A DESIRE TO ACQUIRE

A CASE STUDY ON THE GROWTH JOURNEY OF VESTUM AND VALUE CREATION

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ABSTRACT

This case study provides a deep dive into the newly formed serial acquirer Vestum, including an examination of value creation for shareholders and entrepreneurs as well as investigating whether serial acquirers, in general, create value through an active M&A agenda. The goal is to provide an analysis from a unique high-growth example, identify key aspects of successful growth through M&A, and draw conclusions about the broader serial acquirer market. Firstly, through examining abnormal returns, we identify that Vestum has created shareholder value from an early stage, with the help of a reverse-merger-like transaction. Secondly, through looking at different soft factors, this study finds that Vestum may create value for entrepreneurs that other similar actors do not. Lastly, this study finds that serial acquirers in Sweden have achieved abnormal returns and higher growth than many actors without an active M&A agenda, but that recent developments in capital markets will likely raise the difficulty of operating the model going forward. In summary, this study provides readers with an in-depth knowledge of serial acquirers and growth as well as what matters most to entrepreneurs when selling their businesses.

Keywords: Serial acquirer, M&A, growth, value creation, entrepreneurs

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1. Introduction

On March 22nd, 2021, the Swedish streetwear clothing company We Are the Superlative Company (WeSC) announced that a consortium of investors would invest in the company through a reverse merger-like transaction (referred to as a reverse merger in this paper) by a directed share issue that resulted in them becoming majority shareholders and the new management of the company. Not only did WeSC get new management that day, but WeSC also changed its name to Vestum, announced three acquisitions, and changed its business plan from manufacturing and selling street attire becoming a serial acquirer – a company that acquires and develops companies. Vestum has as of the 22nd of March 2022 acquired 45 companies and grown from a market capitalization of c. SEK 34m to a peak over SEK 15bn. Consolidation tends to come in waves (Whittington et al., 2020) with the industry recently seeing the emergence of the name serial acquirer. Companies like Lifco, Instalco and Indutrade have all been around for some time, achieving great results while others like Storskogen, founded 2012 (Storskogen, 2022), has recently joined the public market through an Initial Public Offering (IPO). Even more recently Vestum emerged and grew so fast that many investors were wondering how a clothing company from the look of it at the brink of collapse is now a smaller service conglomerate. So far for many shareholders, this has been the opportunity of a lifetime, enabled through gathering entrepreneurs, with the goal of building something greater. All this raises the interest of value creation, the topic of this study and the first key focus:

1) How is value created for shareholders and what are the characteristics of Vestum that may or may not create value for shareholders?

The study finds that the chosen market is fragmented, contain strong dynamics such as low capital expenditure (capex) requirements and high margins while management's expertise in the area may prove successful over time. Vestum has so far generated abnormal stock market returns, together with numerous other high performing serial acquirers. We find the hybrid financing strategy to be smart from a rapid growth strategy, but harder communicating to investors and entrepreneurs. Also, external financing may prove more difficult going forward as interest rates have increased and stock markets tanked. Lastly, acquisitions are the main driver of the model, and attracting entrepreneurs are therefore immensely important. Hence, the second focus of the thesis is:

2) How may Vestum and other serial acquirers create value for entrepreneurs?

It is concluded that cash as payment when selling is important as it releases entrepreneurs from the financial stress of their private economy connected to their firm. However, the single most

important reason for entrepreneurs selling to Vestum was the CEO Conny Ryk and his experience. Entrepreneurs also care about collaboration and the platform an acquirer may bring. Lastly entrepreneurs find legacy to be important, letting their life work live on.

1.1. Purpose

The first purpose is to deepen the understanding of value creation in a serial acquirer context, focusing on key drivers and important aspects in value creation potential through a comparative approach and in-depth data of Vestum. The second purpose is to examine the value created for entrepreneurs in selling to an acquirer like Vestum. Lastly, the study aims to provide the Department of Finance at the Stockholm School of Economics with material that could be developed into teaching material.

