

# Serial acquirers

## Blood in the streets and opportunities abound

*Redeye comments on the news flow around Swedish serial acquirers in Q3 2022. We discuss Swedish serial acquirers we cover, select other serial acquirers, and Redeye's M&A classification system, among other topics.*

### News flow in serial acquirer land during Q3 2022

Markets are in turmoil, but qualitative serial acquirers continue to execute their M&A agendas. During the third quarter, Nordic serial acquirers announced several deals. Vitec conducted its largest acquisition ever in early July, buying the ABS Laundry Business Solutions for cSEK860m plus cSEK200m in contingent considerations. Lagercrantz made three acquisitions, while Sdiptech made none. Overall, we did not see a notable slowdown in M&A activity.

### Redeye M&A classification framework

We have developed our own classification system to avoid confusion about serial acquirers and other M&A-driven business models. We describe three types of serial acquirers: Holding companies, niche acquirers, and roll-ups. Further, we describe other M&A-driven business models, specifically private equity and strategic acquirers. We have chosen not to use the term 'compounders.'

### A new era: Serial acquirers experience multiple contraction

After consuming too much stimulus in 2020 and 2021, markets are experiencing a hangover. Even if multiple expansion seemed like a secular trend for many serial acquirers, Mr Market did not spare them. The less leveraged and less aggressive serial acquirers have held up better than the rest, which is arguably no surprise.

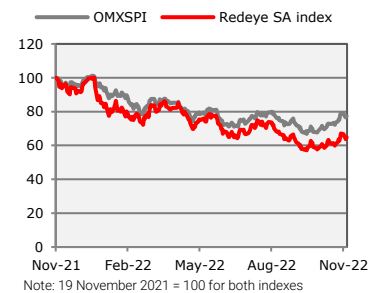
### Be greedy when others are fearful

The term 'serial acquirer' is out of fashion, and the recent market decline has made investors more cautious. We have talked to many international investors and met most Nordic firms we consider serial acquirers. No one knows what will happen short term, but we firmly believe it is not the time to shy away from excellent capital allocators with great reinvestment possibilities. While there is some blood in the streets, serial acquirers have created exceptional shareholder returns over time. We believe there exist abundant opportunities for the patient investor.

### Curious learning machines

Q3 2022 marks our first quarterly theme update on serial acquirers. It covers the latest company news, valuations, and insights from a book. We aim to publish an update each earnings season and appreciate all feedback on how to improve it. In between quarters, we want to publish deep dives on best practices, lessons from history, and much more. We also plan to release a yearly report and host an annual conference in Stockholm for investors and companies to exchange knowledge.

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## News flow in serial acquirer land

Below we present some of the deals and news we found most notable during the third quarter of 2022. We begin with Vitec Software Group, Lagercrantz and Sdiptech, which Redeye covers, followed by a few other serial acquirers that we consider particularly interesting.

### Vitec brings out the proverbial elephant gun

VMS serial acquirer Vitec completed its largest acquisition to date in early July 2022. The company paid cSEK861m (EUR80m) to acquire 100% of ABS Laundry Business Solutions' shares. Further, the deal included contingent considerations amounting to cSEK201m (EUR20m), dependent on ABS' future financial performance. ABS sported sales of cSEK203m and EBITA of SEK82m in FY 2021. Considering only the initial consideration, Vitec paid an EV/Sales multiple of c4.2x and an EV/EBITA multiple of c10.5x. While the EV/Sales multiple is somewhat above historical averages (except 2021), ABS' high profitability means that the EV/EBITA multiple Vitec paid came roughly in line with historical averages. In H1 2022, we understand that ABS posted cSEK133m in sales and cSEK60.4m in earnings before taxes. We judge this was a rather large acquisition for Vitec and that the average deal going forward will likely correspond to cSEK50m in annual sales per acquiree. Importantly, these deals usually come at single-digit EV/EBIT multiples, providing a greater opportunity for multiple arbitrage. Notably, Vitec's acquisitions in Q1-Q3 2022 posted sales of cSEK274m in the first three quarters of this year relative to cSEK305m in 2021. However, we understand that acquirees have sales primarily in non-SEK currencies, i.e., we judge that increasing revenues in SEK this year likely feature a considerable currency tailwind.

After quarter-end, Vitec made its fifth acquisition for the year. The company acquired Finnish software company Oy Raisoft Ltd., sporting sales of cSEK50.2m and an EBIT of cSEK6.5m in 2021. The purchase consideration Vitec paid for Raisoft is undisclosed for now, though we will likely get a clearer picture when the company publishes its Q4 report on 01 February 2022.

### Vitec: Acquisitions in the last 12 months

Company	Consolidated*	Sales 2021 (SEKm)*	EBIT 2021(e) (SEKm)*	Sales Jan-Sep 2022 (SEKm)**	EBT Jan-Sep 2022 (SEKm)**	EBT margin (%)***	Sales growth contribution (vs. LTM)****
DocuBizz ApS	2022-01-21	27.0	5.8				
Hotellinx Systems Oy	2022-05-04	18.0	8.0	274	111	41%	16.9%
Scanrate Financial Systems AS	2022-09-07	57.0	25.0				
ABS Laundry Business Solutions	2022-07-06	203.0	82.0				
Oy Raisoft Ltd	2022-10-05	50.2	6.5	nd	nd	13%	2.4%
<b>Total</b>		<b>355.2</b>	<b>127.3</b>				<b>19.3%</b>

\*As disclosed on the date of purchase, consolidation date estimated by Redeye for Scanrate (announced in Q2 2022), EBIT estimated by Redeye for DocuBizz and ABS

\*\*Only disclosed for all acquirees in Q1-Q3 2022 collectively \*\*\*Calculated using Q1-Q3 2022 sales/EBT for acquisitions during that period and 2021 sales/EBIT for Raisoft

\*\*\*\*Estimated Q3 2022 LTM sales of acquired subsidiaries in Q1-Q3 2022 as a percentage of Vitec's Q3 2022 pro-forma LTM net sales, 2021 sales used for Raisoft

Source: Vitec (actuals), Redeye Research (estimates)

Following the company's five acquisitions year-to-date, we judged that capital deployed on acquisitions would moderate in the coming years, limited by operating cash flow and leverage. However, Vitec carried out a directed share issue to Swedish and international professional and institutional investors in early November, raising cSEK834m in gross proceeds to bolster the continued execution of its M&A agenda.

Read more about our takes on Vitec in our [initiation of coverage](#) (24 October 2022) and our latest [research update](#) (16 November 2022).

### A ramp-up in deal-making for Lagercrantz

Lagercrantz made four acquisitions in its fiscal Q2 2022 (01 July-30 September 2022). On a last twelve month (LTM) basis, Lagercrantz has added cSEK1.1bn of sales from acquisitions, corresponding to a c20% sales growth contribution. Interestingly, and contrary to what we have heard from other businesses, Lagercrantz believes valuation multiples in the private markets have started to decline, which, of course, is positive for Lagercrantz. Part of the reason for the multiple contraction seems to be that some previously aggressive peers had to scale down their M&A volumes recently.

Sensing opportunity, Lagercrantz has bought four companies during the quarter: Waterproof Diving International based in Sweden, Tebul Oy in Finland, Door and Joinery in the UK, and Stegborgs El-evator in Sweden. As usual, the company did not disclose purchase considerations or the acquirees' margins, but we assume an average EV/EBITA multiple of c6x (compared to c6.5x in recent history) and an average EBIT margin of c15%. Notably, Lagercrantz only made one small acquisition in the same quarter last year.

