# Investing with Insight

# Half Year
# Investment Report 2025

July 2025

REQ
INVESTING WITH INSIGHT

Picture source: www.pexels.com. Picture by Raul Ling.

# Table of contents

## Dear Fellow Investors

In the first half of 2025, REQ Global Compounders finished up 5%[1], and REQ Nordic Compounders rose 6%. The performance was backed by the strong underlying fundamentals of the portfolio companies. Since its launch, REQ Global Compounders has compounded at a rate of 14% annually. REQ Nordic Compounders has compounded at a rate of 11% annually since launch.

At REQ, our investment philosophy is ultra-long-term and unconstrained. We focus on identifying the world's best capital allocators of publicly traded companies that exhibit strong free cash flow generation, outstanding capital allocation, and a proven track record of creating shareholder value. Our portfolios are built around acquisition-driven compounders – companies that have the acquisition of smaller private firms at the heart of their strategy.

The companies we invest in have two common core characteristics: high-performing decentralized cultures and durable reinvestment engines. They use strong free cash flow generation to reinvest at high returns for decades, across industries and geographies, free from legacy constraints.

Successful long-term investing hinges on compounding knowledge—learning from mistakes and continuously improving the investment process. As insights grow, so does the quality of decision-making, ultimately allowing capital to compound over time. In the first half of 2025, we've had the privilege of being invited to several board meetings and management team sessions to share our perspectives. One of the standout moments this year was the invitation to speak on stage in front of Addtech's management team and all of their managing directors—170 people in total. These opportunities not only allow us to share our expertise but also provide fresh perspectives and valuable insights in return.

Furthermore, our team has embraced the learning mindset by authoring a book that outlines our investment strategy, featuring case studies of nine successful acquisition-driven compounders from around the world.

*The Compounders – From Small Acquisitions to Giant Shareholder Returns,* will be released on September 2nd. We have spent countless hours with management teams and several ex-employees to uncover insights into the companies covered in the book. In the book, we bring new, untold stories about some of the world's most impressive compounders. Sign up for our newsletter at www.req.no to be the first to know when the book becomes available for order.

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. 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.

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

## REQ Global Compounders

For the first half of 2025, REQ Global Compounders fund's A-class shares in NOK appreciated by 5%[2]. Since its inception in June 2021, it has increased by 70%[3].

In March, we participated as a cornerstone investor in the IPO of Swedish-based Röko AB. While IPO involvement is rare for the fund, Röko met our criteria due to its strong track record, experienced leadership under Fredrik Karlsson (formerly of Lifco), and clear long-term growth potential. Röko is a sector-agnostic acquirer with 29 completed acquisitions since 2019, primarily in Europe. By June, it had become our largest holding, accounting for 9% of the portfolio. We will share more about our investment thesis of Röko later in this half-year report.

In April, DCC announced the sale of its healthcare division for approximately £1.05 billion, representing around 20% of its enterprise value. It marked the beginning of a transition toward becoming a more focused energy business, an area in which DCC has demonstrated consistent performance over the past decade.

Furthermore, Topicus kicked off the year with two significant transactions in January, including a 27.96% stake in Asseco Poland S.A. for €417 million. This capital deployment exceeded all previous deployments since its 2021 spin-off and illustrates Topicus's growing capacity for executing larger, more complex deals.

We increased our position in Lumine Group during the first half, bringing our total exposure to the broader "Constellation family" of companies—comprising Constellation Software, Lumine, and Topicus—to nearly 20% as of June. At this year's Constellation annual general meeting, new employee incentive experiments were introduced as an alternative to the traditional bonus program, enabling employees to reinvest bonuses directly into the group's businesses. At the AGM, Lumine CEO David Nyland noted that the communications and media markets face limited competition from consolidators like copycats and private equity, due to the sector’s specialization and high entry barriers.

Geopolitical factors, including the ongoing U.S.-China trade tensions that have dominated headlines this year, have had limited impact on the portfolio. Approximately 75% of our companies are listed outside the U.S., and most trade exposure is intra-European.

By the end of June, portfolio companies had reported a total of 78 acquisitions. Furthermore, portfolio businesses continue to perform well, supported by strong cash generation and reinvestment at attractive returns, primarily through small, private acquisitions. This disciplined approach remains a key driver of long-term compounding for our investors.

Our research pipeline continues to be active and we remain disciplined in managing existing holdings while selectively evaluating new opportunities.

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

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

## REQ Nordic Compounders

For the first half of 2025, REQ Nordic Compounders fund's A-class shares in NOK appreciated by 6%[4]. Since its inception in January 2022, it has increased by 43%[5].