1.2. Contribution

We hope to contribute to the current literature by investigating how value is created in a serial acquirer context both for the acquiring company and acquired companies, by a detailed analysis of Vestum. This is done by comparative research as to analyze how well Vestum's strategy might perform over time as well as through qualitative information gathered from Vestum and its entrepreneurs that is not publicly available. The text provides readers with factors important in assessing value creation for acquirers as well as targets, that tends to be overlooked in the field. By a comparative approach combined with the inputs received from our primary sources the study also provides a case writer with a valuation approach with the inclusion of mergers and acquisitions (M&A) estimates and without, pinpointing the risks and opportunities of a serial acquirer. From a strategical perspective, Vestum as a young company may be harder to assess financially as its history as an entity is short. But what is lost in potential financial evaluation is by our reasoning gained in timeliness of events and uniqueness of the study material such as choice of listing method through a reverse merger and the pace of its growth through M&A. Overall, we provide new insights in a field that has so forth been mostly ignored in academia, the serial acquirer.

1.3. Outline

We will begin this paper by presenting the current literature on M&A and growth, value creating acquisitions, types of serial acquirers and the industry, and IPOs and reverse acquisitions in Chapter 2. Chapter 3 outlines the research methodology applied to this paper. Chapter 4 describes background information about the serial acquirer market as well as the construction and infrastructure market. Chapter 5 provides information about the founder Conny Ryk, the reverse merger and acquired company WeSC, and Vestum. Chapter 6 presents case facts around

the reverse merger, finding targets, integration, and creating value for shareholders and entrepreneurs. In Chapter 7 the case facts are discussed and analysed in relation to previous research as well as the authors scenario analysis of Vestum's valuation. Finally, Chapter 8 answers the research questions and concludes the case study.

2. Literature Review

2.1. M&A & Growth

A corporation can either grow organically, through established partnerships (i.e., joint ventures and partnerships) or by M&A. As businesses in an industry experiences intense competition over time, it will at some point in time reach a mature stage where organic growth is low. Like the fourth stage in the product life cycle as described by Kotler et al. (2016). M&A may at that point be used to achieve large growth even when markets are growing at a slow pace. Davis (2012) argues that M&A driven growth is a frequently used strategy in mature markets, consolidating industries with goals of cost synergies. M&A has according to Lipton (2006) been around for some time, starting in the U.S. at latest in the late nineteenth century. M&A often come in clusters and have according to Whittington et al. (2020) occurred in 10-15 years periods over the last twentieth century. One of those periods took place during the 1960's until the beginning of the 70's where the U.S. experienced its largest takeover era since the beginning of the century known as the *conglomerate wave*. Shleifer & Vishny (1991) states this as a pure market correction of past mistakes. Jensen (1986) attributes this overconfidence in what could be described as *empire building* where managers had been pursuing self-interests at the expense of owners expecting higher compensation, and power – hence *empire building*. Corporations may also participate in M&A as a means of meeting earlier set goals, or from stakeholder pressure (Lubatkin, 1983; Penrose, 1959 in McNamara, 2008). All of this raises the questions as to whether growth through M&A is long-term value creating or destroying.

2.2. Value creation in M&A

General points

Ramezani et al. (2019) shows that growth has a limited effect on shareholder value, indicating that companies with moderate growth show the highest returns and corresponding value creation for their shareholders, whilst showing that too much growth can deplete value creation in line with the warnings of Fuller and Jensen (2002). In contrast, Shleifer and Vishny (2003) argue that M&A have advantages in contributing to earnings growth and as a result, justified higher valuations, in which view they are joined by Andrade (2001) suggesting that mergers

create value on behalf of shareholders as the combined parties both experience abnormal stock market returns.