### Lagercrantz: Acquisitions in the last 12 months

Company	Segment	Consolidated	Sales (SEKm)*	EBITA (SEKm)*	Sales growth contribution (vs. LTM)**
Tebul Oy	International	2022-09-01	55	8	1.0%
Waterproof Diving Int.	Niche Products	2022-09-01	90	14	1.6%
Door and Joinery	TecSec	2022-07-01	54	8	0.9%
Stegborgs El-evator	Control	2022-07-01	60	9	1.0%
PcP	TecSec	2022-06-01	596	80	10.3%
ARAS Security	TecSec	2022-01-01	56	12	1.1%
Westmatic	Niche Products	2022-01-01	175	25	3.5%
GM Scientific	Control	2021-11-01	n/a	n/a	-
Geonor	Control	2021-11-01	34	7	0.7%
<b>Total</b>			<b>1121</b>		<b>20.1%</b>

\*Q3 2022 LTM or 2021 based on most recent disclosure \*\*Q3 2022 LTM or 2021 sales as a percentage of Lagercrantz's LTM sales in the quarter when an acquisition occurred

Source: Lagercrantz (actuals), Redeye Research (estimates)

Lagercrantz had a solid quarter operationally, with 11% organic growth y/y. The company's order book seemed solid at the end of the quarter, which we believe implies continued organic growth for the upcoming quarter, partly driven by price increases and currency effects. Lagercrantz's view on the demand is still positive. However, it also mentions that uncertainty is high due to inflation, rising interest rates, and geopolitics.

The management noted that it is prepared for a potentially challenging economic climate and has contingency plans for the business units, focused on holding down costs and preserving cash flows. As mentioned by all industrial serial acquirers, it says it has excessively high inventories and aims to bring it down in the coming quarters. We believe the inventory situation is something investors need to track closely in the coming quarters, as a key for serial acquirers is strong cash flows that they can redeploy into new acquisitions.

Read more about our takes on Lagercrantz's Q2 report in our latest [research update](#).

**Sdiptech with two smaller acquisitions after the quarter**

Sdiptech did not complete any acquisitions in the quarter but has had an active 12 months, having acquired a combined EBITA of around SEK122m, in line with its target of SEK120m-150m per year. It also made a relatively large acquisition of Certus Automation in October 2021, bringing the number to SEK173m. After the third quarter, it announced two smaller acquisitions, including a bolt-on acquisition to its Finnish subsidiary Oy Hilltip. Further, Sdiptech acquired two UK businesses, Patol Ltd and Linesense Fire Detection Ltd.

**Sdiptech: Acquisitions in the last 12 months**

Company	Segment	Consolidated	Sales (SEKm)*	EBITA (SEKm)*	Sales growth contribution (vs. LTM)**
IMP	SIS	2022-10-01	-	-	-
ELM	SIS	2022-06-01	224	45	9.9%
RDM	SIS	2022-05-01	145	43	6.4%
TEL	SIS	2022-03-01	65	15	2.4%
Agrosistemi	RE	2022-02-01	85	20	3.1%
<b>Total</b>			<b>519</b>	<b>122</b>	<b>21.8%</b>

\*Q3 2022 LTM or 2021 based on most recent disclosure \*\*Q3 2022 LTM or 2021 sales as a percentage of Sdiptech's LTM sales in the quarter when an acquisition occurred

Source: Sdiptech (actuals), Redeye Research (estimates)

Sdiptech completed a directed share issue on 16 November 2022, raising SEK506m in gross proceeds. The company remarked that it is in late-stage discussions with 12 potential acquisition targets, sporting combined sales of above SEK1bn and EBIT above SEK150m. We discuss our view on directed share issues in the current market climate in the valuation section further down in this update.

Organic sales growth in the third quarter was negative and amounted to c-5.5% on a constant-currency basis. While sales aligned with our expectations, we expected slightly better organic sales growth. In its Q2 2022 report, Sdiptech noted temporary issues in its largest UK-based business units, Rolec and GAH, persisting into Q3. Rolec was hurt by new EV charging regulations in the UK and a decision to relocate its production from China to the UK. The effects on Rolec are expected to be temporary but will continue into Q4 2022e. The market seemingly expected even worse third-quarter results as the stock rallied almost 10% on the day of the report.

Read more about our takes on Sdiptech's Q3 report in our latest [research update](#).

## Comments on select other niche acquirers

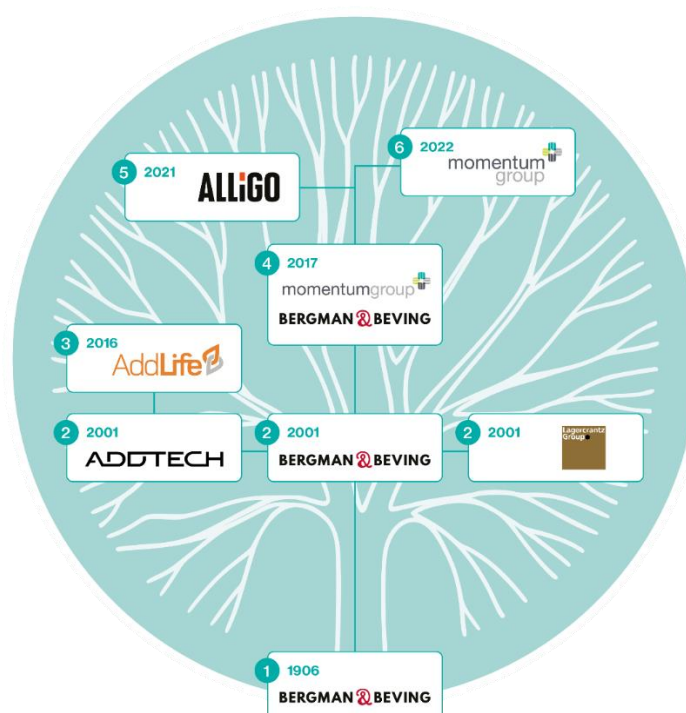
We follow all quality serial acquirers in the Nordics closely and cover the latest events for some of them below.

### Bergman & Beving

Bergman & Beving is one of the most famous names among Swedish serial acquirers, having spun off companies such as Lagercrantz and Addtech (who in turn spun off Addlife in 2007). Bergman & Beving also has close connections with the listed companies Momentum Group and Alligo. Bergman & Beving bought Momentum Group in 2004. In 2007, it renamed Momentum Group as B&B Tools.

Momentum Group regained its former name after Bergman & Beving spun off the company in 2017, which included the Tools division (now part of Alligo). After some sluggish years, we believe that the company started to execute again when the former vice-president of Lagercrantz, Magnus Söderlind, took over the helm on 01 May 2021. Since then, the company has improved its profitability every quarter and significantly ramped up its M&A activity. In its fiscal Q2 2022, ending on 30 September, it acquired Polartherm, adding cSEK130m in sales (c2.8% of LTM sales) and an estimated cSEK16m in EBITA (c4.5% of LTM EBITA).

### Bergman & Beving: Spin-offs over the years



Source: Momentum Group, Redeye Research

Bergman & Beving primarily focuses on improving the profitability of its subsidiaries and buying product companies with significantly higher profitability than the rest of the group (c15% EBIT margins compared to 7.2% for the rest of the group). We think the strategy aligns with how Lagercrantz and Addtech have acted during the last two decades: If profitability is sub-standard, focus on improving it. When profitability has reached a satisfactory level, focus on driving organic growth through expansion into new markets. We note that the CEO, Magnus Söderlind, seemingly believes in the equity story, having bought shares for more than SEK20m since his arrival.

