantz

In July, Lagercrantz announced the acquisition of CP Cases, a company founded in 1969 that manufactures high-performance protective cases and racks used for the transit and storage of mission-critical equipment in commercial and military applications. The acquisition comprised 1.5% of Lagercrantz's annual sales. Lagercrantz has during 2024 announced 6 acquisitions.

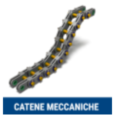
Idun Industrier

During the autumn, Idun Industrier conducted an add-on acquisition to its existing company, LMI. The company develops products with the aim of reducing damage from the most significant forest pests: rats, beetles, and ungulates. The company has been a market leader in this niche for 20 years, and The acquisition comprises 1.5% of Idun's sales.



Lifco

A very recent example of one of these 140 acquisitions during 2024 was Lifco's Italian acquisition of Manifattura Catene Vigano S.p.A. (MCV). The company is a niche manufacturer of chains and links for conveyors and transmissions. In 2023, the total sales of MCV was 1.1% of Lifco's total sales, and the company has 60 employees. In total, Lifco has, during 2024, conducted 13 small profitable acquisitions.



Momentum Group

In April, Momentum Group acquired Kmk Instrument, a specialist in measurement technology, non-destructive testing, and material testing for industrial customers. It has a wide range of machines, tools, and instruments through a number of well-established suppliers and performs calibration services for manual and automated measurement processes. KmK comprised 2.5% of Momentum's sales.

The Duality of Autonomy and Control

"*You have to believe it*," insists Nick Howley. "*You have to pass up at times apparent cost savings on the belief that the loss of entrepreneurial spirit and ownership will more than overcome what you might save by having a common accounts receivable department or a common sales force. You just have to believe that*."

As the founder and former CEO of TransDigm—a global aerospace company comprising 50 independent units providing critical parts for commercial and military aircraft—Howley deeply values decentralization and treats employees as owners. He believes true business strength does not come from rigid structures or unified sales teams but rather from empowering autonomy, fostering entrepreneurship, and cultivating ownership.

On the other side of the debate is Brad Jacobs, a serial entrepreneur who prefers operational integration through deep standardization across all business units. Having overseen more than 500 acquisitions—with companies like XPO, United Rentals, and his latest venture, QXO—Jacobs takes a different approach. He emphasizes integration and standardization. "*I have never managed companies with hundreds of independent units*," Jacobs says. He stresses that operational integration relies on speed and consistency. Rapidly incorporating an acquired business into a unified technology system is essential: a single enterprise platform, unified HR and CRM systems, central business intelligence, and internal communication tools. Operations are streamlined using one KPI dashboard, a standardized training program, and a standard email system. New employees receive a comprehensive manual, including the company's code of ethics, to ensure consistency.

Cultivating a strong culture

Jacobs also highlights the importance of cultural integration, calling it the most crucial element for successful post-acquisition management. Rather than imposing an authoritarian style, Jacobs emphasizes respect and genuine communication, recognizing the value of new team members and fostering unity. For Jacobs, operational and cultural integration are key to achieving economies of scale. He focuses on industries where synergy grows with scale—where companies can spread SG&A costs, enhance technology, and leverage a broad network. While Jacobs acknowledges the benefits of decentralization for customer proximity, his companies excel by maximizing efficiency and synergy through standardization.

The essence of many successful acquisition-driven compounders is rooted in deep decentralization, which serves multiple purposes: fostering entrepreneurship, enhancing customer proximity, and maintaining a small-company feel even as the organization scales. Decentralization allows newly acquired, often niche, businesses to retain what made them successful. Smaller niche markets, ideal for acquisition-driven compounders, compete on intimacy. Autonomy enables business units to make swift, market-driven decisions and fosters a sense of ownership. This trait is rare in large corporations, where culture often struggles to scale. In decentralized setups, companies grow big by staying small.

Finding the balance

The level of decentralization is not a one-size-fits-all solution; it varies by company. For some, it means full autonomy across all business units, while for others, autonomy may be limited to specific divisions, with each division running its own playbook tailored to its unique industry landscape. A light synergy approach sometimes works best—centralizing core functions like finance, HR, or IT while maintaining operational independence to preserve entrepreneurial energy.

Companies that share foundational elements across end products may pursue a higher degree of backend integration, such as common sourcing, while allowing significant entrepreneurial freedom at the customer interface. This approach enables full flexibility in product selection, pricing, and marketing decisions. For example, IMCD—a global leader in the formulation, sales, and distribution of specialty chemicals—follows an integration strategy that involves incorporating new chemical companies into their digital platform on the backend. However, it safeguards autonomy at the customer-facing level. This strategy allows IMCD to achieve operational efficiencies while maintaining independent decision-making. This approach fosters a culture where freedom to act is encouraged, yet allows IMCD to benefit from a centralized digital platform across all acquired companies.

Similarly, Brown & Brown illustrates this blend of backend integration and customer-facing autonomy. As a successful acquisition-driven compounder encompassing a network of insurance brokers, Brown & Brown grants each acquired broker full local autonomy, including P&L ownership, allowing them to retain their original branding. This structure enables each branch to focus on customer relationships and local growth while centralized support functions—such as compliance, IT, accounting, and marketing—enhance operational efficiency. Like IMCD, this model carefully balances synergy and local empowerment.

Specialists with heterogeneous attributes operating in global markets often thrive by using a focused playbook while protecting autonomy where it matters most—whether at the customer touchpoint or in the creative process. For example, LVMH, Bernard Arnault's luxury conglomerate, has mastered a dual strategy of vertical integration for efficiency while preserving brand integrity and culture. Functions like logistics, talent mobility, and advertising are centralized as "light synergies," but each brand retains its creative autonomy. This balance allows LVMH to achieve scale efficiencies while maintaining the uniqueness of each brand—a crucial factor in the luxury market.

Pull integration

Across our Nordic portfolio companies, we see a common theme best described as a "pull integration" strategy, a term coined by one of our portfolio companies, Bufab, a trading company that offers a full-service solution for sourcing and logistics of C-parts. This approach emphasizes that acquired companies should retain their entrepreneurial spirit and operational independence. The pull integration strategy allows each newly acquired company to determine the pace and scope of their integration into the larger organization. This flexible approach enables companies to draw on resources, practices, and benefits as needed, rather than being forced into a rigid framework.

This emphasis on autonomy and selective integration is a recurring theme across our portfolio. The focus is on growth synergies rather than cost synergies, ensuring acquisitions can seize opportunities when joining a larger group while avoiding disruptions commonly associated with forced restructuring or cost-cutting. The pull integration strategy fosters sustainable growth by prioritizing autonomy and leveraging local expertise while providing access to Bufab's resources and best practices. It preserves the unique strengths of each acquired company.

Acquired companies retain complete autonomy in choosing the integration approach that fits their needs. Some may adopt shared ERP systems within the group, but this decision is driven by local accountability rather than a centralized mandate. In cases with significant specialization across divisions, companies may opt for more operational integration—achieving lightweight cost synergies, such as sourcing—while retaining autonomy and ownership mentality.