We believe the fund comprises some of the highest-quality companies in the Nordics—businesses with a consistent track record of profitable growth and disciplined capital allocation. As the name suggests, the fund invests in Nordic-listed compounders: companies that generate strong free cash flow per share over long periods, frequently pursue small acquisitions, and reinvest capital at attractive returns. The portfolio companies typically reinvest 75–80% of their cash flow into organic growth initiatives and acquisitions, primarily targeting niche, family-owned businesses. These reinvestments consistently yield incremental returns well above their cost of capital.

Supported by healthy balance sheets, our companies are well-positioned to seize ongoing growth opportunities. On average, our portfolio companies have been publicly listed for 19 years. The median company in our portfolio generates EUR 600 million in annual sales and has a market capitalization of EUR 1.3 billion. While relatively small from a global perspective, they have demonstrated strong long-term value creation. Notably, around 60% of the portfolio consists of holdings with a market cap below EUR 2.5 billion, and we believe that our companies are in the early phases of long and compelling growth journeys.

In the first quarter of 2025, companies in our portfolio experienced a 7% increase in sales, with 2% attributed to organic growth. From a portfolio-wide perspective, this marks the strongest organic growth since Q2 2023. While many of our holdings have shown steady organic growth throughout this period, a few—such as NCAB, HMS Networks, and Nibe—have faced several quarters of weaker organic performance. It's also worth noting that our companies prioritize organic profit growth over pure top-line expansion. Take Bergman & Beving as an example: since Q1 2023, its average organic sales growth has been -7%, yet profit growth has averaged +10%. In this context, margin expansion and profitability are more relevant than volume growth. On that profitability front, EBITA for our portfolio companies grew by 12% in the first quarter—the highest level since Q3 2023. Despite an uncertain macroeconomic environment, our portfolio companies have continued to defend their margins, underscoring the resilience and quality of their strategies for investing in niche businesses.

Acquisition activity has also remained strong in early 2025. So far this year, our companies have announced 65 acquisitions, nearly matching the 68 deals in the same period of 2024. Encouragingly, 16 of our 23 portfolio holdings have been active on the acquisition front, with most continuing to report strong pipelines and attractive opportunities ahead. While there have been many interesting and profitable acquisitions during the year, we would like to highlight a couple. Addtech acquired Novatech Analytical Solutions, a Canadian company with CAD 34 million (SEK 230 million) in sales. Novatech supplies analytical instruments, engineered systems, and services for measuring gases and liquids, primarily serving process and energy customers in Canada. The deal adds further depth to Addtech's international offering in this niche segment.

Beijer Alma continues to pursue acquisition in Beijer Tech; as example. This year it acquired Swemas, a Swedish niche supplier and manufacturer of consumables and spare parts for stone crushers. Founded in 1983, Swemas has delivered steady performance over time, growing 10% annually over the last 20 years, with solid margins in the 15–20% range. Beyond M&A, Beijer Alma has undergone a leadership change this year, recently appointing Oscar Fredell—currently head of Bergman & Beving's Industrial Equipment Division—as its new CEO. We see this as a strong pick, given Fredell's proven

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

ability to drive profitable growth within Bergman & Beving. We also view the company's capital allocation approach positively: continuing to invest in the more diversified Beijer Tech division, while holding back on further large investments in Lesjöfors until profitability targets are reached.

Investor attention during the first six months of 2025 has also been drawn to the proposed US tariffs, which remain uncertain and complex to forecast. So far, our portfolio companies have experienced limited direct impact. Most of our holdings are primarily exposed to Nordic and European markets, with relatively low direct exposure to the US. As seen in past periods of market uncertainty, we believe our companies' entrepreneurial, decentralized cultures—combined with their nimbleness and fast decision-making—position them well to adapt to changing conditions.

Despite the ongoing challenges in the macroeconomic environment, our companies have demonstrated resilience. That resilience is underpinned by ownership structures that promote long-term thinking. Many of our holdings are led by operators with a multi-decade mindset, supported by meaningful insider ownership. In our Nordic Compounders portfolio, insiders hold 27% of the capital and an even higher share of the votes. Among CEOs, insider ownership is strong, averaging 110 times their base salary in equity (median: 10.5 times), signaling a strong alignment with shareholders and a clear commitment to long-term value creation.

We've made only a few changes to the portfolio this year, reflecting our high bar for new additions. As of the end of June 2025, the portfolio remains concentrated, comprising 23 holdings. Notable changes during the year include a cornerstone investment in Röko in March.