We judge that Bergman & Beving reported a solid fiscal Q2 2022. During the quarter, Speed Group, the logistics supplier of one of its largest businesses, Luna Group, suffered an IT security breach. This security breach resulted in Luna Group's inability to carry out invoicing at the end of the quarter, resulting in a material adverse impact on the subsidiary's EBITA in the quarter and preventing Bergman & Beving from maintaining the margin momentum it reported in the preceding 10 quarters. Bergman & Beving plans to handle logistics in-house from the middle of 2023.

We believe investors should track the company's ability to deliver continuous margin expansion with low organic top-line growth in the coming quarters. The company trades at a significant discount to its peers, which we believe derives from its lower return on equity compared to peers (ROE is around 10% versus peers at  $\geq 20\%$ ). Further, we judge that the current market narrative is to shun all stocks exposed to cyclical industries, especially construction (B&B has 60% revenue exposure to industry and 40% to construction). If Bergman & Beving delivers on its plan, we believe it will report return metrics in line with its peers in a few years, leading to a rerating in the market. We think the twin engine of margin expansion and multiple expansion makes Bergman & Beving an interesting stock at current levels.

### **Addlife**

As mentioned above, Addlife has its heritage within Bergman & Beving and Addtech. Addlife has signalled a slowdown in M&A activity due to its relatively high leverage, having made a few sizable deals in the last 18 months. The company closed one small acquisition at the beginning of the third quarter. Long-time CEO Kristina Willgård left her role on 01 October 2022, with Fredrik Dalborg stepping in as her successor. The company's near-term focus constitutes reducing leverage, having completed numerous acquisitions during the COVID pandemic.

We believe that a potential economic downturn is unlikely to impact Addlife as it sells consumables to the healthcare industry. Instead, Europe's large 'healthcare debt' following the COVID pandemic currently seems to impact sales negatively. Specifically, there is a lack of doctors and nurses, reducing the number of healthcare procedures, which lowers the demand for disposable items from hospitals, i.e., Addlife's customers. We expect this to be solved within the next couple of years and believe the long-term industry trends are favourable for Addlife, driven by a growing elderly population in need of care.

The stock rallied significantly during the COVID pandemic, despite the company being clear about how COVID-related demand provided only a temporary revenue boost. At an EV/NTM EBITA multiple of c17x, the stock is trading below its historical average. The market seems to have forgotten that there may be more pandemics in the future, thereby putting some option value on the stock. The largest owner measured in votes, Roosgruppen, and Chairman Johan Sjö have taken advantage of the share price slump, buying shares in the open market.

### **Momentum Group**

We mentioned Momentum Group above. Bergman & Beving spun off the company in 2017. Momentum Group then bought the public company Swedol at the beginning of 2020 and was split into two business areas: Alligo and Components & Services. In 2021 it separately listed Alligo and renamed the Components & Services division Momentum Group. What has not changed is Momentum Group's CEO, Ulf Lilius, who has stayed on during all those twists and turns.

The company has a platform in the industrial components business, Momentum Industrial, which has grown from SEK870m in sales and SEK104m in EBIT in 2013 to SEK1,080m in sales and SEK157m in EBIT in 2021 (sales CAGR c2.7%). Considering that the company reached SEK1,245m in sales and SEK148m in EBITA during the first three quarters of 2022, Momentum Industrial is a significant part of Momentum Group. Momentum Group's strategy constitutes using the cash flows of its subsidiaries to acquire additional profitable industrial companies

with solid niche positions. Momentum Group made one acquisition in Q3 2022: Mytolerans, sporting sales of SEK27m and EBIT of SEK3m in 2021. It also announced the acquisition of Börjesson Pipe Systems after the quarter, which has shown impressive average margins of >20% since 2012 and solid sales growth (SEK24m in 2012 and SEK37m in 2021, representing a CAGR of c5%).

Momentum Group reported solid Q3 numbers with 8% organic sales growth and an EBITA margin of 12.5%, in line with last year's margin. We believe it will continue to execute its M&A strategy. The company's net debt to EBITA ratio is below 2x, and Momentum has a committed line of credit amounting to SEK1bn, of which SEK952m is currently unutilised.

### **Volati**

Volati, similar to Bergman & Beving and Momentum Group, is a serial acquirer of industrial companies. Volati did not complete any acquisitions in the third quarter but has maintained an active M&A agenda in recent years. Volati has a clear strategy of having strong platform businesses where it can add bolt-on acquisitions. The value creation from bolt-ons comes from synergies where Volati can buy a company for EV/EBITA c8x and realise synergies, resulting in a post-synergy EV/EBITA multiple of c5x.

Volati notes a somewhat softer M&A pipeline, deriving from many private companies not yet having brought down their valuation expectations. The quarter was strong from an operational perspective, with some negatives driven by a weakening market for business unit Salix. Its business Corroventa, selling and renting products dealing with water damage, moisture, odours and radon, was weaker than last year due to lower rainfall in Europe. Corroventa's earnings are typically volatile, as the weather heavily impacts demand for its products.

## Roll-ups have not seen a notable slowdown in M&A activity

*"A roll-up strategy is the process of acquiring and merging multiple smaller companies in the same industry and consolidating them into a large company. Combining small firms into a larger company allows the latter to pull their resources together, cut down on operational costs, and increase revenues." – Corporate Finance Institute*

We have summarised the third-quarter acquisition pace of Instalco, Fasadgruppen, Green Landscaping and Norva24, companies we deem roll-ups and track continuously.

- Instalco made six acquisitions compared to seven during the same period last year
- Fasadgruppen made two acquisitions versus five during the same quarter last year
- Green Landscaping made two acquisitions compared to one during the same quarter last year
- Norva24 made three acquisitions, which was not a slowdown to prior quarters, having listed its share on the stock exchange in December 2021.

### TAM limit approaching for Instalco?

During the active phase of an acquisition spree, a roll-up benefits from economies of scale, cross-selling, and multiple arbitrage. We believe it is vital for investors to understand the total addressable markets for roll-ups as they can maintain a strong acquisition pace until the market gets saturated. A sign of this is when a roll-up enters a new geography or vertical.

Instalco recently entered technical consultancy in addition to its existing verticals, mainly focusing on installation services. Instalco mentioned in its prospectus for its IPO in May 2017 that there were 25,000 suppliers of installation services in 2015 and that c90% were small companies. According to Instalco's latest annual report, the market for installation services amounted to cSEK130bn in Sweden and cSEK50bn in Norway and Finland. Instalco posted sales of cSEK7bn in Sweden in 2021 (c5.5% market share) and cSEK1.9m in Norway and Finland (c3.8%). The largest player in Sweden is Bravida, with cSEK21.9bn in sales in 2021 and a market share of 7.6% in the Nordics. Therefore, the total market share for Instalco and Bravida is above 10% in the Nordics, and we believe it's likely to increase somewhat over time.

The founder and chairman of Instalco, Per Sjöstrand, mentioned in an interview with Evan Vanderveer in the podcast Global Value Creators in 2021 that Instalco should be able to grow to around SEK11-12bn in sales in the Nordics and that it will grow further through new sectors and geographically. We believe the risk has increased due to this as we think the risk is lowest in a roll-up that can continue to buy the same type of companies in the same geography. Investors need to follow the expansion closely and take note of signs of diminishing returns.