Similarly, Nordic leaders, including Bergman & Beving and its spun-out companies like Addtech and Lagercrantz, Indutrade, and others, have varying degrees of shared services and "toolboxes," equivalent to a "pull integration" strategy. Employees can voluntarily utilize the shared knowledge within the organizations, freeing up time for CEOs to focus on strategy and growth.

Plow Horses and Meritocracy

A common pattern that runs through the best acquisition-driven compounders is that decentralized autonomy exists alongside centralized control. Managers are free to run their units, often with full P&L responsibility, but this freedom comes with relentless accountability. This culture of accountability attracts a distinct kind of individual—one who thrives under pressure, finds motivation in numbers, and embraces financial discipline. The balance between entrepreneurial freedom and financial control can feel like walking a tightrope—maintaining entrepreneurial spirit while meeting financial demands.

A portfolio example is Ametek, a specialized manufacturer of advanced products across multiple end markets with a nearly century-long history, including numerous accretive private acquisitions. Ametek values substance over style, referring to this philosophy as *'plow horses rather than show horses'*—a deep-rooted preference for meaningful work and steady commitment over superficial display. The company has had only four CEOs over 58 years, contributing to cultural stability while successfully navigating numerous pivots and course corrections along the way. At Ametek, hitting financial goals is non-negotiable. Underperformance is addressed directly, creating a culture where results are essential and performance drives recognition. This results-driven environment attracts people inspired by accountability and committed to delivering consistent outcomes.

Highly decentralized companies attract business heads who want to prove themselves with full P&L responsibility. High-performing cultures with deep-rooted meritocracy are not for everyone; they naturally self-select for top performers. This culture can often be lost in centralized structures.

The integration spectrum in acquisition-driven companies spans a wide range—from highly decentralized models that prioritize entrepreneurial freedom, even at the expense of easy synergies, to tightly integrated approaches, like Brad Jacobs', which focus on maximizing scale efficiencies with minimal decentralization. The "pull integration" strategy, which is prominent in many of our portfolio companies, represents an effective middle ground. This approach balances synergies with autonomy, allowing each business unit to decide the extent and nature of its integration based on its unique needs, thereby preserving the entrepreneurial spirit.

At REQ, we greatly respect acquisition-driven compounders that prioritize genuine autonomy and an entrepreneurial spirit. These companies invite synergies rather than enforce them, and when they do introduce synergies, it is done thoughtfully to preserve autonomy where it is most needed. Balancing autonomy with control is essential for "growing big by staying small," creating some of the world's best ecosystems for entrepreneurs.

*Nick Howley's quotes are from the 50X Podcast
**Brad Jacobs' quotes are sourced from an interview with The Knowledge Project Podcast and his book, 'How to Make a Few Billion Dollars'
***REQ funds have positions in Addtech, Bergman&Beving, Indutrade, Lagercrantz, IMCD, Brown & Brown and Ametek

The Public Private Multiple Discrepancy

REQ regularly collaborates with students in Finance on interesting topics related to our investment strategy. The following article summarizes the Master Thesis "*The Public Private Multiple Discrepancy*" written by Emil Kaasa and Adrian Vedum Håland. They dive deep into almost 1,000 private acquisitions by listed acquisition-driven compounders in Sweden.

Historically, there has been significant M&A activity in the Swedish market compared to other Nordic markets. From 2019-2022, the Swedish M&A deal volume was double that of the Norwegian and Danish markets[1]. The master's thesis aimed to investigate the companies that drive a high volume of acquisitions in the Swedish market, known as acquisition-driven compounders, the acquisition multiples they pay in the private market, and the stock performance of this group of listed companies.

In this study, Emil and Adrian extracted data on acquisitions of privately held firms from the annual reports of listed acquisition-driven compounders. The study comprised 980 acquisitions within the 10 years of 2013-2022.

The Public Private Multiple Discrepancy

In this study, the students examined a portfolio of 35 companies listed on the OMXS, all of which can be categorized as acquisition-driven compounders. Valuation multiples of private acquisitions over the last 10 years was based on the annual reports from the list of acquisition-driven compounders. Each company employed different reporting styles, presenting a diverse range of data availability to the public. Three distinct valuation multiples, EV/Sales, EV/EBIT, and EV/EBITA, were selected and related to various acquisitions made by the portfolio companies from 2013 to 2022.

The analysis of the M&A strategy of these acquisition-driven compounders reveals a significant valuation discount for privately held firms compared to public targets. The findings indicate that companies listed on the OMXS traded at higher multiples than privately held firms, with averages of 2.9 times the EV/Sales multiple, 2.6 times the EV/EBITA multiple, and 2.4 times the EV/EBIT multiple. This substantial multiple discrepancy aligns with the findings of other researchers on the topic[2] [3], confirming a consistent valuation discount for privately held companies across all three multiples. The table below illustrates a comparison in valuation multiples between privately held targets and the OMXS Index from 2013 to 2022.

Public vs Private Valuation Multiples

EV/Sales	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Private	0,9x	1,3x	0,9x	1,0x	0,9x	0,8x	0,9x	1,0x	1,2x	1,2x
OMXS	3,0x	3,1x	3,0x	3,0x	2,9x	2,6x	2,9x	3,0x	3,6x	2,5x
EV/EBITA										
Private	6,2x	5,1x	6,3x	6,5x	6,9x	5,8x	7,1x	7,2x	8,1x	7,1x
OMXS	20,1x	19,4x	17,8x	18,7x	17,1x	16,0x	15,6x	16,9x	18,3x	12,1x
EV/EBIT										
Private	9,2x	11,3x	7,8x	12,0x	7,6x	9,7x	8,6x	7,0x	11,7x	7,8x
OMXS	24,3x	23,8x	24,2x	23,7x	20,5x	20,5x	24,1x	23,0x	19,5x	22,0x

Long-term performance of acquisition-driven compounders

There is limited literature on the long-term performance of acquisition-driven compounders. Acquisitions of privately held companies tend to generate positive returns, while acquisitions of public firms often lead to negative outcomes[4]. Frequent, programmatic acquirers have outperformed market benchmarks and performed better than infrequent acquirers[5].

The students used the Calendar Time Portfolio (CTP) approach to assess long-term stock performance in the analysis. Portfolios were constructed monthly by grouping acquisitions within a particular month, and the students measured abnormal returns using the Market Adjusted Model, CAPM, and the Fama-French 3 Factor Model. The students aimed to ensure robustness by incorporating several models, emphasizing the Fama-French 3 Factor Model for its comprehensive variable inclusion.

The study concludes that acquisition-driven compounders generated monthly abnormal returns ranging from 0.33% to 1.08%, depending on the model and timeframe. The CAPM and Fama-French 3 Factor Models showed consistent positive returns, with the latter displaying increasing alpha over time.

The table below summarizes the excess monthly returns across different time frames and models, accounting for the effect of prior acquisitions in determining the statistical significance of the results.