Payment

Corporations active in M&A faces an important consideration – the means of payment for acquisitions. Three possibilities of payments are possible, by cash (includes debt), by equity or by a combination. The views on which of these are superior are very different. Some claim that acquisitions made through stock issues leads to abnormal returns for the acquirer (e.g., Andrade et al., 2019 & Chatterjee and Kuenzi, 2001). While Zhang and Zhang (2011) argue in favor of cash acquisitions in M&A performance. Eckbo et al. (1990) arrives at the middle. Looking at the Canadian market, they paint the picture that mixed offers achieve abnormal returns for the bidder. Hazelkorn et al. (2004) examined the U.S market and found that stock-financed transactions on average resulted in negative market reactions and that cash-financed acquisitions generally led to positive market reactions, both in the short term and the long term. Further, Hazelkorn et al. (2004) found that acquiring private companies or assets are consistent with higher returns for the acquirer than in acquiring public companies. Yuan et al. (2005) presents a different view, stating that not only does value creation depend on acquisition financing options, but also on industry maturity, whilst also stating that M&A is never desirable with negative trending operating performance. One of their ideas presented show that corporations in mature industries will be worse off using stock-based acquisitions, while for growing industries, it is unclear. McNamara et al. (2008) states that cash financing is a strong signal of confidence as it allows current shareholder to benefit from the acquisitions instead of sharing the value among current and new shareholders. They show that as the acquisition wave progresses, negative abnormal return from acquiring with cash is much smaller than by using shares as payment.

Firms may in some cases refrain from issuing stock, missing valuable investments (Myers and Majluf, 1984). However, the authors claim that issuing shares may deplete shareholder value as issuing shares at a perceived current bargain may outweigh the net present value of the investment. Avoidance may hence send a strong signal to shareholders that the stock is cheap - in line with the pecking order of finance discussed by Myers and Majluf, theorizing that shareholders prefer internal financing over external capital. Acquirers tend to have higher valuations relative to their targets, creating incentives for issuing stock to pay for acquisitions (Dong et al., 2006). The phenomenon is also described by Shleifer and Vishny (2003). They argue that stock acquisitions are mainly made by overvalued firms and that it often happens in markets with high valuations, strong bidders and fewer targets. This process of acquiring firms with lower valuation multiples is often described in capital markets as an *"multiple arbitrage"*

as if multiples stay the same combined, value has been created from nothing, creating an arbitrage.

Position in the wave

Connected to the M&A waves described in 2.1, it is also possible to look at early mover advantages and bandwagon effects and how companies efficiently should position themselves in different timepoints in a merger wave in an industry. McNamara et al. (2008) finds in line with earlier research that acquisition performance is higher, respectively lower for corporations that participate at the lowest and highest point of an acquisition wave. According to the study, earlier research has shown that early movers can gain a strong sales position. This is in line with the authors' main argument – that early movers will experience benefits, such as gaining strong customer relationships before others may enter and tying up important assets. By acting early, industry participators may select their targets long before others have the chance to. By this logic it follows that later in the cycle, the assets left will be inferior. However, this view is not shared with all authors. Cho et al. (1998) argues that early movers may face significant disadvantages by being first. Market dynamics may change rapidly in certain industries, hence early movers may experience harsh market dynamics and cost disadvantages by being impatient as late joiners may free ride on technology discovery and customer awareness. As acquisition waves builds momentum acquirers will turn their attention to more targets, over time increasing the price tag of acquiring to the disadvantage of acquirers (Mitchell & Mulherin, 1996; Song & Walkling, 2000 in McNamara et al., 2008).

What it may impact and why

There are several other factors to be considered when measuring value creation from acquisitions. One of these disadvantages is the controversial conglomerate discount (e.g., Custodio, 2014; Ammann et al., 2012). Both authors find statistically significant evidence for the existence of a conglomerate discount, meaning lower combined valuation than the corresponding standalone value of the businesses. Custodio (2014) uses q-values, finding that merged firms have lower q-values than corresponding pre-merger entities, meaning that the market value to book value is lower for merged firms even adjusted from acquisition related goodwill. Ferris et al. (2003) looking at major family-owned conglomerates in South Korea (Chaebols) finds similar results arguing that Chaebols experience value loss due to conglomerates aiming for profit stability rather than profit maximization while over-investing in underperforming industries. However, they find that Chaebols possess larger debt capacity experiencing lower tax burdens. In the theme of debt capacity, capital structure is deeply enrooted in credit ratings. Receiving an Investment Grade (BBB+ or higher at S&P) rating is of high importance (Kisgen, 2006). Better credit ratings can improve financing costs and

increase access to capital markets through higher investor interest from investors (Kisgen, 2006).