However, Instalco has a long track record of value creation for shareholders, and the company may well succeed in its continued growth initiatives.



## Redeye M&A classification framework

The term serial acquirer is pervasive in the investment industry, though an exact definition is hard to find. Companies mostly use the term when it fits them and do not use it when it does not. Specifically, many (Swedish) companies sought to label themselves serial acquirers when companies associated with the term experienced increasing investor interest and multiple expansion in 2021. Further, many companies commonly classified as serial acquirers tried to ditch the term as markets soured in 2022.

Overall, we identify serial acquirers as interesting businesses because of their long-term orientation and hands-off approach post-acquisition. These characteristics make serial acquirers the buyer of choice for many owners and operators, enabling them to buy companies at lower multiples than other M&A-driven firms with more short-term and hands-on approaches.

We believe one of the keys to the outperformance of many serial acquirers has been the ability to allocate more and more capital at  $\geq 15\%$  return on equity. Over the last decades, this strategy has characterised some of the best-performing stocks on the Swedish stock exchange. Notable examples include Addtech, Indutrade, Lagercrantz, Lifco, and Vitec Software Group.

### Redeye M&A classification framework

We have sought to develop our own classification system of M&A-driven business types to improve the understanding among investors, companies, and other stakeholders such as the financial media. We associate several crucial aspects with serial acquirers, differentiating them from other M&A-driven businesses. We judge that all serial acquirers:

- Have an infinite investment horizon
- Feature primarily internal deal sourcing and due diligence
- Have a decentralised organisational structure with limited or no integration of subsidiaries
- Allocate the majority of free cash flow (FCF) to additional acquisitions and internal reinvestment that pass the serial acquirer's hurdle rate/investment criteria

We arrive at three sub-categories of serial acquirers: Holding companies, niche acquirers, and roll-ups. Further, we judge that other common M&A-driven business types that investors frequently mistake as serial acquirers comprise private equity approaches and strategic acquirers. Admittedly, the exact border between roll-ups and private equity, as well as niche acquirers and strategic acquirers, are somewhat blurry and arbitrary. However, we aim to establish a more explicit classification to avoid confusion among investors when discussing different kinds of M&A-driven business models, i.e., we want to compare apples to apples.

### Holding companies

Holding companies are potentially the most well-known serial acquirer among the general public, mainly because famous investors or families control many of these entities. Prominent examples include Investor AB (STO: INVE.B; controlled by the Wallenberg family) and Berkshire Hathaway (NYSE: BRK.A and BRK.B; with the man, the myth, the legend, Warren Buffett as CEO and chairman of the board).

Holding companies intend to keep an acquired business perpetually and do not change or integrate acquirees. However, headquarters are often available for subsidiary CEOs as and when needed for advice. Holding companies feature a decentralised organisational structure with subsidiaries operating autonomously, reinvesting FCF internally or sending excess cash back to headquarters for deployment into other uses of cash, primarily acquisitions. Holding companies are frequently agnostic as to the industry in which acquirees operate. However, the

circle of competence of capital allocators (headquarters) often results in most subsidiaries featuring in specific sectors that headquarters is comfortable investing in.

Holding companies usually pay cash for acquirees, though some let sellers/operators keep a minority interest to ensure continued skin in the game. Holding companies typically want operators to continue running the acquiree post-acquisition. Considering holding companies' agnosticism regarding which industries they invest in, total addressable market (TAM) is usually not a constraint. However, given numerous potential acquisition opportunities, M&A resources and process often constrain acquisition volume. Further, holding companies are opportunistic and can pivot to industries where they believe valuations are most attractive, avoiding man-with-a-hammer syndrome (if your only tool is a hammer, every problem looks like a nail). Once a holding company grows to many billions of dollars in sales, scaling M&A at attractive valuations often becomes a problem.

### Redeye M&A classification framework: Different strokes for different folks

Features	Serial acquirers			Other M&A-driven firms	
	Holding companies	Niche acquirers	Roll-ups	Private equity	Strategic acquirers
Investment horizon	Forever	Forever	Forever	Short- to mid-term	Mid- to long-term
Continuity of culture	No change	No change or limited integration	Moderate integration	Often a secondary issue, change if necessary	Limited to extensive changes upon integration
Due diligence	Internal	Internal due diligence, sometimes through brokers	Internal due diligence or brokers	Long process, often involving brokers	Long process, often involving brokers
Search process	Internal/relationships	Internal/relationships or through brokers	Internal or through brokers	Internal or through brokers	Internal
Governance	Decentralised	Decentralised	Usually decentralised	Centralised	Centralised
Post transaction	Autonomous operations, reporting to HQ	Limited integration, reporting to HQ, shared operational excellence	Moderate integration, reporting to HQ, scale-driven synergies	Operational/organisational change to realise value and prepare exit	Integration into acquirers' organisation
Financing	FCF and low leverage	FCF and low/medium leverage	FCF and medium/high leverage	Primarily debt, high leverage	Variable, often mix of FCF, equity, and low/moderate leverage
Deal structure	Cash and majority/minority interest	Cash and majority interest, sometimes earn-outs	Cash and sometimes equity/earn-outs	Variable	Cash and/or equity
Capital allocation	FCF back to headquarters or internal reinvestment	FCF back to headquarters or internal reinvestment	FCF back to headquarters	FCF back to headquarters	Internal (re-)investment
Product differentiation	Variable differentiation, portfolio of unrelated businesses	Differentiated products, clustering of subsidiaries	Commodity-like products	Variable differentiation, portfolio of unrelated businesses	Differentiated products or assets of acquiree strengthen acquirer
TAM constraint	Very low or non-existent	Medium	High	Low to medium	Medium to high
Resource and process constraint	High	Medium	Low	Medium to high	Low to medium
TAM Definition	Variable size and number of industries, often multinational	Multiple industries of larger size, often multinational	Often a single, large industry and/or single country	Often single or few industries, possibly multinational	Acquiree's TAM matches or complements acquirer's TAM
Opportunities	Can easily expand TAM, buy where valuations are lowest	Compromise between TAM expansion and scaling deal volume	Scaling deal volume quickly to consolidate niche	Flip acquiree for higher price after operational improvement	Operational synergies or diversification
Risks	Harder to scale deal volume, larger deals at higher multiples over time	Overpaying, not delegating bolt-on M&A leads to larger deals and higher valuations	Overpaying when running into TAM constraints, (geographic) di-worsification	High leverage, operational risk may not work out, short-term window dressing	Strategic rationale for M&A does not work out as planned
Monitor	Scaling M&A resources and processes	Market share, opportunistic TAM expansion, small M&A delegation	Market share, track record and feasibility of international expansion	Progress of operational changes, access to financing, exit opportunity	Realisation of synergies or beneficial effects of diversification
Examples	Berkshire Hathaway, Investor AB, Bolloré, Exor, Latour	Constellation Software, Vitec, Judges Scientific, Addtech, Lifco, Lagercrantz, Sdiptech, Röko, B&B	Instalco, NCAB, Fasadgruppen, Green Landscaping, Norva24	KKR, EQT, Carlyle Group, Blackstone, Thoma Bravo	Embracer, Hexatronic, Surgical Science, Fortnox, Carasent

Source: Redeye Research, with inspiration from [REO capital](#), [Exploring Content Substack](#), and [Scott Management LP](#)

### Niche acquirers

Niche acquirers may represent the most stereotypical kind of serial acquirer, including companies like the notorious Constellation Software (TSE: CSU), Judges Scientific (LSE: JDG), and Lagercrantz (STO: LAGR.B). Niche acquirers focus on one or several niches in which the companies conduct their M&A. Subsidiaries operating in similar niches frequently form a business unit. The advantage is that each niche is commonly limited in size, but accumulating

numerous companies, each dominating their niche, is scalable. The most well-known example constitutes vertical market software (VMS), addressing customer needs in many small niche industries. Firms like Constellation and Vitec have built their businesses around growth by acquiring many small- to mid-sized VMS businesses and scaling M&A volume over time.