Long-Term Performance: Overview

Expected return: OMXS			
Timeframe (months)	**Abnormal return**	**Std.Error**	**T-stat**
[0,3]	0.64%	0.31%	**2.09**
[0,6]	0.63%	0.27%	**2.31**
[0,12]	0.54%	0.27%	**2.00**
[0,24]	0.33%	0.14%	**2.31**
[0,36]	0.36%	0.18%	**1.98**
Expected return: CAPM			
Timeframe (months)	**Abnormal return**	**Std.Error**	**T-stat**
[0,3]	0.81%	0.25%	**3.28**
[0,6]	0.86%	0.21%	**4.14**
[0,12]	0.68%	0.21%	**3.18**
[0,24]	0.50%	0.15%	**3.24**
[0,36]	0.63%	0.19%	**3.25**
Expected return: Fama French 3 Factor			
Timeframe (months)	**Abnormal return**	**Std.Error**	**T-stat**
[0,3]	0.62%	0.22%	**2.87**
[0,6]	0.78%	0.38%	**2.08**
[0,12]	0.67%	0.32%	**2.09**
[0,24]	0.83%	0.40%	**2.10**
[0,36]	1.08%	0.09%	**12.39**

The findings align with previous research. The students found a significant public-private multiple discrepancy, and the study confirms that acquisition strategies targeting private firms produce long-term excess returns for shareholders.

[1] Airisto, T. Byrne, D. & Jensen, J. (Feb 06, 2023). M&A holds the line in the Nordics with robust performance. White & Case.
[2] Koeplin, J., Sarin, A. & Shapiro, A. (2000). The Private Company Discount. Journal of Applied Corporate Finance, 12 (4), 2-127.
[3] Block, S. (2007). The Liquidity Discount in Valuing Privately Owned Companies. Journal of Applied Finance, 17(2), 33-40.
[4] Fuller, K., Netter, J. & Stegemoller, M. (2002) What Do Returns to Acquiring Firms Tell Us? Evidence from Firms That Make Many Acquisitions. The Journal of Finance, 57 (4), 1763-1793.
[5] Bradley, M. Sundaram, A. (2006) Acquisitions and Performance: A Re-Assessment of the Evidence. SSRN

Momentum Group – Leveraging Decades of Experience

For Sweden, a nation where industrial production represents 20% of the economy, the machinery running its industries must not come to a halt. In the shadow of all industrial successes stemming out of Sweden, a relatively small and, for most people, unknown company plays a central and critical role – Momentum Group.

Momentum Group ensures that machine halts never happen. It supplies hundreds of thousands of critical aftermarket products, and based on strong customer relationships and deep local knowledge, the company keeps Sweden's industrial machines running smoothly, minimizing downtime and maximizing productivity. It is the hidden engine that keeps Sweden's wheels spinning.

Finding the unique combination of a strong business and a passionate, skilled leadership team is rare. You find this combination in Momentum Group. Ulf Lilius, the CEO, having spent nearly his entire career within the company, knows its inner workings. Niklas Enmark, the CFO, also has a successful career, having spent 15 years in the decentralized cultures of Lagercrantz and Momentum Group. Their deep belief in empowering people sets Ulf Lilius and Niklas Enmark apart from the crowd. Their leadership is not about micromanagement or rigid oversight; instead, they foster a performance-driven culture built on trust and autonomy. Finding this kind of culture is rare, which is also why it is valuable.

Their philosophy is simple: treat people like owners, give them the space to grow, align incentives based on smart yet simple profit goals, and they will go the extra mile. Under this ethos, Momentum Group thrives by combining a strong industrial mindset with disciplined capital allocation and operational excellence. Their approach reflects a deep understanding that extraordinary results follow when leaders trust their teams and create an environment where initiative is rewarded.

Momentum Group consists of 30 group companies and is Sweden's largest technical value-add distribution business for components used in industrial maintenance, repair, and operations (MRO), comprising SEK 2.7bn (€270m) in sales with an operating margin (EBITA) of c. 11%. Over 90% of its products are critical machine components serving the aftermarket.

Momentum Group's products come in many forms and shapes and within many niches – but with the common thread of serving the aftermarket. The company supplies a steadily growing count of over 750,000 products, many costing below €5-10 each. The product range includes seals, bearings, pumps, lubricants, bushings, gears, and chains, among thousands of others.

Momentum Group, through its largest company, Momentum Industrial, has a strong market position and enjoys high barriers to entry, partly due to its highly fragmented customer base and party due to the sheer number of products it supplies. Sweden has many thousands of SME companies that operate various machinery every day. A machine can consist of hundreds or thousands of different parts that can break; the whole production can halt if one part breaks. Therefore, fast and reliable delivery is of critical importance.

Large OEMs cannot justify setting up their own shops; this is where Momentum comes in. It has built up a network of suppliers and usually has a replacement product that solves customers' problems quickly. To illustrate the complexity of the business, less than 0.1% of products on the shelf overlap. For example, only five percent of the products they sell yearly are sold again within three years. Not many companies have the knowledge or ability to serve a “high SKU/low turnover” logistics system.

There is no other company in Sweden with the breadth of products or customers, nor the type of customer service as Momentum Group, which creates a competitive advantage and makes

Momentum very hard to compete with. The products Momentum Group supplies are mission and function-critical for keeping the machines running but typically comprise just a fraction of the total cost. This demonstrates the business's complexity and creates clear hurdles for suppliers or competitors to overcome if embarking on doing it themselves.

Momentum Group’s operations go way beyond being a pure reseller of products that moves products from point A to point B. The company is driven by adding value to its customers through advanced technical expertise that solves their customers' problems. The strengths and success factors are local knowledge and customer intimacy that has been created and cultivated over decades and, in some cases, over a century. Staying close to customers' daily operations means that Momentum Group remains embedded with its customers by continuously finding solutions to their problems.

As a result, the company annually conducts over 1,000 customer improvements, saving them time, money, and environmental footprint, further fueling the flywheel of satisfied customers and thus strengthening relationships. A compelling example of the value Momentum brings to its customers and its pricing power is captured in a story one of its entrepreneurs shared with us. He recounted a conversation with a client who was a little bit hesitant to buy a product that looked seemingly expensive, and the entrepreneur responded with: *"I can offer you this product for free, but in return, I want half of your energy savings for the next 10 years*." Needless to say, the customer bought the product instead.

The market for aftermarket components is local and highly fragmented, and despite being one of the most significant component suppliers in the Nordics, Momentum Group still holds only a 5% market share in Sweden and less than 2% in the other Nordic countries. In the fragmented Nordic market, where small and medium-sized businesses dominate, Momentum Group has built a strong reputation that thrives on local expertise and entrepreneurship.

With a market size of SEK 20-25 billion (€2.0-2.5bn), large multinational suppliers cannot justify setting up sales forces or logistic hubs for machine components that often cost just a few dollars. But this is where Momentum excels. Their decentralized approach and strong local reputation have earned it both loyal customers and a trusted status among entrepreneurs looking to sell their businesses. Momentum's ability to scale while remaining agile makes it the leading industrial aftermarket distributor in the Nordics, with a compelling potential for growth.

A history rooted in industrial improvements

Momentum Group's roots in delivering industrial improvements to its customers trace back almost 100 years. The year 1929 marked the beginning of SKF's distribution business. SKF, a renowned Wallenberg-controlled Swedish company, is a global leading manufacturer of rotating shafts, bearings, seals, lubrication management, and condition monitoring. It has a long-standing legacy of innovation in industrial solutions. The Wallenberg family, often dubbed "The Rockefellers of Sweden," has played an influential role in developing the Swedish industry, with SKF among its prominent businesses.