Acquisitions are often done in mature firms for the sake of cost synergies as stated in 2.2 (Davis, 2012). Mellen & Evans (2010) finds numerous soft factors besides synergies, not often discussed, e.g., expanding a product line, reducing weaknesses, acquiring technology faster than through internal Research and Development (R&D) and diversification for risk minimization. Some authors, like King et al. (2004) argue that there is no evidence of acquisitions improving the financial performance of the consolidated firm. With that backdrop, even suggesting that acquisitions may dilute financial performance, research is scattered.

How to measure performance

Regarding which financial metrics to use to measure M&A success and subsequent value creation, researchers looking at public companies generally look at abnormal returns – meaning excess returns compared to an expected return measurement such as the capital asset pricing model (CAPM) (e.g., Hazelkorn, 2004; Andrade et al., 2019; Chartterjee & Kuenzi, 2001; King et al., 2004). In private companies, this is easier said than done. Acquisitions in private environments differ in risk, liquidity, capital accessibility and behavior among others (Mellen & Evans, 2010). The authors state that investors in a private environment will have to focus on the spendable cash that an acquisition generates after all cash expenses (free cash flow (FCF)) and then comparing the required rate of return of the firm versus the actual Return on Investment (ROI) experienced. In a public company the authors claim the value creation and ROI as "reasonably clear" as returns can be measured directly in the stock market through cash dividends and stock appreciation – in line with authors using excess returns. King et al. (2004) by looking at return-based accounting metrics, e.g., return on equity and sales and assets found that M&A provides little to zero value for acquirers. Hence, measuring metrics as a way of conducting M&A due diligence might not be enough, at least in a public setting. They investigate four moderations terms, i.e., factors beyond financial metrics supposed to explain performance: acquisition experience, payment method, related acquisitions, and conglomerate acquirer. They find no evidence of these variables being able to explain post-acquisition performance. They do find in some sub-groups positive abnormal returns arising from acquisitions but relate this to complementary businesses and resources. They conclude that obscure variables should not be forgotten in evaluation of M&A and therefore that future research is of major importance. Adnan and Hossain (2016) similarly communicate five regularly used measures in evaluation post-M&A performance: abnormal returns (event studies), accounting measures, experts' assessments, managers' subjective evaluation and divestures. They state that evaluation should include both quantitative and qualitative measures. As motives vary and soft factors matters, it might not be enough to simply look at abnormal

returns in a short time horizon as the end goal for M&A might improve metrics over a longer time horizon, not visible and understandable to investors.

2.2.1. The acquiree's perspective

There is plenty of research on reasons to acquire companies and the value it creates, but what is the reason for the acquiree to go through with it? The amount of research on this area is much less researched. Mellen and Evans (2010) brings up several reasons why someone might choose to sell their business. An owner could choose to sell due to personal reasons, such as old age, estate planning, or lack of successors. All of these are soft factors, not directly visible for an outsider. Other reasons could be business related, such as need for additional financing, declining operational performance, strategic difficulties that cannot be solved as a single business, and strong economic climate which leads to high sale prices of the business. The problem in quantifying many of these factors are visible in e.g., strategic difficulties, which could mean anything from launching a new product (go-to-market strategy) to taking the next step from a small business to reaching 500 million in sales as an international company. This area is almost a black box, with few researchers focusing on the area as it would require deeper case study material to provide output.

Singer and Wodar (2011) argues in favor of soft factors. They state that successful business owners that sell their business will have to go from relying on regular business cash flows to living from their liquid assets received in the sale. The question they state is hence, whether a business sale makes "enough" cash to satisfy those needs. In scenarios where the business founder or a second-generation actor is staying after the acquisition, more research is of interest as the cash flow argument is of less importance as they receive salary. The small research base found in the literature review shows that factors reaches far longer than just monetary compensation, and that further research may be of interest to academia.

2.2.2. Benchmarking an investment

There are numerous ways to evaluate investments. In a public setting it is often done by measuring excess stock returns in comparison to a benchmark, such as CAPM. However, using a similar methodology in a private setting is more difficult if not impossible as discussed by Mellen & Evans (2010). Their idea is to benchmark returns based on invested capital (ROIC/ROI) versus a hurdle rate, i.e., the corresponding cost of capital. Berk & DeMarzo (2017) argues similarly through Economic Value Added (EVA) that economic value can only be added as long as the ROIC exceeds the Weighted Average Cost of Capital (WACC). There probably exists as many ways to measure ROIC as there exists companies as companies adjusts for non-recurring items, different leasing posts and similar. Similarly, academia and the industry are conflicted as how to properly measure WACC. The answer is likely that there exists

no perfect methodology. Definitions used will be based upon the framework in Berk & DeMarzo (2017) found in appendix 10.1.