Niche acquirers are perpetual owners, enforcing no or limited change at a new subsidiary post-acquisition. Most niche acquirers source deals internally through their industry network, though the use of brokers might also occur. They typically conduct due diligence in-house. Niche acquirers feature a decentralised organisational structure with subsidiaries operating independently and reporting back to headquarters. In contrast to holding companies, niche acquirers frequently maintain shared excellence programs for subsidiaries in similar niches, enabling them to pass on best practices and thus maximise the organisation's success by maximising the success of each subsidiary.

Niche acquirers usually pay for acquisitions with cash, potentially supplemented with equity and earn-outs. Subsidiaries may invest some of their FCF internally, though they send back most FCF to headquarters, which funnels it into additional acquisitions. In addition to FCF, niche acquirers usually use a low to modest amount of debt to fuel their acquisitions. Niche acquirers frequently feature subsidiaries with differentiated products in niches with considerable moats, switching costs, and barriers to entry. TAM is more constrained for niche acquirers than holding companies, considering many niches are relatively modest in size. Controlling a large part of the TAM can be mitigated by expanding into additional niches, which also brings considerable "di-worsification" risk into the equation.

Critically, most niches feature many potential small transactions. Larger transactions often come at higher valuations and considerably higher risk (bet the farm deals). Increasing the number of small deals over time usually requires delegating smaller M&A transactions to business units. However, directly delegating M&A to subsidiary CEOs might distract them from running day-to-day operations. Therefore, such an expansion of deal volumes requires building an organisation of skilled capital allocators overseeing M&A in (parts of) a niche acquirer's business units. As mentioned above, VMS is a typical industry featuring niche acquirers like Constellation Software and Vitec.

### **Roll-ups**

Roll-ups constitute the third category of serial acquirers in our classification system. Roll-ups typically consolidate fragmented industries with mostly commoditised products. Upon acquisition, mostly emanating from economies of scale, synergies lead to value creation. Roll-ups integrate acquirees into their organisation to a certain extent while maintaining a relatively decentralised organisation. Like holding companies and niche acquirers, roll-ups provide a permanent home for acquirees. Examples of roll-ups include Instalco (STO: INSTAL) and NCAB (STO: NCAB).

Roll-ups often consolidate relatively mature industries with little growth capital expenditure needs. Therefore, most FCF finds its way back to headquarters, which deploys it into further acquisitions. Roll-ups often use moderate to high leverage supported by stable cash flows from mature subsidiaries. Roll-ups usually focus on a specific industry (and geography), introducing a TAM constraint. At the same time, M&A resources and processes are generally not bottlenecks, given high similarity between acquirees and a limited number of acquisition targets. Once a roll-up has consolidated a niche or industry, further growth often necessitates expansion into additional niches, industries, or geographies. Such expansion introduces a considerable "di-worsification" risk. Therefore, one should closely monitor the market penetration of roll-ups over time, providing a crucial indicator for future growth potential.

### Other M&A-driven business models

We judge that other major M&A-driven business models include private equity and strategic acquirers. Private equity has a short- or medium-term perspective, often acquiring companies and getting heavily involved in implementing operational improvements or business development initiatives. Private equity usually sells businesses after operational improvements materialise, frequently using high leverage to finance its purchase and extract cash from acquired firms. Obvious risks of private equity include operational improvements not working out, access to debt (or equity) financing, and ultimately finding a buyer.

Strategic acquirers seek to integrate acquirees into their centralised organisation. Acquirees often feature differentiated projects and numerous internal investment opportunities in organic growth. Purchasing an acquiree often strengthens a strategic acquirer's current or future competitive positions. The acquirer can extract operational synergies or diversification from acquirees. Considerable risks for strategic acquirers include overpaying and overestimating strategic synergies.

### What makes serial acquirers unique?

We judge that serial acquirers have two key advantages that differentiate them from other M&A-driven business models:

1. They are perpetual owners, not trying to flip acquirees relatively quickly. This long-term orientation provides a key advantage over private equity, we judge. Indeed, often private equity could be willing to pay a higher valuation for businesses than serial acquirers. Nevertheless, owners frequently choose to sell to serial acquirers because they are concerned about their company, employees, and legacy.
2. Serial acquirers tend to have a hands-off approach. Thus, operators continue to run the company even after acquisitions, providing high autonomy while enabling them to monetise (part of) their equity. Heavy interference from private equity buyers or strategic acquirers may estrange previous employees, who often constitute an essential part of a company's competitive advantage. Key employees exiting shortly after an acquisition can be detrimental even when buying at a low valuation.

Many serial acquirers have experienced considerable multiple expansion over the last ten years. Notably, serial acquirers can usually buy companies at a substantially lower valuation than their own shares trade at. This difference offers an opportunity for multiple arbitrage when paying with own shares as a currency. Even without using equity in an M&A deal, earnings from new acquirees rerate from the acquisition multiple to the serial acquirer's trading multiple.

Buying a company for five times earnings is great if your share keeps trading at a substantially higher valuation. However, we believe investors are generally too focused on the multiples and the arbitrage. For example, buying a company for five times earnings equals a 20% return (100/5) on the investment. The ability to consistently buy qualitative companies for low prices and get high returns on the capital is, in our view, the fundamental financial reason behind the success of many serial acquirers.

## Markets in turmoil and multiple compression

Believe it or not, serial acquirers can experience multiple compression. Notably, while many serial acquirers have contracted considerably from peak multiples during the glory days of 2021, many are still trading at or above their historical mean and median multiples. Considering their substantial inorganic growth potential, one might argue that serial acquirers were undervalued in the early 2010s. Further, a broader market sell-off occurred in 2022, i.e., serial acquirers are not the only type of company that has seen their share prices and multiples decline.

### **Directed share issues: Serial acquirers stocking up on dry powder**

We were surprised by some serial acquirers conducting directed share issues recently. On the one hand, we judge that the currently depressed sentiment on capital markets should present an attractive M&A pipeline for serial acquirers. On the other hand, we did not believe institutional and other investors would consider deploying capital in such capital raises. We believe it is generally negative if a company dilutes shareholders through stock issues if its share is trading below intrinsic value. Therefore, we usually prefer serial acquirers sourcing cash for acquisitions from operating cash flow and debt financing.

Still, we also adhere to Buffett's advice: "be greedy when others are fearful and fearful when others are greedy". A depressed market sentiment often presents investors with attractive valuations, and we believe that serial acquirers could close value-accretive deals with their newly-gained dry powder.

We believe investors should always focus on the per-share value creation, which is often positive if a share issue occurs above fair value. In other words, if a company is confident that it gives away less than it gets, it creates value for pre-issue shareholders. Longer term, we question this strategy. Notably, some best-in-class Swedish serial acquirers, such as Lifco, Addtech Industrade, and Lagercrantz, have never issued shares (except for management incentive programs).