Momentum as a formal entity, however, was officially established in October 1997 when four of SKF's five regional distributors joined forces to create a unified platform. That is when Momentum Industrial was born as a separate company. SKF, at this point, continued to own 30% of the shares in the combined entity and later increased its ownership to 40%, with management and employees holding the remaining part of the shares. Geographically spread across different regions, these four companies were able to lay the groundwork for broad coverage across diverse industries and customers. By joining forces, they aimed to enhance collaboration, increase efficiency, and facilitate greater knowledge sharing.

From the inception of Momentum Industrial, the strategy was to grow organically and through acquisitions and during the first years as a combined company, several acquisitions were conducted.

A new era begins

On the morning of Jan 21, 2004, a particular news event sent shockwaves through corporate Sweden, surprising many.

Bergman & Beving announced that it was acquiring Momentum Industrial from SKF. Momentum Industrial comprised around one percent of SKF's annual sales, and SKF's leadership assessed it as non-core operations, subsequently choosing to divest. From Bergman & Beving's perspective, it made perfect sense to acquire Momentum Industrial. The company, just like Bergman & Beving, already operated with a decentralized structure based on a high degree of autonomy and managerial responsibility and had a deep belief in delivering the best customer value possible.

The transaction was of historical proportions. In Sweden, it was uncommon and almost unheard of that companies controlled by owners from the Handelsbanken-sphere, one of Sweden's largest banks, conducted business with the Wallenberg-family, who controlled SEB, a competing bank. Seizing opportunities that others may have overlooked demonstrated the business acumen of the people of Bergman & Beving. Like many other acquisitions it chose to pursue, the acquisition of Momentum Industrial has created tremendous shareholder value.

The acquisition price for Momentum Industrial was settled at SEK 219m (€21.9m), representing a highly attractive multiple of enterprise value to earnings before tax of 6x for Bergman & Beving shareholders – already day one, implying a return on investment well above the cost of capital. The acquisition of Momentum Industrial turned out to be one of the best acquisitions conducted by Bergman & Beving. The market capitalization for Momentum Group today is close to SEK 9bn (€900m). This represents an astonishing increase of 40x (CAGR of 20%), achieved without diluting shareholders.

For Momentum Industrial, the acquisition focus lived on with the company under Bergman & Beving's ownership. However, Bergman & Beving focused on growing its other businesses. When it later went through a restructuring phase, the company did not prioritize acquisitive growth, and Momentum's inorganic growth agenda was somewhat subdued.

B&B Tools (Bergman & Beving renamed itself B&B Tools in 2007) needed restructuring after its aggressive and hasty acquisition journey. Ulf Lilius (at the time CEO of Momentum Industrial) was appointed for the job. In 2012, he became the CEO of B&B Tools, which was a strong reason for Momentum's slower acquisitive growth.

At the helm of Momentum Industrial before the appointment, he had already proven his capabilities as the company under his leadership survived the financial crisis and thrived. He would once again prove his capabilities as he successfully restructured B&B Tools. However, during the time of successfully restructuring B&B Tools, his heart always remained with the Momentum business.

The spin-off doctor

In a confident move that prioritized long-term shareholder value over personal prestige, Ulf Lilius decided to spin off Momentum Group from B&B Tools in 2017, which rebranded back to its original name Bergman & Beving, after the spin-off. This decision was not just about corporate strategy. It was about doing what was best for both companies and shareholders. Ulf Lilius went from leading a company with SEK 8.2 billion (€820 million) in sales to one with SEK 5.5 billion (€550 million), effectively reducing the company's size under his leadership by a third. Yet, this move was a testament to his commitment to shareholder value creation, showing that it was not about running the biggest company for him—it was about running the right one.

Two years post spin-off, 2019, marked a significant ownership shift in Momentum. Nordstjernan, one of Sweden's most prominent family offices, became the largest holder, buying shares from Anders Börjesson with family. This looked like an unexpected deal from the outside, but Anders Börjesson was not found of the more centralized approach in the Tools business and decided to allocate his capital elsewhere.

Nordstjernan, at that time, was also the largest shareholder of Swedol, a publicly listed wholesaler of workwear and tools & attachments, and a competitor to Tools. Compared to Tools, Swedol was more profitable, and Ulf Lilius and Niklas Enmark were in Momentum Group faced with the challenge of either investing in a new upgraded ERP system and better logistics for Tools, which was estimated to take up to five years to conclude, or finding other business solutions. With Nordstjernan as the main owner of both companies, Ulf Lilius decided to acquire Swedol, a similar business to Tools. The deal was finalized in 2020 through a share-based transaction, with Nordstjernan becoming the largest shareholder in the combined entity. With all of Swedol's leadership retained post-acquisition, the Swedol and Tools businesses merged intending to drive operational improvements.

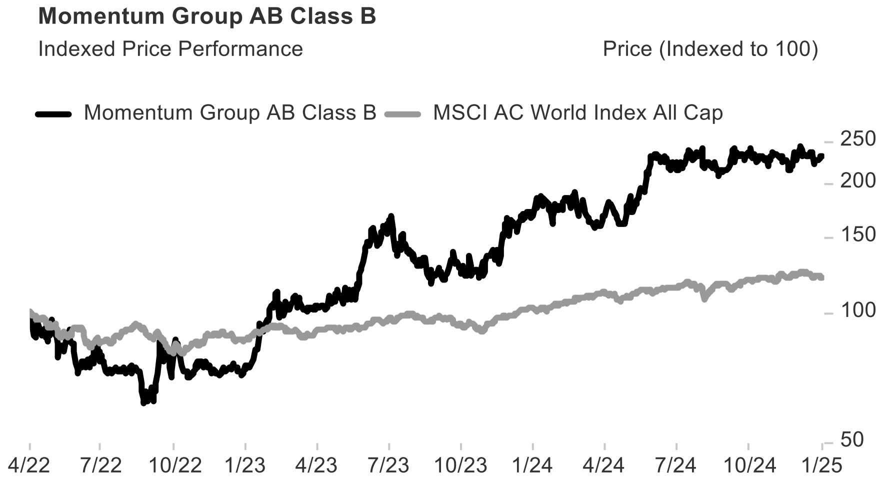
As Lilius' and Enmark's knowledge and competitive advantage were within the traditional Momentum Industrial business, they finally saw an opportunity to separate this business again. This time from the Tools and Swedol wholesaler divisions. After a decade-long series of restructuring, spin-offs, and operational improvements, Ulf Lilius was finally able to concentrate on what he mastered and was most passionate about—leading the Momentum business. Subsequently, in early 2022, the second spin-off was completed. The Momentum Industrial and components business retained the name Momentum Group, while the parent company was rebranded to Alligo, encompassing the Swedol and Tools operations.

This move once again demonstrated that Ulf Lilius put passion and the entrepreneurial spirit in front of prestige by deliberately retaining the CEO position of the new Momentum Group, with almost SEK 2bn in sales (€ 200m), compared to the SEK 8.5bn (€ 850m) he was responsible for at the time of the second spin-off.