2.3. Serial acquirers

While M&A has been a subject of extensive research for many decades, the phenomena of serial acquirers and their recent outperformance has been less studied. The theoretic view based on the Modigliani–Miller theorem (Modigliani & Miller, 1958) states that a company's capital structure should not be a factor in its corresponding firm value. Hence, the extreme share appreciation these firms have experienced are of interest and should be studied. Before researching a serial acquirer, it is of utmost importance to define what a serial acquirer is. Some corporations have made it a part of their core business structure to acquire on a regular basis. These types of firms expand their organization and portfolio size by acquisitions through an evolved and routinized processes (Nelson & Winter, 1982). McNamara et al. (2008) argues that these types of firms are unlikely to experience early mover advantages or suffer associated costs as the acquisition performance is more routinized, focusing on specific information – not prone to be dragged along in bandwagon waves but rather focus on value assessment, strategic and operational fit as well as integration (Zollo & Singh, 2004 in McNamara et al., 2008). Hence, they are less likely to overpay for a target, if strategic fit is not met, according to the authors.

These corporations frequently called *M&A Compounders* by equity analysts, journalists, and investment bankers all share one common trait – a habit of acquiring companies. Macias et al. (2016) concludes that there is no consistent definition of how many acquisitions the serial acquirer must undertake under a certain period and instead defines them as "one that is likely to undertake a large number of acquisitions, either in relatively continuous periods or in bursts of acquisitions". Earlier research on the area is scarce and have mainly focused on stock market returns. They normally define serial acquirers by companies that have acquired a specific number of companies over a set number of years (e.g., Laamanen & Keil, 2008; Sundell & Wallin, 2014).

2.3.1. Types of serial acquirers

According to Scott Management (2020), there are four main types of serial acquirers: roll-ups, platforms, accumulators, and holding companies. Carnegie (2022) uses the definition from Scott Management but excludes Holding Companies. The differences are summarized in the graph and detailed description that are found in Appendix 10.2.

2.3.2. The industry perspective

Serial acquirers may be defined as operating businesses that even though they have competitive advantages, lack strong reinvestment opportunities in the business. This results in the

management instead using the cash to acquire new unlisted businesses at prices that will lead to higher returns than if reinvested in the company. As serial acquirers rely on cash to constantly make new acquisitions, they retain most of the cash instead of distributing it. (Scott Management, 2020).

There is a recurring debate whether serial acquisitions do add value for the shareholders, but Scott Management (2020) makes several arguments to why they succeed. The serial acquirers target smaller companies, which may be too small to be acquired by financial institutions or strategic acquirers and brings up the Swedish company Addtech as an example, whose acquisitions has on average had less than USD 10m in sales and approximately 20 employees. Further, strong serial acquirers are better in building and improving relationships that lead to potential information advantages and possibly making the serial acquirer the first choice when the target company decides to sell. On top of this, serial acquirers may also let the company continue to operate under its old name, and thus taking legacy considerations from the sellers into account, as a key criterion when deciding to sell is if the company will continue as an independent subsidiary. Carnegie (2022) adds that successful serial acquirers can create value through substantial earnings growth over a long-time horizon, all while being successful in maintaining strong capital returns. They argue in the report that investors and sell-side analysts alike often think about serial acquirers, or M&A compounders, as a valuation matter – the multiple arbitrage aspect of listed acquirers. They however claim that it is not that simple as a strategy based only on this would render a serial acquirer useless in a tougher market situation with lower multiples. Carnegie (2022) argues that any investments returning more than the benchmark is a value creating activity. That means, any investment producing higher ROIC than the corresponding cost of capital. If that is satisfied, making more acquisitions is favorable. They show that in a steady state scenario, paying 5-8 times Earnings Before Interest Taxes and Amortization (EBITA) for a business incrementally gives around 13-20% of return on capital (pre-tax). They estimate this to be the common multiples paid in the industry currently.