## The Compounders – From Small Acquisitions to Giant Shareholder Returns

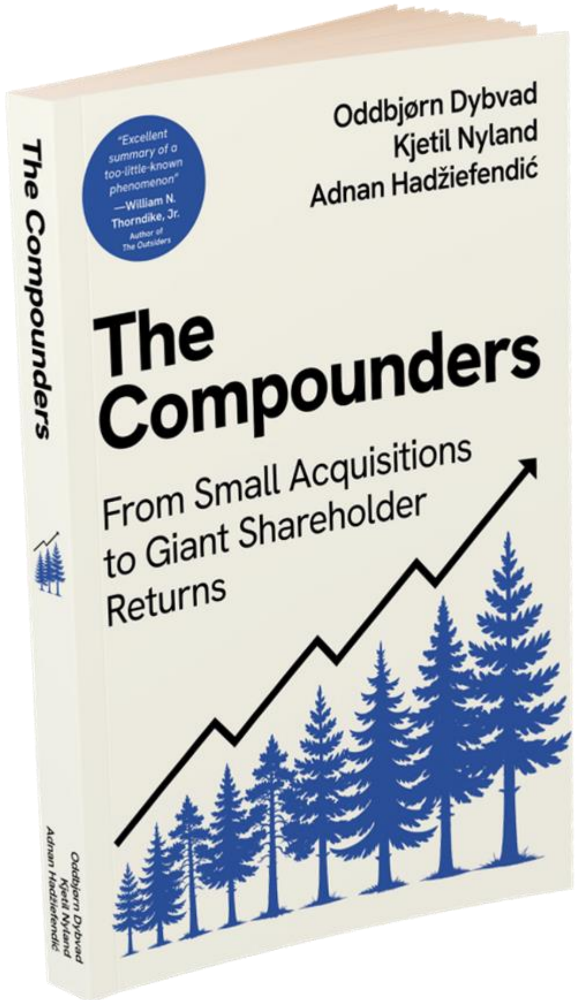
*The Compounders* tells the untold stories of nine extraordinary companies that have quietly rewritten the M&A playbook. With disciplined capital allocation, high-performing decentralized cultures, and a commitment to the long term, these companies have turned modest profits and small acquisitions into generational wealth, delivering returns that rival the greatest legends of investing.

Drawing on nearly two decades of research and hands-on investing experience, this book reveals how these companies think, operate, acquire, and endure over time.

From Constellation Software's 375× and Heico's 1,100× return under the Mendelson family's ownership, to Sweden's Bergman & Beving (and its spin-offs) compounding over 7,500×—this book unveils a profound truth: if you build the right organizational structure and stay the course, time becomes your greatest superpower.

Whether you're an investor, operator, or simply curious about what truly drives long-term shareholder returns, this book may forever change how you think about business.

Sign up at www.req.no (newsletter) to be the first to know when the book becomes available.




*"Excellent summary of a too-little-known phenomenon."*
**William N. Thorndike, Jr**.
Author of The Outsiders

*"All you need to know to invest successfully in these compelling business models."*
**Christopher Mayer**
Author of 100 Baggers

*"Highly rewarding and insightful … deepens your understanding of what truly drives value creation in companies over time."*
**Adam Gerge**
Private investor and co-founder of Didner & Gerge fund management company

## Röko AB – A Compounder Designed for the Long Run

Some businesses are built for the next quarter. Others are built for the next generation. We believe Röko, a Swedish acquirer of niche companies, clearly belongs in the second category.

Röko was founded in 2019 by Fredrik Karlsson, the architect behind one of Sweden's most successful compounders, Lifco. With 29 profitable, entrepreneur-led companies across Europe, Röko is building what could become one of the next Nordic champions.

We have been long-time shareholders in Lifco since its IPO and have closely followed how Karlsson delivered extraordinary shareholder value through a disciplined, decentralized, and non-bureaucratic model. Similarly, we have closely followed the development of Röko as a private company since its foundation in 2019. And when they announced an IPO in March 2025, we saw a long-awaited opportunity to invest alongside him again.

Over the past decade, we've spent countless hours engaging with and analyzing acquisition-driven compounders. Throughout that journey, we've encountered many newly founded—and eventually listed—companies that looked compelling on paper but ultimately failed to deliver in practice. Whether due to an unsustainable acquisition pace, excessive leverage, poor capital allocation, limited operational expertise, or simply weak leadership, the outcome was often disappointing. Röko, in our view, stands apart from this. Although the company itself has only a six-year operating history, its management team boasts a depth of experience in operational excellence and a proven track record of creating shareholder value. The company has a unique combination of experienced and younger, high-performing individuals that few other newly established compounders can match.

**Friendship and business**
Fredrik Karlsson and his co-founder, Tomas Billing, share a long-standing personal friendship. They got to know each other while learning Russian as military interpreters and later joined the Stockholm School of Economics. Karlsson has a degree in Economics from the Stockholm School of Economics and a degree in Engineering Physics from the Royal Institute of Technology.