Taking advantage of finally becoming an independent company after the spin-off from Alligo in March 2022, Ulf Lilius more intensely accelerated the acquisition strategy. With a renewed strategy and filled with energy, Momentum has, since it was spun-off, completed 23 acquisitions, adding c. 65% to sales from the level at the time of the spin-off.

After the spin-off from Alligo, Nordstjernan has remained its largest shareholder, holding 39.2% of the capital. It is represented on the board by its advisor Johan Sjö, the former Addtech CEO, another Bergman & Beving spin-off. Other large shareholders include Tom Hedelius, who holds 9.2% of the votes and 1% of the share capital.

Momentum Group – share price return since listing



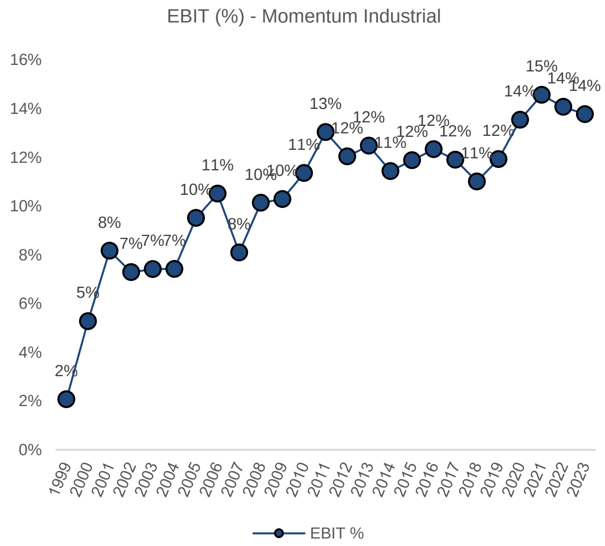
Embracing the Bergman & Beving philosophy

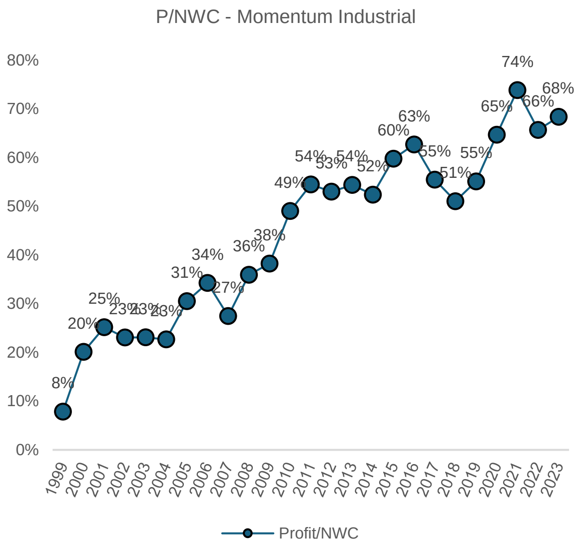
Within the broader framework of Bergman & Beving post-acquisition in 2004, Momentum Industrial quickly adopted the philosophy and their P/WC system. With a high degree of autonomy in a decentralized structure, Momentum Industrial was well-positioned to fully embrace this approach from day one under the new ownership. Momentum started implementing Bergman & Beving's philosophy and traditional working method, with a persistent focus on cash flow generation based on its P/WC metric.

This was achieved through delegating responsibility down the organization and by adhering to the business principles of the "Idea and Soul" book. Together with improved results and stronger focus on its 80/20 rule of concentrating on the most profitable customers and products, Momentum saw a large potential for operational improvement – and it was quick to realize the gains. While other divisions within Bergman & Beving began experimenting with centralization in the early 2000s, Momentum Industrial remained committed to its decentralized model and deeply rooted business practices—and the results spoke for themselves.

Momentum Industrial's strong profitability was key in preserving its independence from the centralization experiment. As the most profitable business within the group, with an upward trend in profitability and margins, there was little incentive to alter a winning formula. For example, at the time of acquisition in 2004, the company had a P/WC ratio of 23% and an operating margin of 7%.

By 2010, the P/WC ratio had surpassed the self-funding threshold of 45%, and the operating margin had increased to 11% by applying the core principles and partly by investing in a better inventory management system. This was a strong testament to the power of this business philosophy and the framework of Bergman & Beving. This playbook has not only been implemented by Momentum Industrial but is used frequently by all of Momentum Group's companies today, which helps to improve performance.





Adhering to the same financial targets of P/WC > 45% and 15% annual earnings growth as the former parent company Bergman & Beving is necessary for continuous success. The capital allocation framework and culture from Bergman & Beving is deeply embodied by Momentum Group's own adjusted version of the book "Idea and Soul", and its addition "Heart and Soul". "Idea and Soul" resonates around business and employee development through a decentralized responsibility, and "Heart and Soul" encourages continuous minor improvements. These books are frequently used and handed out to all employees in the group and used in their internal business schools.

Conversations with Momentum Group employees and entrepreneurs reaffirm our belief that this approach is far more than just a theoretical exercise. It is a set of operational principles shaping day-to-day operations and decision-making, applied throughout the organization to ensure that every group company sells the right products to the right clients and has the right suppliers. This enables it to grow profitably continuously and generate a solid cash flow that can be reinvested in inorganic growth opportunities.

Re-igniting the acquisition engine
With over 25 years of acquisition experience and a proven model for sourcing and onboarding portfolio companies, Momentum Group, with Ulf Lilius at the helm, has a solid grasp of its strengths. The company follows a well-defined strategy, combining organic growth with acquisitions funded by its own cash flow. Its primary focus is acquiring businesses within its areas of expertise and expanding into adjacent niches. Momentum divides its business into sectors based on end-market exposure to support this strategy. It enables efficient scaling into adjacent verticals by fostering knowledge sharing between companies operating under similar market conditions. Momentum Group fine-tunes its organization to maximize local market insights when pursuing new acquisitions.

This local presence and deep industry expertise have earned the company a reputation as an ideal home for entrepreneurs. This reputation increases its chances of winning deals and enables it to secure them at more attractive valuations. Since the spin-off, it has been about joining forces and buying companies from entrepreneurs with whom relationships have been built over many decades – but that was sub-optimized when the company was a part of B&B Tools that prioritized other businesses. As a stand-alone company since 2022, Momentum Group can now pursue its strategy without the impact of other less-performing operations.

The company possesses a well-established framework for evaluating and selecting acquisitions. Their sweet spot is financially strong, preferably smaller family-owned businesses with SEK 40-100m (€ 4-5m) in sales, run by great people who want to continue running their businesses. With their deep expertise and industrial knowledge, Momentum has confidently and brilliantly executed that agenda so far. By becoming the buyer of choice, they acquired those businesses at attractive valuations at an enterprise value of EBITA of 5- 7x, implying day one returns of 14-20%, which is well above its capital cost.

Momentum Group is a compelling example of how important it is to find great people with great businesses and pay prices that generate attractive returns on capital above the cost of capital. However, Momentum does not only de-risk the acquisitions with the cultural match or the prices they pay. They also often structure their deals by leaving ownership of 10-30% to the entrepreneurs. By doing that, Momentum gets the best of two worlds – attractive prices – and a continuous commitment and alignment from passionate sellers wanting to expand and develop their companies. It increases the possibility of achieving even higher post-acquisition returns.