Scott Management (2020) further emphasizes the serial acquirer's capabilities to providing investment expertise and resource, the smaller target companies may not have a strong management and instead only a founder, which may be restricted in their capabilities to further expand the business. The expertise from the serial acquirer may help the company to accelerate sales, make better investments, and expand their businesses. Lastly, one strength that Scott Management (2020) puts forward is the serial acquirer's diversification, where the businesses with high customer concentration is less risky when acquired with other businesses that have a high degree of customer concentration, resulting in an overall lower riskiness of the firm.

Carnegie (2022) brings another thought process to the table. While they do recognize that organic growth is often cheaper, they also state that organic growth requires growing a certain demand, limiting organic growth and thus available cash is hard to deploy in profitable investments. It is also true as the authors state that organic growth may be extremely expensive in some industries. Sometimes building something is more expensive than buying. Carnegie by referring to a report by McKinsey discuss that firms with a "programmatic" M&A agenda achieved excess total returns compared to those that pursue an organic focus, with fewer deals, similar to what McNamara et al. (2008) finds on routinized processes in serial acquirers, keeping them from overpaying for targets. So as when organic growth potential becomes harder, M&A investments may provide a strong opportunity for companies if the return on capital outweighs the cost (WACC). The problem, from a theoretical standpoint is finding the correct WACC, and as by the reasoning of Berk & Demarzo (2017) the WACC may vary immensely between investments. The M&A value opportunity may work even better in a fragmented industry with larger pools of potential candidates (Carnegie, 2022) which could by reasoning extend the horizon before the price tags increases in the industry (eg. Mitchell & Mulherin, 1996; Song & Walkling, 2000 in McNamara et al. 2008).

In the report, Carnegie (2022) provide an example of the model. If businesses can maintain high cash conversion, they may outpace the stock market by a significant margin. A company with an EBITA to FCF conversion of around 75% and the possibility of buying targets at 5-8x EBITA could grow their EBITA by 10-15% per year through the cash generated in those businesses, all while keeping leverage ratios intact (Net debt/EBITDA). If the company can then grow 5% per year organically, this would mean 15-20% EBITA growth per year, outpacing historical market returns by a significant margin. Actors like Addtech, Indutrade, Lagercrantz and Lifco have all experienced >15% compounded annual growth rate (CAGR) over long periods of time (Carnegie, 2022). In the long term, however, they state that what matters most is how cash generative the businesses are, as this may finance further acquisitions. Hence, metrics like Return on Capital Employed (ROCE) or ROIC are the most important. For soft factors, the authors claim that in order to achieve these growth perspectives, organization capability is of large importance and suggest that there exists a law of diminishing returns from M&A, as scaling key manager groups is hard over time, also in line with academia in that scaling M&A becomes increasingly tougher with time. Carnegie (2022) reuses a graph from Canuck Analysts at Exploring Context (2021), showing cumulative spend and diminishing M&A returns, potentially suggesting that M&A growth experiences diminishing returns – in line with McNamara et al (2008) on the topic of late positions in an acquisition wave. Carnegie (2022) also add with a reference to Exploring Context that the successful international serial acquirer Constellation Software (market capitalization of CAD 120 bn) uses the methodology

of measuring ROIC and organic growth in their investment process (Constellation Software, 2016), essentially examining the cash generation and organic growth potential.

As many of the industrial players pitch their companies as long-term homes for businesses, it makes sense that long-term management teams might produce better results. But no good things are meant to last, and Carnegie (2022) in line with e.g., Mitchell & Mulherin, (1996) and Song & Walkling (2000) in McNamara et al. (2008) states that as industry matures and time passes, finding acquisitions at reasonable multiples and achieving good returns becomes difficult. For bigger companies this becomes increasingly more difficult as one in absolute terms must look for larger targets, starting to compete with financial buyers (Carnegie, 2022). Carnegie (2022) share ideas on the fact that for Accumulators and Platforms, deal homogeneity is low, and that scaling might become an issue. Keeping the M&A standard becomes an organizational matter over time as a corporation must either increase number of acquisitions or size of acquisitions. The M&A organization may become a bottleneck and should become decentralized to make it work. Carnegie (2022) hence through looking at accumulators with long track records (Lifco, Indutrade, Addtech, Lagergrantz) think that corporations must be patient and structured in their process – often keeping an eye on a target for a longer time, in line with the framework of routinized processes (e.g., Nelson & Winter, 1982; McNamara et al., 2008). McNamara et al. (2008) even states that firms with this process may experience benefits from not overpaying but at the cost of losing early mover advantages. Carnegie (2022) also states that this might be important in building long lasting trust with a target, as it is often their life work at stake. Hence, soft factors may be important.