In bad times, these companies have focused on organic growth instead of acquisitions, given weaker operating cash flows and many business owners reluctant to sell at low valuations. We dislike when companies use their overvalued shares to buy other companies as we think this severely hurts the corporate culture of the acquired company when gravity eventually pulls the acquirer's valuation down to earth. We have a somewhat more positive view of companies financing acquisitions by issuing shares to investors at high valuations as it does not hurt the former owners of acquirees (who often stay on as operators). Still, we think potential issues concerning the acquirer's shareholder base could emerge. Specifically, investors in share issues at high valuations could see the value of their holdings decline considerably in the face of multiple compression, making them potentially 'weak hands' unwilling to hold their shares for the long term.

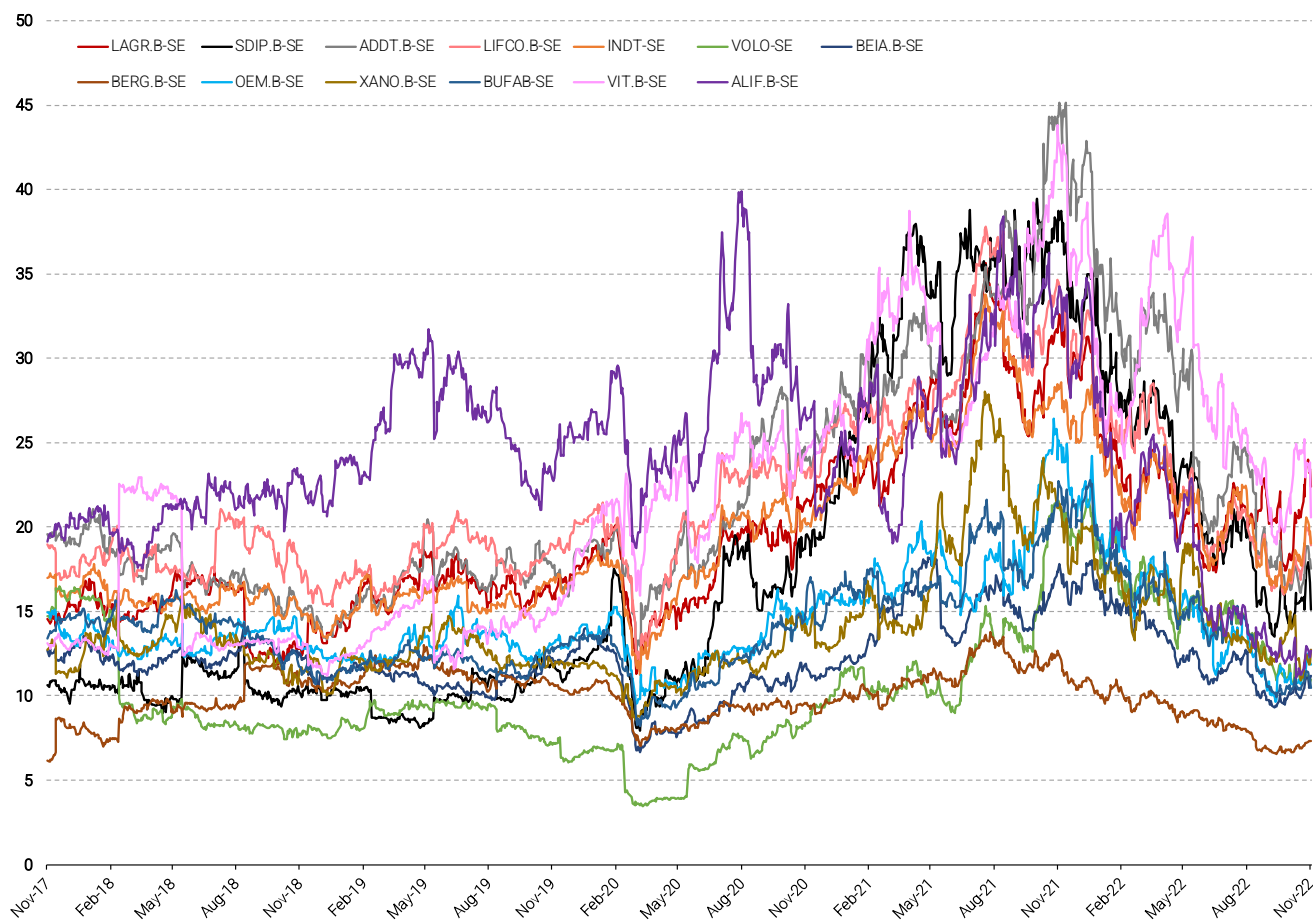
We believe we have seen a notable dispersion between high- and low-quality serial acquirers in these recent share issues. High-quality acquirers with stable cash flows and prudent leverage still seemingly have access to equity markets and bank lending. A general characteristic of these serial acquirers is that they have run their usual playbook in recent years. Specifically, they conducted acquisitions at their 'normal' pace, based on what both their balance sheets and organisations could handle. Even though it's a sign of strength to be able to raise capital in these times, we still have a neutral view on directed share issues, as increased M&A firepower arguably offsets associated dilution. Notably, we judge that best-in-class serial acquirers have shown that the duration of growth is more important than the pace.

In contrast, lower-quality serial acquirers and other M&A-driven firms had gorged on acquisitions in recent years when interest rates were near zero and investors were begging them to take their money. They went on acquisition sprees, taking on considerable leverage and buying various companies outside their 'circle of competence.' Many took on debt with variable interest rates, and some of them have notably cyclical subsidiaries. Increasing interest rates have driven up their interest expenses, and a slowing economy has reduced profit for their cyclical subsidiaries, making some breach their lender covenants. Additionally, they tended to acquire companies at a scale and volume difficult for their organisations to absorb, leading to 'organisational indigestion' in many cases. Some even started talking about spinning-off subsidiaries and business units acquired in recent years, especially if these recent acquirees were outside of the acquirer's usual home turf. We believe these potential spin-offs constitute lower-quality acquirers implicitly admitting that they wrongfully stepped out of their familiar territory. It turns out that chickens have come home to roost in 2022.