Karlsson's and Billing's business cooperation began in 2015, when they made a joint investment in Hjertmans. Hjertmans is a Swedish marine supplies distributor, and it is a company that they still co-own. When Billing resigned as president of Nordstjernan in 2018, he approached Karlsson with the idea of starting a business together. Initially, Karlsson had no intention of leaving Lifco. However, a compensation disagreement at the beginning of 2019 with Lifco's majority owner, Carl Bennet, led to Fredrik Karlsson changing his mind. That same year, Röko was founded.

**Designed to Compound**
Röko's model is simple yet powerful: acquire high-quality, asset-light companies with strong cash flows and hold them for the long term. The company targets niche companies with EBITA margins above 15%, stable historical profit development, low customer concentration, and limited capital intensity. In Karlsson's own words: "The numbers tell the story. Consistent profit growth over time signals real quality."

Karlsson spent over two decades building Lifco from a low-performing dental distribution business into a world-class acquisition-driven compounder. One lesson he brings from this journey: don't create self-imposed constraints in your business model. At Lifco, the Dental distribution business—a specialized vertical—"only" managed to just more than double its profits between 2014 and 2024. By contrast, the company's "System Solutions" division, which was more flexible and sector-agnostic, saw its profits grow fifteenfold in the same period. This early realization laid part of the foundation for Röko: to build a compounder that could invest across sectors, borders, and business models, as long as the quality of the business and management is right.

Unlike acquirers with a narrow focus on single verticals, Röko looks broadly across industries—from medtech to premium apparel, from craft beer to industrial distribution. This approach offers flexibility, allowing Röko to choose from a much broader universe of companies, without the constraints of single-exposure companies having to buy assets due to legacy constraints. The world is Röko's oyster market, and as Warren Buffett puts it in Berkshire Hathaway's 2014 annual letter: "if the conglomerate structure is used judiciously, it is an ideal structure for maximizing long-term capital growth." We believe Röko resembles this.

This wide funnel has another benefit: optionality. By looking across industries and geographies, Röko avoids overpaying in hot sectors and has a much larger pool of potential targets. As Karlsson says, "If you're stuck in one sector, you're eventually forced to buy bad companies—just to stay busy." Röko avoids this trap by design.

A common feature among acquisition-driven compounders that successfully operate with a broad mandate, such as Röko, is that they not only acquire high–quality companies but also find high-quality, performance-driven management teams. The idea is that like-minded individuals—or in this case, also businesses—naturally gravitate toward each other. Given Röko's high performance expectations, in combination with Fredrik Karlsson's three-decade experience, proves valuable in avoiding the purchase of "average" businesses. Likewise, entrepreneurs of the "average" type who are not prepared to adapt to Röko's culture will typically not want to sell to Röko—and ultimately will not make it through the process. It fosters a self-selecting meritocratic culture, which is what sets Röko apart.

Röko also differs from the other acquisition-driven compounders in that it acquires both business-to-business (B2B) and business-to-consumer (B2C) companies. Röko views its exposure to B2C as an advantage, providing diversity and exposure to different economic cycles compared to B2B businesses. To date, they have invested in over 29 businesses, including:

- Rocket Medical – a UK-based medtech manufacturer of disposable surgical devices
- Oppigårds Bryggeri – one of Sweden's most prominent craft breweries
- Ekstralys – a leading Nordic player in vehicle lighting and accessories
- Addedo – a finance-focused software and consulting business

Furthermore, in addition to assessing the individual qualities of each business, we believe it is also important to evaluate Röko's high-performing managers, who have significant skin in the game, as Röko typically allows sellers to retain a minority ownership stake of 20-30%.

**A Culture of Trust, Not Control**

Röko isn't just a collection of companies. It's a philosophy of decentralization, autonomy, and mutual trust that's rooted in the way Fredrik Karlsson built Lifco.

Each company in the Röko portfolio retains complete operational independence. There are no central ERP systems, no group-wide HR policies, and no top-down synergy programs. Röko only implies strict financial requirements, including a monthly Excel sheet with a P&L, balance sheet, and cash flow, as well as the transfer of excess liquidity to the Röko treasury. Beyond that, Röko's central office (a lean team of just eight people) stays out of the way, but is quick to react when performance deviates.

This minimalistic approach is not about ideology—it's about performance. Röko believes great people build great companies. By leaving founders and managers in charge, Röko preserves their entrepreneurial energy. Incentives are aligned through ownership since in nearly every deal, the CEO or founder retains 20–30% of the business post-acquisition. A recurring theme in everything Röko does is people. Karlsson is unapologetically obsessed with finding the right founders, operators, and managers—and then letting them get on with it. In his words: "If they love what they do, they'll stay. And if they stay, the business will continue to grow."