Finally, what could an actor in the industry look for in Roll-ups, Platforms and Accumulators? Canuck Analyst's Exploring Context (2021) think that for Roll-ups, getting a sense of roll-up possibility is important, i.e., how large is the Total Achievable Market (TAM) and what market share does the company currently have? If concentration is high or starting to increase eventually the multiples paid will likely increase which is in line with earlier research. For accumulators smaller is considered better. With a focus on asset light industries, with recurring revenue and growth over GDP, strong incentives and a decentralized organization model they should be able to grow into their multiples over time. For larger platforms and accumulators, entry multiples matter as too high means that reinvesting at high returns will be difficult as ROIC might no longer be exceptional. A visual summary of the pros and cons of Serial Acquirers in the three different segments can be found in Appendix 10.2.1.

2.4.IPOs and reverse acquisitions

Firms can grow through acquisitions both as private and public companies and while Celikyurt et al. (2010) describes the empirical evidence as limited on the subject regarding motives for

going public, they argue that staying private may hinder their growth. They argue that acquisition activity may be fueled by the cash injection experienced at an IPO and by the creation of liquid shares as payments. Further it is shown that newly listed firms make acquisitions at a rapid pace, outpacing mature firms operating in the same segment. Kim and Weisbach (2008) also find financing a key driver for going public by examining motives for public offerings by an estimation-based study figuring out uses of raised capital. The authors, however, find that public equity offerings are also used to finance R&D and capex in parallel experiencing higher valuation multiples described as overvaluation. Growth, both organic through higher R&D and capex, and non-organic through acquisitions are important motivators in going public. Comparing positives and negatives in taking the traditional route of an IPO versus the non-traditional route of a reverse merger Brenner and Schroff (2004) find that reverse mergers are not only faster, but also less costly. Arguing that the process can be completed in 45 days, compared to the long and hefty IPO process of over one year, corporations are able to avoid expensive fees and often disregarded effect of disturbance in the everyday duties. They do recognize that traditional IPOs create an exit window for owners in combination with valuation benefits in times of advantageous market sentiment. Reverse mergers may however undermine the governance taking place in the rigorous IPO process potentially leading to bad earnings quality, a topic often discussed in China as *Shell Games* (e.g., Lee et al., 2015) where it has been a common entry into public equity markets.

3. Case Study Methodology

3.1. Research design

The aim of this study is to provide academia with deepened understanding of value creation from both an acquirer and acquiree's perspective. In understanding different perspectives, a case study methodology is suitable. Vestum is unique not only in its substantial M&A swiftness, but it was also the strongest performing Swedish share in 2021 – returning 5 523 % (Börskollen, 2022). This uniqueness and attributes formed an interest in an intensive case study design investigating critical decisions, events, and the reasoning behind those. In the real-world the settings are complex and quantitative scientific approaches are sometimes not able to draw reasonable and significant conclusions. In those situations, with multifaceted decisions at hand, case studies are suitable (e.g., Eisenhardt, 1989; Merriam, 1994; Dubious & Gadde, 2002). Mills et al. (2010) adds that case studies in the field of business are great in examining unique, rare, and atypical companies. Disadvantages are, according to the authors, applicability of the descriptive data gathered in the process. The format puts no limitation on what epistemologies authors may use, enabling anything from constructive to positivistic thought processes. Due to