#### **Serial Acquirers: EV/EBITDA multiples over time**

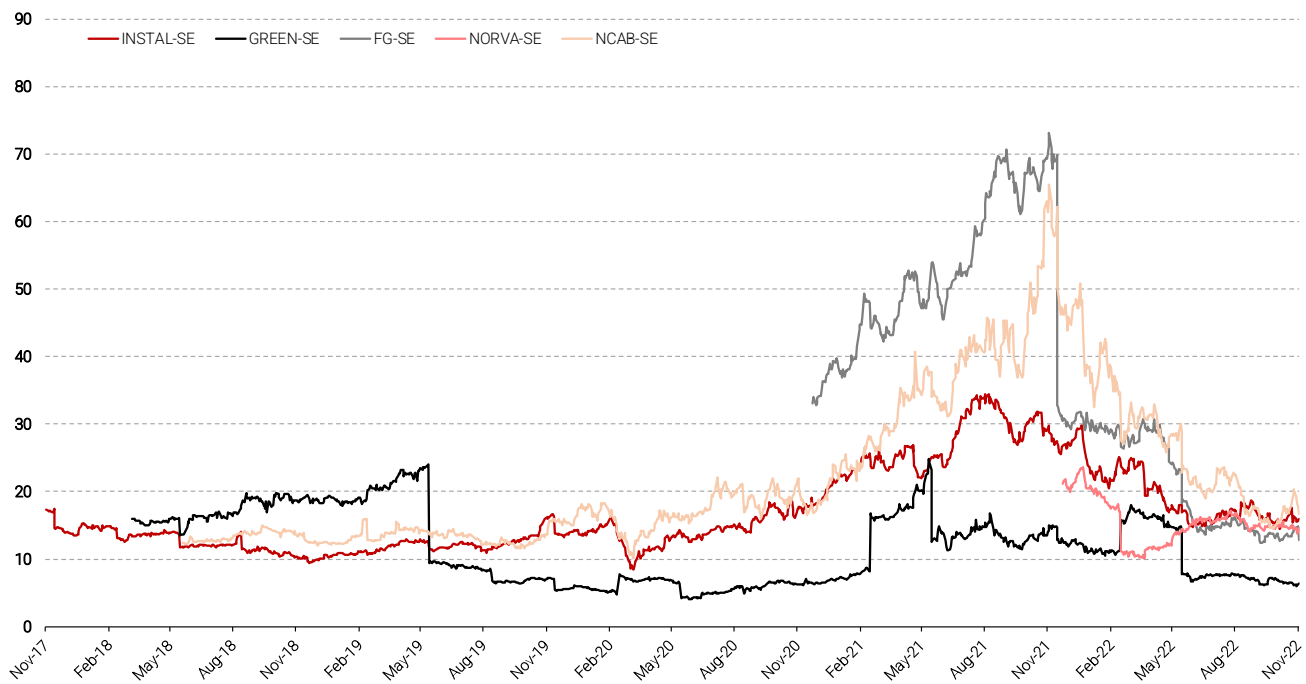
On the next page, we provide an overview of select serial acquirers' current and historical valuation multiples. We have sourced data from FactSet. While we believe that EBITA is the best measure to compare different serial acquirers given their considerable acquisition-related amortisation charges, historical data is hard to access or incomplete in many cases. Therefore, we use EV/EBITDA multiples to compare serial acquirers' current valuations, but EV/EBITDA multiples to illustrate the valuations they traded at over time. Notably, we believe the most important thing is to track valuation metrics over time, with the specific metric(s) used constituting a secondary issue.

Niche acquirers: EV/LTM EBITDA multiples over time



Source: FactSet (retrieved 20 November 2022), Redeye Research

Roll-ups: EV/LTM EBITDA multiples over time



Source: FactSet (retrieved 20 November 2022), Redeye Research



## Peer table: Select niche acquirers and roll-ups

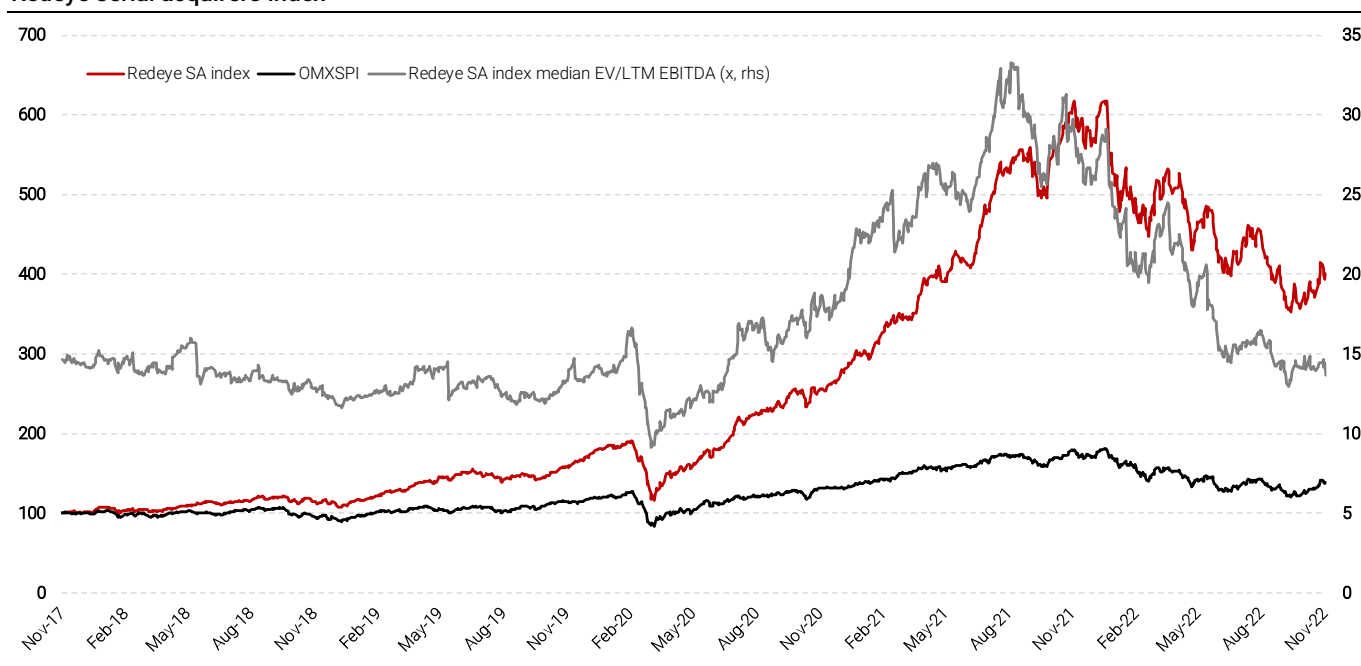
Niche acquirers Company	EV	EV/Sales			EV/EBITA			Sales Growth			EBITA margin		
	(SEKm)	2022e	2023e	2024e	2022e	2023e	2024e	2022e	2023e	2024e	2022e	2023e	2024e
Lifco	89,672	4.2	4.1	3.9	20.0	21.0	19.0	22%	-1%	4%	21%	19%	20%
Indutrade	85,073	3.2	3.0	2.9	22.0	22.0	20.0	23%	3%	4%	15%	14%	14%
Addtech	44,274	2.5	2.4	2.3	20.0	20.0	18.0	24%	1%	4%	13%	12%	13%
Lagercrantz	25,284	3.6	3.4	3.2	22.0	23.0	21.0	27%	5%	4%	16%	15%	15%
Addlife	18,938	2.1	2.0	1.9	17.0	18.0	16.0	11%	1%	5%	13%	11%	12%
Vitec	14,907	7.7	6.5	5.9	27.0	23.0	22.0	24%	20%	12%	29%	28%	27%
Sdiptech	11,756	3.4	2.9	2.5	19.0	17.0	14.0	27%	13%	9%	18%	17%	19%
Beijer Alma	11,862	1.9	1.9	1.8	13.0	13.0	12.0	13%	-1%	5%	15%	14%	15%
Volati	9,692	1.2	1.2	1.1	13.0	13.0	12.0	23%	1%	5%	10%	9%	10%
Bergman & Beving	4,217	0.9	0.8	0.8	11.0	10.0	9.0	4%	1%	5%	8%	8%	9%
<b>Mean</b>	<b>31,568</b>	<b>3.1</b>	<b>2.8</b>	<b>2.6</b>	<b>18.4</b>	<b>18.0</b>	<b>16.3</b>	<b>20%</b>	<b>4%</b>	<b>6%</b>	<b>16%</b>	<b>15%</b>	<b>15%</b>
<b>Median</b>	<b>16,923</b>	<b>2.9</b>	<b>2.7</b>	<b>2.4</b>	<b>19.5</b>	<b>19.0</b>	<b>17.0</b>	<b>23%</b>	<b>1%</b>	<b>5%</b>	<b>15%</b>	<b>14%</b>	<b>15%</b>