This cultural lens is also key to how Röko handles succession. When a founder wishes to retire, Röko often promotes internally. If that's not possible, they conduct a thoughtful search. But one thing is clear: industry knowledge is helpful, but the ability to lead and build trust is non-negotiable. Röko's founder-friendly culture ensures that most leaders choose to stay on long after the ink has dried.

While traditional private equity models often introduce new management teams and three-year turnaround plans, Röko offers something different: a permanent home, long-term capital, and a trusted partner. This makes them a preferred buyer in competitive processes.

**The Numbers Speak for Themselves**
Since its inception, Röko has executed more than 30 acquisitions across Europe. Röko generates SEK 6.3 billion in revenues and SEK 1.3 billion in EBITA, displaying a margin of 20%. It reflects not only strong underlying performance, but operational improvements driven by aligned and motivated leadership at the portfolio level.

Röko typically pays maximum 8 times EBITA for new companies, and targets operating businesses with minimal to no capital expenditure requirements. The return on operating capital employed in most portfolio companies exceeds 100%, which means that pursuing organic growth is highly profitable. Röko's own ROCE additionally continues to climb year over year as the company matures and the companies it owns start to contribute organically to earnings.

Importantly, Röko avoids leverage-heavy dealmaking. Debt is used prudently and remains well below 3x EBITDA. It leaves the company with ample capacity to fund future acquisitions from internal cash flow generation.

**The Valuation and Optics of Röko**
Given that the company is sector-agnostic and thus has the opportunity to deploy a large part of its cash flow to high returns for many decades to come, we believe that Röko has a very long runway of growth. While the future might be uncertain in the short term, Röko has all the right ingredients to compound its earnings at double-digit rates for many years. Even though on current profits it may not look cheap in the short-term, we expect to generate strong future returns as profits and free cash flow per share continue to compound for a long time.

**What We Like About Röko**
From an investor's perspective, we believe Röko stands out for a few important reasons:

- Experienced founder team with an extraordinary track record and high personal ownership
- A model that blends permanent capital with entrepreneurial autonomy
- Röko's preference for quality over quantity
- Disciplined capital deployment in profitable, cash-generating businesses
- Sector-agnostic flexibility that enables intelligent capital allocation and growth durability
- A decentralized culture that champions performance and meritocracy

In many ways, Röko reminds us of Berkshire Hathaway—but for small private European businesses. The ambition is clear: to build a high-quality, compounding machine that lasts for generations. With a long runway ahead, a proven playbook, and founders still hungry to build and create shareholder value, we believe Röko is just at the beginning of its journey.

## What is Compounding?

Picture yourself at a crossroads, faced with two options:

- Take $1m in cash today.
- Start with a single penny that doubles in value every day for 31 days.

Most people wouldn't hesitate—they'd choose the $1m and walk away. How could a humble penny compete with such a windfall? But here's the twist: by day 31, that penny, doubling daily, will have grown to an astonishing $21.5m.

Let's break down the penny's growth through compounding:

- Day 5: The penny is worth 32 cents.
- Day 10: It reaches $10.
- Day 14: It surpasses $100.
- Day 24: It exceeds $100,000.

At this stage, the growth becomes truly fascinating as the compounding curve steepens exponentially:

- Day 27: The penny grows to over $1m, outpacing the initial $1m cash option.
- Day 29: It climbs to more than $5m.
- Day 30: It exceeds $10m.
- Day 31: The penny skyrockets to $21.5m.

During just the last four days of the 31-day period, that penny's value soars by an additional $20m. The key insight here is that wealth creation is heavily back-loaded: early growth appears almost laughably small, but over time, momentum takes hold, and results become extraordinary. This is the power of compounding—wealth grows exponentially over time.

Yet this phenomenon is far more than a math trick; it lies at the heart of wealth creation and long-term investing. Throughout history, some of the greatest fortunes have emerged from the principle of compounding, and its lessons remain as relevant today as ever.

**Time discovers truth**
Owning businesses with compounding characteristics is like harnessing the principles behind that penny doubling. The companies profiled in this book have sustained a rare ability to drive growth by reinvesting their cash flow at high rates of return, turning time into a superpower.
And, in the long game, time is everything.

Yet here's the challenge: our brains aren't wired to fully grasp exponential growth. We are creatures of immediacy, drawn to what is visible and tangible in the present. The allure of $1m today often blinds us to the transformative power of a penny that compounds. We see the first few days of growth—slow, almost imperceptible—and dismiss it.

But compounding rewards patience. It's not about the early days. It's about staying the course long enough for that curve to steepen and for the compounding magic to unfold.