Interestingly, in our discussions with entrepreneurs selling to Momentum, we frequently hear that Momentum was not the highest bidder. Instead, they secure deals by aligning with the sellers' language and business philosophy, offering a shared business growth plan and a commitment to preserving autonomy post-acquisition. This cultural fit and trust often outweigh financial considerations, and the last dollar earned, making Momentum a preferred buyer.

Also, Momentum Group seldom engages in brokered deals and rarely comes across other acquisition-driven compounders. Instead, the company prefers to source its deals internally through its vast network of companies and entrepreneurs built up over many years. Closed processes also enable the company to engage in exclusive dialogues and evaluate whether a company would be a good cultural fit for Momentum Group without the pressure of submitting an offer within a specific timeline. With their commitment to long-term ownership and the emphasis on finding the right people, the company conducts all due diligence in-house. Their strength lies in focusing on factors with "long shelf-life", rather than getting distracted by short-term noise or hiccups. This includes a deep understanding of the target company's market position, product competitiveness, and role within the value chain. Equally important is assessing the cultural and personal fit with the sellers, ensuring a strong alignment that supports sustainable success post-acquisition.

Acquisitions at Momentum Group involve both top management. As Momentum conducts all due diligence internally, the acquisition process includes an internal team of experienced professionals from various operational areas. Each unit has a dedicated acquisition agenda, with two to three people with operational experience from each area actively participating in the process, totaling over ten people deeply engaged in acquisitions. The setup is unusual for a company of Momentum Group's size.

Ulf Lilius' and Niklas Enmark's goal is to create shareholder value, and they are pragmatic about the company's size as long as it is profitable. They prioritize profitability and returns on capital over rapid growth for the sake of just growing. Although estimating how many acquisitions the company will undertake in the next few years is difficult, they focus on ensuring profitability. Lilius' and Enmark's knowledge about the business and approach to running the company is also well regarded by previous sellers, exemplified by the fact that many sellers stay on post-divestment and earn-out periods.

Cultivating trust in capital allocation decisions

It is uncommon for a company of Momentum's size to possess people with capital allocation skills and operational expertise. In this aspect Momentum stands put. Through efforts to continuously develop its employees in various areas, Momentum reaps the benefit of having both competent and loyal employees. Many team members have personally sold their companies to Momentum Group, and this firsthand experience with selling allows them to fully understand the process and, importantly, build trust with other entrepreneurs considering a sale. They can speak to both the process and the outcome they have experienced, offering valuable insights and reassurance to prospective sellers.

Momentum Group's unique, highly trust-based decentralized culture extends to capital allocation and acquisitions. According to its Focus Model, companies with a P/WC return of more than 45% are encouraged to pursue growth, including add-on acquisitions. The essence of this trust-based culture is reflected in the confidence Momentum places in its newly acquired companies and their leadership. Once a business joins the Momentum Group, the trust is reciprocated—managing directors are directly granted autonomy over operations and capital allocation. This level of trust is made possible by the thorough cultural due diligence conducted before any acquisition, often developed over years of careful observation and relationship-building before closing a deal. Momentum ensures that every new company fits into its culture, allowing for smooth integration and empowering its leaders to drive continued success.

This is best exemplified by the trust Momentum Group grants its companies in the acquisition process. Regardless of how long a company has been part of the group, they are incentivized to pursue add-on acquisitions if they achieve a P/WC return above 45%, as outlined in the Focus model. In our analysis of many acquisition-driven compounders, we have rarely seen this level of trust granted so quickly. Two outstanding examples of this trust in action are BPS and iTEMS Processkontroll group companies. BPS made its first add-on acquisition within a year of joining Momentum, followed by a second acquisition a year later. iTEMS, granted equal trust, completed its first acquisition only four months after being acquired by Momentum. And these are just a few examples. This empowerment reflects the unique level of autonomy Momentum grants its companies in driving their growth agendas.

What separates Momentum Group from the crowd is that managing directors entrusted with these acquisitions are given the opportunity to present their proposals personally to the board of directors of Momentum Group. This level of empowerment demonstrates the level of trust and entrepreneurship Ulf and Niklas want to build the company upon. Not only does this instill a strong sense of ownership and pride among its entrepreneurs, but it also strengthens the bonds within the organization. By empowering their leaders with trust, Momentum Group forms leaders who feel valued and supported, and these leaders become the company's strongest ambassadors.

While individual companies within Momentum may lack the financial resources or acquisition expertise to embark on these initiatives independently, Momentum leverages the network effects generated by its portfolio. BPS and iTEMS, for instance, capitalized on their industry relationships to facilitate these add-on acquisitions. This is also true for many other companies within Momentum Group, like Askalon and Momentum Industrial and demonstrates that Momentum's approach is far more than a theoretical exercise; it is a genuine commitment and promise that the Group lives by.

Even though Momentum Group teaches and mentors capital allocators in their operating companies through its internal business schools, larger acquisitions that are strategic and not considered add-ons are conducted by the divisional managers and the senior management, Ulf Lilius and Niklas Enmark. All acquisitions ultimately require approval from the Board of Directors. However, this process ensures sound decision-making with all alternative costs on the table while providing the Board with a clear and comprehensive overview of the company's ongoing activities and strategic direction.

Decentralization as a religious belief

"If you work in a decentralized structure, you cannot be complicated."

These words from the CEO, Ulf Lilius, epitomize what Momentum Group stands for – simplicity and aversion to bureaucracy. With experience from addressing the failures of a decade-long centralization strategy that Bergman & Beving embarked on, Ulf Lilius recognizes that decentralization must be simple and that it does only work if management has a laser focus on allocating capital wisely and strategically growing the business while not interfering with daily operations.

This is deeply embedded across the organization, with Momentum Group's senior management team as a role model. The management teams live by frugality, a core value that permeates the entire organization. The company's headquarters are far from luxurious, typically staffed by only two or three key individuals: CEO Ulf Lilius, CFO Niklas Enmark, and head of Investor Relations, Ann-Charlotte Svensson.

In fact, the trust between the senior management team is so strong that they most often spend their time visiting their companies and potential acquisition targets, with no need for a bloated head office. This lean setup reflects the company's culture of efficiency and trust. The trust is not just directed toward its subsidiaries; it is also evident in the way senior management operates and interacts with each other. This decentralized leadership model highlights the high level of confidence and autonomy within the executive team, reinforcing the trust integral to Momentum's operations.

The decentralized structure is the key success factor in a business where local knowledge and close customer proximity is crucial. Momentum Group's leaders, therefore, enjoy a significant degree of autonomy as they possess the most knowledge about their customers' needs while having the most product knowledge. Therefore, they are the ones who should be making the daily decisions as close to the customers as possible. However, this freedom also comes with the responsibility and accountability of driving business development and achieving the profitability targets set for the entire group based on the P/WC targets and profit growth.

While decentralization grants autonomy and freedom, it does not translate into a completely hands-off approach from the parent company. Momentum Group remains an active owner, governing its companies through the local company Boards. Each board consists of two to three Momentum managers, including managing directors, committed to enhancing its companies' performance through a distinct operating philosophy known as the 80/20 model.