Roll-ups Company	EV	EV/Sales			EV/EBITA			Sales Growth			EBITA margin		
	(SEKm)	2022e	2023e	2024e	2022e	2023e	2024e	2022e	2023e	2024e	2022e	2023e	2024e
Norva24	6,525	2.6	2.3	2.1	22.0	18.0	15.0	16%	10%	6%	12%	13%	13%
NCAB	10,651	2.3	2.2	2.1	17.0	16.0	15.0	41%	2%	6%	14%	14%	14%
Instalco	14,085	1.2	1.1	1.1	16.0	14.0	13.0	31%	2%	3%	8%	8%	8%
Green Landscaping	4,486	1.0	0.8	0.8	11.0	9.0	8.0	44%	14%	3%	9%	9%	9%
Fasadgruppen	5,370	1.2	1.0	0.9	12.0	10.0	9.0	66%	11%	6%	10%	10%	10%
<b>Mean</b>	<b>8,223</b>	<b>1.7</b>	<b>1.5</b>	<b>1.4</b>	<b>15.6</b>	<b>13.4</b>	<b>12.0</b>	<b>40%</b>	<b>8%</b>	<b>5%</b>	<b>11%</b>	<b>11%</b>	<b>11%</b>
<b>Median</b>	<b>6,525</b>	<b>1.2</b>	<b>1.1</b>	<b>1.1</b>	<b>16.0</b>	<b>14.0</b>	<b>13.0</b>	<b>41%</b>	<b>10%</b>	<b>6%</b>	<b>10%</b>	<b>10%</b>	<b>10%</b>

Source: FactSet (retrieved 20 November 2022), Redeye Research

We have also constructed an equal-weighted index of companies listed in the peer table displayed above (Redeye serial acquirers index/Redeye SA index). LTM, this index has declined c35% compared to the broader OMXSPI index, which is down c23% over the same period. However, over the past five years, the Redeye serial acquirers index has increased by c301% relative to OMXSPI, which posted an increase of c38% over the same period. The Redeye SA index's EV/LTM EBITDA multiple expanded from c12-15x in Q4 2019-Q1 2020 to c30x in Q4 2021. However, following the index's decline in 2022, its median EV/LTM EBITDA multiple has returned to c15x. Companies like Boreo, Idun Industrier, Momentum Group, and Teqnon are not included due to a lack of analyst estimates.

## Redeye serial acquirers index



17 November 2017 = 100 for both indexes

Source: FactSet (retrieved 20 November 2022), Redeye Research



## Lessons from Henry Singleton

Henry Singleton features in William Thorndike's book *The Outsiders*, describing eight CEOs who created tremendous value for shareholders. The similarities between these CEOs were that all were independent thinkers who shunned Wall Street and focused on creating value in the long term. One of the most interesting of these CEOs was Henry Singleton of Teledyne. We recently read the book 'Distant Force', written by Singleton's right-hand man George Roberts, and have tried to distil the main lessons for investors and operators.

*"Henry was not your ordinary CEO. He constantly frustrated the world of Wall Street and business media by ignoring them. They were used to businessmen anxious to be interviewed, to be written about—to tout their companies. By accompanying his phenomenal business success with a preference for anonymity, he mystified them."*

Singleton founded Teledyne in 1960 and went public in 1961. Between 1961 and 1969, the company bought 130 companies. It operated after a strategic plan based on Singleton's early realisation of the future importance of digital semiconductor electronics when the technology was in its infancy. For example, Singleton saw the changes impacting the defence industry and aimed to become an important supplier. While Teledyne enforced decentralisation at its subsidiaries, it created a playbook for how they could improve. The focus was on buying companies with a strategic fit and an industrial logic to the deal. This approach differs from Buffett's strategy, which has focused on buying good businesses in diverse industries. Both Buffett and Singleton used a decentralised management model:

*"These men knew more about their specific businesses than we did, and we wanted to keep their expertise. We had no intention of managing these businesses from the corporate level. We did, however, establish our own unique financial and operations reporting system [...], which enabled us to monitor their performance closely, on a monthly basis, and see any trouble spots before they became serious."*

Singleton said that his success was driven by having talented people around him, and he meticulously searched for gifted people to run even the smallest business units of Teledyne. The company had a yearly meeting where it decided the capital asset plan for its subsidiaries, i.e., it determined a research budget, general growth plan, and M&A agenda for each of them.

Teledyne had close control of cash at the companies, which had to report how much they earned every week and how much cash they would need for the next week. Headquarters got all excess cash and sent cash to business units that could deploy it at attractive returns. This enforced discipline and Teledyne encouraged businesses to get out of low-margin products and businesses. Teledyne wanted the former CEOs to stay on and run the companies, but the controls created friction which dissipated when new and younger managers rose through the organisations.

In a decentralised model, the incentive structure needs to work. Teledyne had an incentive system that awarded "Triple Crown Awards" to companies that posted record sales, net income and net cash flow. The top-performing managers also got individual cash bonuses. Singleton was no fan of long-term planning but rather focused on adjusting to the ever-changing business environment.

*"My only plan is to keep coming to work every day. I like to steer the boat each day rather than plan ahead way into the future."* -Henry Singleton

Teledyne used its high-priced share to buy companies in the 1960s when its stock traded at P/E ratios of c30-70x. The 1970s saw the end of the conglomerate era in the US, and Singleton thought prices were too high in those years. Further, he asserted that the best companies had already been acquired by that time. Teledyne's stock fell along with its conglomerate peers and

began trading at a single-digit P/E multiple. Singleton took advantage of this, buying back c90% of Teledyne's outstanding shares. Singleton did not believe in dividends, arguing that Teledyne's cash could earn attractive returns on growth CAPEX in its business units. He focused on returns and achieved a share price CAGR of over 17% between 1966 and 1990, which would be hard for shareholders to replicate when reinvesting their dividends. During the latter years of Singleton's reign, he made several spin-offs as he believed the value of the parts was greater than the sum's market value suggested.

### Checklist for acquisitions

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- Is the company profitable?
  - Do they have a good balance sheet?
  - Is their profit and loss statement accurate?
  - Do they have a clean inventory?
  - Is their backlog realistic and well documented?
  - Is their management on top of their operations?
  - Would management be willing to stay, if acquired?
  - Have they made long range plans to maximize their profit in a sellout?
  - Does the business have growth potential?
  - Is there opportunity for growth in profit?
  - Can cash be taken from the company for use elsewhere?
  - How is depreciation counted and is it a significant percentage of profits?
  - What is the condition of their physical plant?
  - And finally, and probably most importantly: Would this company be a good fit within the Teledyne organization and its goals?
- 

Source: 'Distant Force' by George Roberts, Redeye Research

In August 2022, we interviewed William Thorndike about the 'The Outsiders' for our podcast Investing by the Books. You can [listen to the episode here](#) or where you listen to podcasts.

We also recently discussed the book 'Distant Force' with Carter Johnson from MCJ Capital Partners for Investing by the Books. The episode will be released in December 2022.

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Rating	People	Business	Financials
5p	32	15	4
3p - 4p	157	139	48
0p - 2p	5	40	142
Company N	194	194	194

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### CONFLICT OF INTERESTS

Niklas Sävås owns shares in Addlife, Bergman & Beving, and Lagercrantz.

Christian Binder owns no shares in discussed companies.

Redeye performs/have performed services for Vitec Software, Lagercrantz, and Sdiptech and receives/have received compensation from these Companies in connection with this.