**Earnings on the earnings**
While the term "compounding" is often thrown around, its true essence is rooted in something profound. When a business reinvests its profits effectively, it generates returns not only on the capital

it started with but also on the additional capital it earned along the way. Over time, this creates a self-reinforcing loop—a growth cycle that builds exponentially.

But let's take a step back. But what does compounding really mean in the context of a business?
For a business to grow its earnings over time, it must reinvest some portion of its cash flow back into the business. This reinvestment could take many forms: hiring more employees, building new facilities, researching innovative products, or acquiring other businesses. This highlights an important fact: earnings growth isn't free in the long run. It takes capital.

At its core, compounding earnings growth means sustained, exponential earnings growth over time. To achieve this, a business must do more than grow—it must reinvest its earnings at high rates of return, year after year. It's not just about generating profits; it's about redeploying those profits effectively to create earnings on the earnings.

Let's break this down into the three essential ingredients of compounding:

**1.Reinvestment rate**
A company's reinvestment rate is the portion of its operating cash flow reinvested back into the business. The formula is simple:

Reinvestment Rate = (Organic Capex + Acquisitions) / Operating Cash Flow

The reinvestment rate tells us how much of the cash generated by the business is being plowed back into growth. The higher the rate (assuming effective use), the greater the potential for compounding. The acquisition-driven compounders we like to invest in have consistently reinvested more than 80% of their cash flows, meaning that out of every $100 earned, more than $80 has been plowed back into the business. A compelling example is the Swedish company Lifco. Since its IPO in 2014, Lifco has reinvested 85% of its cash flow at an average return on capital of more than 20%. This steady and disciplined approach to reinvestment has resulted in a remarkable 21-fold increase in shareholder wealth since IPO. Companies like Lifco succeed because they have large "reinvestment opportunity sets" and are not constrained to a single industry, customer segment, or geography. These opportunities allow them to channel significant capital into both organic growth (expanding their existing business) and inorganic growth (acquiring other businesses).

**2.Return on invested capital (ROIC)**
Reinvestment alone isn't enough. A company must also allocate its capital efficiently. That's where return on invested capital (ROIC) comes in.

ROIC = Net Operating Profit After Tax (NOPAT) / Invested Capital

The higher the ROIC, the more effectively the company generates returns from its investments. For compounding to occur, incremental ROIC—the return on newly invested capital—must remain high (and higher than cost of capital) over time.

Constellation Software, the Canadian vertical software market compounder, has maintained high double-digit ROIC since its IPO in 2006. This disciplined allocation of capital has allowed the company to compound shareholder wealth by an incredible 375 times in less than 20 years.

**3.Duration**
The final ingredient in the compounding equation is time. Time is what allows compounding to reach its full potential. The longer a business can reinvest capital at high rates of return, the greater the exponential growth.

But time is also fragile. Disruptions to a company's operating environment or market saturation can shorten the compounding process. For companies with deep, untapped markets and enduring competitive advantages, duration becomes their secret weapon. A compelling example is Heico, the American aerospace spare parts manufacturer in a highly fragmented market that has compounded wealth a staggering 1100 times over 40 years.

Imagine two businesses:

- The first business generates a 20% return on incremental capital, reinvests 75% of its earnings, and therefore compounds at an effective rate of 15%. Over five years, it doubles its capital, but it runs out of opportunities thereafter.
- The second business also generates a 20% return and reinvests 75%, compounding at the same effective rate of 15%. However, unlike the first, this business has plenty of reinvestment opportunities, allowing it to sustain its growth for 20 years. Over two decades, this business grows its capital 15 times over.

The difference is stark. Only the second unlocks the full potential of compounding. Time is the ultimate force multiplier. In reality, an investor's return is influenced not only by the underlying business's compounding abilities but also by the expectations (multiples) embedded in the stock price and the change over the holding period. In other words, your future return depends not just on how the business performs, but also on how much optimism (or pessimism) is baked into the price you pay today (reflected in the multiple of earnings you pay)—and how that sentiment changes while you hold the stock (reflected in changes to that multiple over the years). However: mathematically, the higher the compounding rate and the longer the holding period, the less significant the impact of multiple changes on investor returns. Essentially, over the long run you get the investment returns that mirror the underlying company's earnings growth. After all, the multiple is a one-off; earnings growth, assuming the necessary foundational elements are in place, continues to compound over time.

**The danger of leakage (dividends)**
Not all businesses are built to compound. Many companies consume a lot of cash just to stay in neutral, which means there is no cash left to reinvest for growth. Other businesses choose to distribute a significant portion of their cash flow as dividends, limiting the capital available for reinvestment. For example, the average company in the S&P 500 pays out roughly half its earnings as dividends.
While dividend payments are not inherently bad—they are often preferable to low-return reinvestments—this "leakage" reduces the compounding rate. A company that reinvests 75% of its earnings will grow much faster than one that reinvests only 50%. Again, time acts as a force multiplier of this.