This straightforward framework is central to how Momentum drives financial performance and governance across its portfolio and is also essential for scaling operations and acquisitions. The model shapes how the boards operate at each company, primarily focused on the companies' progress. From a governance standpoint, the 80/20 principle is forward-leaning. It ensures that 80% of board discussions in each company are devoted to future growth and development, while only 20% is spent reflecting on past performance. This brings a level of professionalism that fosters a culture that motivates the companies to be forward-leaning. It also encourages continuous improvements and stimulates internal competitiveness, motivating the managers to aim for the top of the internal performance and benchmark list.

Unlocking greater value

Momentum Group offers its companies more than just capital — it provides a thriving ecosystem, a safe harbor, and a permanent home. Partnering with Momentum means joining a network of like-minded businesses, tapping into deep industrial expertise, and gaining the fuel to unlock untapped potential for growth and expansion. From our many conversations with companies acquired by

Momentum, a clear theme emerges: these business owners chose Momentum because they felt truly understood. Momentum did not just recognize the value of their life's work — they lightened new paths for growth and value creation.

The companies that join the Momentum family are often lean, family-owned enterprises built from the ground up by driven entrepreneurs who poured everything they had into their businesses. For many of these founders, pursuing acquisitions or expansive growth is uncharted territory that often seems out of reach— limited by capital, knowledge, or both. One entrepreneur within Momentum Group shared that while he aspired to pursue add-on acquisitions independently, he was hesitant to risk his family's financial security. This is where Momentum effectively bridges that gap. They provide the resources, insights, and support to take businesses further than they ever imagined.

While traditional strategies like synergies and centralization might look promising on paper, Momentum has learned through experience that true success lies in empowering local entrepreneurship. This decentralized approach resonates with sellers who share a mindset that energies long-term value creation. By applying its guiding principles—the 80/20 model alongside their P/WC formula—Momentum consistently extracts value from its acquisitions, ensuring that the companies it invests in thrive while staying true to its entrepreneurial roots.

Unlocking even greater long-term value for Momentum Group revolves around a culture centered around autonomy and trust extending beyond day-to-day operations. It is evident in their acquisition process, where divisional managers, business unit leaders, and managing directors, empowered by the Focus Model, are entrusted to lead acquisition strategies actively.

However, the company's decentralized approach does not stop there. It also pushes the boundaries of leadership development. Momentum Group goes a step further than many other companies, giving those responsible for acquisitions the full mandate to onboard and integrate new companies and oversee their growth and development. This delegation of responsibility instills a deeper sense of ownership and personal growth while simultaneously cultivating a network of leaders within the organization who possess a strong understanding of capital allocation and operational excellence. This creates a spider web of talent that strengthens the company today and creates a powerful platform for scaling future growth.

Ulf Lilius often compares the organization's decentralized culture to the dynamics of Jeopardy. In his analogy, management does not hand down commands but instead poses the questions—encouraging the employees to come up with the answers. This approach is built on a framework of "structure and questions," where leadership plays the coach role. By asking the right questions and encouraging thoughtful responses, they empower employees to take ownership, fostering a culture of initiative and problem-solving.

Integrity, passion and stewardship

A company's greatest asset is people; their growth and development are fundamental to driving the business forward and creating shareholder value. And a great culture is also about people. Great people make more than products and services – they perpetuate core values such as integrity, passion, and stewardship. Someone who understands this is the CEO, Ulf Lilius. He often says, *"this is a people management business we are working in".* He essentially captures the essence of Momentum Group's philosophy of investing in its people.

Momentum Group's simple motto is – if people grow, the business will grow. Within Momentum, there are many compelling examples of how they develop people, and to lift a compelling example of this, we highlight Momentum Industrial's (Momentum's largest subsidiary) CEO Jimmy Norlinder.

Jimmy Norlinder started 1995 working in the warehouse and store of one of the regional distributors, which later merged into Momentum. He later climbed the ladder within the company. After working in the warehouse/store, he was promoted to office manager, followed by district manager, product area manager, and business development manager. He finally became the Momentum Industrial's CEO in 2012, a position he has held since. The story of Jimmy Norlinder is just one of many examples of how people can thrive within Momentum Group.

Momentum prefers internal recruitment, empowering employees with the right mindset and skills, and Jimmy Norlinder is one of many examples of of internal talent development. Most leaders within Momentum Group are promoted internally, and all of them in Momentum's largest company, Momentum Industrial, are internal candidates.

This also exemplifies how Momentum Group works when acquiring companies. The company spends much time understanding the business culture and business acumen of the people they are doing business with. A highly decentralized organizational structure can only work if the people within the organization adhere to the same values and principles. In Momentum Group, this is cultivated throughout the organization, from the Board of Directors to top leadership and all employees in their operating companies.

A value creation duet

Momentum Group operates with a distinctive and streamlined management structure led by just two individuals – CEO Ulf Lilius and CFO Niklas Enmark. This lean approach reflects a belief that effective leadership does not require layers of bureaucracy. Instead, Momentum thrives on decentralization, ensuring that critical decisions are made at the front lines, close to the customer. This empowers senior leadership to focus on reinvesting cash flow and driving long-term value creation.

Ulf and Niklas bring years of experience deeply rooted in the culture and values of Bergman & Beving, fostering a shared mindset centered on cash flow generation, profitable growth, and operational excellence. Ulf Lilius's career is a testament to his deep connection with Momentum Group and the broader industrial ecosystem.

Before becoming CEO of Momentum Group in 2017, he led B&B Tools from 2012 to 2017, delivering exceptional returns during his tenure. Ulf's journey began even earlier, serving as CEO of Momentum Industrial AB from 2010 to 2012, and holding key leadership roles within the company dating back to 2002. His background includes six years at SKF Multitec as sales manager, Momentum's largest supplier. With over two decades of experience at Momentum and additional years at SKF, Ulf's industry knowledge and insight into the company's suppliers, customers, and acquisition targets are unparalleled.

Ulf Lilius' track record is remarkable – under his leadership at B&B Tools, the company delivered an impressive 427% total shareholder return (43% CAGR). As CEO of Momentum Group, the company achieved a 236% return (29% CAGR) before its spin-off, consistently outperforming the market for over a decade.

Niklas Enmark complements Ulf Lilius' leadership with his own impressive background. As CFO of Momentum Group since 2017, he has been Ulf's strategic partner, driving the company's financial performance. His prior experience as CFO of Lagercrantz, another Bergman & Beving spin-off from 2004 to 2011, highlights his expertise in navigating growth in a decentralized company. Niklas also served as CFO of Axel Johnson International AB from 2012 to 2017, further strengthening his ties to Nordstjernan, Momentum's largest shareholder. During his time at Lagercrantz, the company delivered a 272% total shareholder return (20% CAGR), significantly outperforming the market.

Ulf and Niklas form a leadership duo that blends deep operational experience with a relentless focus on value creation. The lean corporate structure with high degree of managerial autonomy a formula that continues to position Momentum Group as a standout performer in its industry.