To illustrate, consider two companies, both generating a 20% return on incremental capital:

- Company A reinvests 75% of its earnings, compounding at an effective rate of 15%. Over 20 years, this company delivers a return of 15 times the original investment.
- Company B reinvests only 50% of its earnings, compounding at a lower effective rate of 10%. Over the same period, this company delivers a return of just 6.7 times the original investment.

The difference is profound. The key driver isn't just the return on capital—it's the reinvestment rate. The higher the reinvestment rate, the more powerful the compounding effect.

## Acquisition-Driven Compounders: A Rare Blend of Return and Risk Management

We believe that acquisition-driven compounders combine some of the best qualities from both return and risk perspectives.

**On the return side**, our strategy focuses on a universe of companies that exhibit three essential ingredients for long-term compounding:

1. High reinvestment rates
2. High incremental returns on capital
3. A long runway for growth

When these elements come together, companies are able to compound capital at highly attractive rates.

The table below analyzes the total returns of 979 listed companies in the Nordics. Notably, 50% of the top 30 performers in terms of total shareholder return (including dividends reinvested) over the past 20 years are companies with an active acquisition agenda, highlighted in green. This is remarkable considering they make up only 8-10% of the total listed universe in the Nordics. Clearly, acquisition-driven compounders represent a highly productive pond to fish in for long-term, quality-oriented investors.

Best performing shares in the Nordics - TSR over 20 years

| | Name | Return | | Name | Return |
|---|---|---|---|---|---|
| 1 | Fortnox | 43032% | 16 | Novo Nordisk | 5681% |
| 2 | Vitec Software | 33494% | 17 | G5 Entertainement | 5316% |
| 3 | Lagercrantz | 19060% | 18 | OEM International | 5073% |
| 4 | Revenio Group | 14591% | 19 | Betsson | 5066% |
| 5 | Protector Forsikring | 11779% | 20 | Evolution | 4962% |
| 6 | Addtech | 11460% | 21 | Addnode | 4558% |
| 7 | Kongsberg Gruppen | 10536% | 22 | Bure Equity | 4511% |
| 8 | Hexatronic | 9852% | 23 | AQ Group | 4087% |
| 9 | Vitrolife | 8416% | 24 | Sweco | 3884% |
| 10 | Beijer Ref | 7932% | 25 | Atlas Copco | 3795% |
| 11 | BioGaia | 7799% | 26 | AF Gruppen | 3634% |
| 12 | Avanza Bank | 6875% | 27 | DSV A/S | 3564% |
| 13 | Micro Systemation | 6347% | 28 | Hexagon | 3553% |
| 14 | Bouvet ASA | 6054% | 29 | Ambu | 3383% |
| 15 | Indutrade | 5773% | 30 | HMS Networks | 3368% |

*Source: Factset*

**From a risk perspective**, many of these compounders also offer defensive characteristics. They display resilience throughout cycles because they generate diversified cash flows across multiple products, industries, and geographies. They also maintain robust and scalable business models and typically operate with low levels of debt. Additionally, many of the successful acquisition-driven compounders are supported by strong owners, often a family, with a multi-decade or perpetual mindset.

Sustainable compounding at high rates requires effective risk control. We believe the combination of strong return drivers and disciplined risk management is what has made—and will continue to make—these businesses strong value creators over the next 20 years.

Ideally, we aim to identify these compounders early in their growth journey—when a solid business structure is already in place, management is experienced, and cash generation is strong. When we encounter companies with a small but growing portfolio of private businesses, we pay close attention.

## The Cold Start Problem

In a 2009 article (SFI Bulletin 2009, vol. 24*), scientist Ole Peters emphasized a common misconception in how investors evaluate businesses. They often envision a decision tree, with branches representing all possible futures, each assigned a probability—an approach rooted in Bernoulli's concept of expected return. However, as Peters explained, reality doesn't unfold this way. A company doesn't simultaneously explore every possible branch; instead, it follows a single, linear path, where each decision shapes the probabilities of what comes next. Out of infinite potential routes, only one can be taken, and while the past influences the future, each step down "reality" creates a new set of possible futures.

According to investor Nick Sleep, short-term investors spend their time handicapping the odds of each possible branch, trying to predict which outcome will materialize next. But this approach misses the bigger picture. Expanding on this idea, he states:

*"We would propose that some businesses, once they have progressed down the first favorable branch, stand a much greater chance of progressing down the second favorable branch, and then the third, as a virtuous feedback loop builds. The process takes time, but a favorable result at any one stage increases the chances of success further down the line, as it were. Think of it as a business' culture. "*
This insight is crucial when evaluating businesses at different stages of maturity—particularly in the case of acquisition-driven compounders (ADCs).

**Investor Dilemma**
Investors frequently face a dilemma: should they bet on a smaller ADC with a shorter track record and an optically cheap valuation, or invest in a mature ADC that has already proven its ability to scale, but trades at a higher multiple? The choice between the two, easily sketched out in reversed DCF analysis, seems obvious to many.

The appeal of the first group is clear. Multiple expansion and significant earnings growth from a low base can lead to high returns if the business succeeds. But these companies often suffer from the cold start problem—lacking momentum, an established playbook, or the infrastructure to scale seamlessly.

By contrast, mature ADCs have already navigated key early hurdles and now benefit from a flywheel effect. Whether through geographic expansion or an ingrained cash culture, these businesses have already progressed through a first favorable branch. The result? Their odds of further success increase dramatically, as each step reinforces the next in a compounding loop.

Consider an ADC that has successfully built a business over many years, perhaps even expanded beyond its core markets or geographies. This company is now executing acquisitions internationally. The first milestone—proving it can scale acquisitions within a familiar region—has already been achieved. This reduces uncertainty around the second step: expanding the same model and playbook into new geographies.

At this point, the company has established a strong cultural foundation and refined its acquisition playbook, with each acquisition self-funded through cash flow. Additionally, acquisition responsibilities may have been decentralized throughout the organization. As a result, each subsequent acquisition becomes progressively easier, further increasing the likelihood of success. Some compelling examples of companies that managed to profitably expand beyond their core markets include the proven Swedish acquisition-driven compounders like Addtech, Indutrade, Lagercrantz and Lifco.

This creates a self-reinforcing cycle—the more successful acquisitions, the greater the confidence in the model, the smoother the integrations, and the stronger the long-term compounding. By contrast, an unproven ADC attempting its first few acquisitions must still de-risk its process. Execution missteps, cultural mismatches, or capital misallocations pose existential threats that a seasoned acquirer has already navigated past.

In Sweden, with a strong legacy of producing the most successful ADCs, in recent years, the low-interest environment of the last decade encouraged many new companies to follow paths of the proven companies. While some of these companies have succeeded through patience, discipline and smart capital allocation, many others—though they initially appeared promising with rapid growth and seemingly attractive valuations—have struggled with the cold-start problem.

**The Illusion of Optical Cheapness**

The human mind favors linear analysis, and investors are often drawn to optical cheapness. A small company, without a track record or an established cash culture, might seem tempting due to its potential for multi-decade earnings growth from a low base. But there's a flaw in this thinking.

The difference between a mature ADC which has successfully scaled beyond their core markets and developed a fully working cash culture, and an unproven one is not marginal—it is often exponential. This derisked approach has important implications for how one should think about value creation from a risk-adjusted perspective (and hence what price you would be willing to pay today).

Our experience from investing in these companies for almost two decades is that if a company has the potential to compound over decades, albeit missing out on the first years when trajectory is uncertain and risks high, it is still possible to achieve very attractive returns. Another key lesson for investors is that you typically tend to have time to evaluate the business model and management execution in order to avoid the cold start problem.

One example is Judges Scientific in the UK. It was floated in 2003, and the company had to spend several years getting the model and the execution right. If you watched the company from the sidelines for the first seven years to make up your mind about the quality of the business, you would still compound your capital more than 100x since 2010 including dividends.

Our experience shows that there are various ways to mitigate the cold start problem in an early phase. In our upcoming book, *The Compounders*, we will explore how some of the most successful Swedish and international ADCs have tackled this and many other challenges.

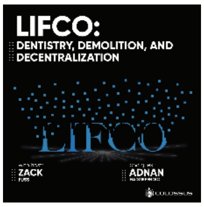
*This article first came to our attention via Nick Sleep. The full article can be found here.

## REQ's Summer Lunch in Stockholm

On May 27th, REQ had the pleasure of inviting investors to our Summer lunch in Stockholm. We enjoyed sharing insights into REQ's investment strategy. A special thank you to CEO Jörgen Wigh for presenting Lagercrantz, a company in which REQ has been invested for a long time.

# Podcasts and Other Resources


During the first half of 2025 we participated in "Nordnetpodden", a Norwegian podcast about investments. We shared insights into REQ's strategy. In Norwegian only. Link

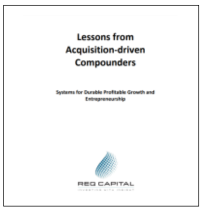



During 2024, the team participated in a US podcast ("Business Breakdowns"). In the podcast, we dive deep into one of the most significant holdings in REQ, Lifco. You can find the podcast here: Link


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

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