As great capital allocators and leaders, Ulf Lilius and Niklas Enmark empower the CEOs of Momentum Group's companies with the tools and resources needed to drive growth and scale. But they do not get bogged down in day-to-day operations – their focus is sharper. With limited time and unlimited ambition, they channel their energy into deploying capital where it will generate the greatest returns.

Their mission is clear: expand the business and unlock greater intrinsic shareholder value. And the results speak for themselves. Since the spin-off, Ulf and Niklas have delivered a staggering 120% total shareholder return, once again outpacing the broader market and solidifying their reputation as effective value creators.

Summarizing Momentum Group

Bergman & Beving has masterfully cultivated a unique corporate culture that has consistently generated impressive value over the years. This culture has become a proven formula for driving profitable growth—across decades and in a wide range of industries.

What is truly remarkable is how these companies—regardless of their industry or growth stage—have achieved exceptional success by maintaining a laser-sharp focus on profitability. Their strategy revolves around two straightforward but powerful goals: driving 15% annual earnings growth and achieving returns on working capital that exceed 45%. This simple, unwavering approach has been the foundation of their continued success.

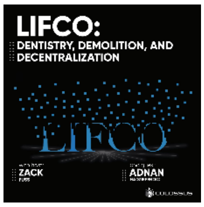
Among the finest examples of this leadership are Ulf Lilius and Niklas Enmark, whose brilliance as capital allocators is matched only by their dedication to decentralized and self-funded growth. They have not just adhered to these principles but mastered them, delivering extraordinary value to shareholders year after year. By channeling their deep passion for business and applying the best lessons learned, Momentum Group now stands poised to continue this legacy of long-term value creation well into the future.

The brilliance of the Bergman & Beving model—and the culture that drives it—lies in its versatility. This model is proven across industries and sectors for businesses large and small. Interestingly, although many companies target the same acquisitions, they rarely compete head-to-head in M&A processes because they prioritize sourcing deals internally over relying on brokers. This gives them the ability to apply the model consistently and spin-off business units when they grow too large.

Momentum Group's embrace of Bergman & Beving's entrepreneurial and decentralized culture is a key differentiator. By empowering employees at all levels, they unlock value throughout the organization. The culture creates an environment where employees are accountable, motivated, and aligned with the company's broader goals. This approach drives performance, fuels growth, and ensures the organization's success is shared.

We believe Momentum Group's business model and Bergman & Beving's legacy provide a strong foundation for creating shareholder value. The company is in its early stages of growth and offers an attractive runway for scaling its acquisition-driven business model in the future.

Podcasts and Other Resources



During the year, the team participated in a US podcast ("Business Breakdowns"). In the podcast, we dive deep into one of the most significant holdings in REQ, Lifco. You can find the podcast here: Link

We also share more perspectives on our strategy in another podcast by Troy Asset Management ("Far from the finishing post"). You can find the podcast here: Link

The team participated in the Swedish podcast "Aktiesnack" (Swedish only), where we talk about acquisition-driven compounders through a Nordic lens: Link

Our research deck "A Deep Dive into Shareholder Value Creation by Acquisition-driven Compounders" can be found here: Link

Our "Lessons from Acquisition-driven Compounders" can be found here. These are insights that shed light on our strategy : Link

REQ's Christmas Lunch in Stockholm

On Nov 26, REQ had the pleasure of inviting investors to our Christmas lunch in Stockholm. We enjoyed sharing insights into REQ's investment strategy. A special thanks to CEO Henrik Mella for presenting Idun Industrier, a company in which REQ has invested.

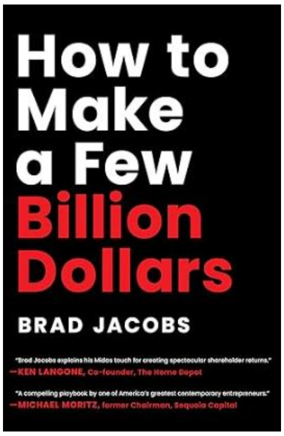
Suggested Reading Material

As usual, we will provide some book recommendations at the end of this report. We have found these books inspiring and highly recommend them for the Christmas holidays. Most of the books we recommend in our reports will not just make you a better investor, but they are also very inspiring and great for discussing with friends. They can also make you pause and think about life in general.

We wish you all a great Christmas holiday!

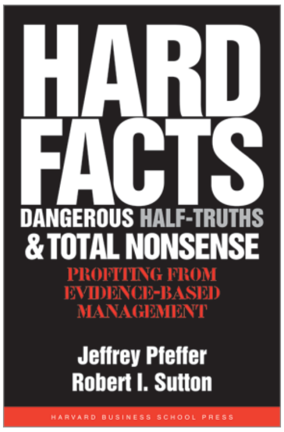
The REQ Team

How to Make a Few Billion Dollars
By Brad Jacobs



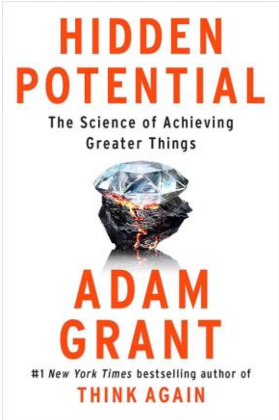
In *How to Make a Few Billion Dollars*, Brad Jacobs, a serial entrepreneur, outlines his strategy for deep operational integration through standardization. With over 500 acquisitions, including XPO, United Rentals, and QXO, Jacobs emphasizes rapid, consistent integration of businesses. His method includes a unified enterprise platform, standardized HR and CRM systems, central business intelligence, streamlined KPI dashboards, and comprehensive training. Cultural integration is equally vital, with Jacobs promoting respect and communication over authoritarianism. Jacobs enhances efficiency, spreads costs, and leverages networks, focusing on industries benefiting from scalable synergies, achieving a balance between customer proximity and operational standardization. Although we favor a different approach across our holdings, emphasizing more entrepreneurial decentralization, we always appreciate learning from practitioners in the field.

Hard Facts, Dangerous Half-Truths and Total Nonsense
By Jeffrey Pfeffer and Robert I.Sutton



This book is about evidence-based management. Inspired by our meeting with the CEO of Constellation Software, Mark Leonard, this book talks about organizations as laboratories that need to try out ideas through experiments, see what works, and try to learn from these experiments. Too many companies operate based on "conventional management wisdom" often based on "half-truths."- The book advocates analysis of evidence instead of instinct.

Hidden Potential – The Science of Achieving Greater Things
By Adam Grant



In 'Hidden Potential', Adam Grant describes how to discover the diamonds in the rough. He argues that building character skills are vital to unleash hidden potential. That includes seeking uncomfortable truths and putting yourself in the ring before you are ready. Grant also emphasizes the importance of becoming a sponge to seek out new, skills and perspectives to fuel growth. He also describes how important passion is in success. However, he also exemplifies that success sometimes need scaffolding (help from others) and that we in order to succeed need to take detours and take a step back before climbing again. One of the most interesting take aways from the book is how he describes that measuring success as the road we have travelled, the obstacles we have overcome and the progress we have made sometimes is more important than the end result itself. It is about finding people with hidden potential that is not describes in a curriculum or a certain grade. In the book he also gives great examples of how effective teams work when people use collective intelligence based on prosocial skills. This book is for everyone looking to improve and progress.

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