this fact and varied ways of gathering data, case studies avoid overly simplistic quantitative research approaches and may very well be described as a strategy, rather than a methodology (Mills et al., 2010). Qualitative research, in the likes of this study focuses on the procedure rather than the outcome, an inductive approach (Maxwell, 2013) which makes it an appropriate for educational purposes. Merriam (1994) links the choice of research method to the scope of existing literature. Case studies are excellent in providing new theory, rather than testing existing theory, putting weight on the relationship between theory and research (Bryman & Bell, 2017, p 58). Theory in the field of serial acquirers in the Nordics as described in 2.3 is limited. The goal of the study to reach deepened understanding of value creation for both acquirer and target may hence fill a research gap by providing unique insights in M&A intensive fields. By our defined purpose and our focus on providing deeper understanding rather than generalizing theory, probability sampling is of less importance (Bryman & Bell, 2017). By interviewing both the executive management of Vestum, acquired companies, and industry professionals to achieve grounded theory by gathering as broad views as possible (Bryman & Bell, 2017).

The segments 2.1 and 2.2 has shown that M&A tend to appear in cycles, but that academia is undecided regarding acquisition-based growth from a value creation perspective. Preferred payment methods also differ between researchers. With the undecided hypothesis in mind, this study aims to provide alternative success factors and incentives through qualitative analysis in order to form value creation theory. The study is further able to provide a detailed picture on the motives behind specific acquisition financing options and the choice of public equity offering through a reverse merger. Furthermore, the importance of factors that are hard to quantify, such as psychological factors, are often forgotten in literature, may by Millers (1977) reasoning be brought forward through case studies, stating that Harvard cases gives a far better picture of what reality looks like than regular research.

The interviews follow a semi-structured approach with a fixed frame that outline the interviews, while ensuring that participants are encouraged to express their views and opinions not directly captured by the questions given while allowing for follow-up questions (Bryman & Bell, 2017). Individuals should be able to express views not supported in theory as means to develop the existing status quo. Lastly, the case study is by Yin's (1984) definition exploratory, where data serves as a point of interest to develop future theory.

3.2. Data collection

The primary source of information stems from interviews and an overview of interviewees are presented below. To achieve a broad and diverse base of opinions, interviews were conducted with dependent and independent actors that were available. Interviewees consisted of managers

at Vestum, entrepreneurs acquired by Vestum and an independent Equity Analyst focusing on serial acquirers in Sweden. Secondary sources include public statements and report from Vestum and target companies as well as research reports from Equity Analysts.

Table 1 - Summary of interviews collected and transcribed by the authors.

Interviewee	Current role	Company	Dependence	Date
Per Åhlgren	Chairman	Vestum	Dependent	2022-03-07
Conny Ryk	CEO & Founder	Vestum	Dependent	2022-03-08
Carl Ragnerstam	Equity Analyst	Nordea	Indepedent	2022-03-16
Simon Göthberg	Head of M&A	Vestum	Dependent	2022-03-16
Anders Johansson	CEO & Founder	Galore/Vestum	Dependent	2022-03-24
Jimmy Ekman	CEO & Founder	Skandinaviska Områdesskydd/Ve	Dependent	2022-03-25
Anders Rosenqvist	Founder/Board member	Rosenqvist Entreprenad/Vestum	Dependent	2022-04-07

Table 2 - Summary of interviews found online and transcribed by the authors.

Interviewee	Interviewer	Date
Conny Ryk	Dagens Industri	2021-09-24
Conny Ryk	Dagens Industri	2021-10-08
Conny Ryk	Aktiespararna	2021-10-11
Simon Göthberg	Erik Penser Bank	2021-11-04
Conny Ryk	Sparpodden/Nordnet	2021-11-24
Conny Ryk	Dagens Industri	2021-11-29

The interview process was formed in accordance with the four steps described by Brinkmann & Kvale (2015) in the order: Thematizing, Designing, Interviewing, Transcribing.

Bryman & Bell (2013) recommends transcribing all material in its entirety. The total interviews consisted of 443 minutes of material transcribed into 68,000 words from both six interviews gathered online and seven done with our interviewees. These answers were later mapped in the themes described below and coded accordingly.

Thematizing was done by considering the purpose of the study, to research value creation for both acquirer and acquiree, by a case study of Vestum. This overall purpose and its surrounding topics were thematized into four areas: 1) M&A & Growth, 2) Value creation in M&A, 3) Serial Acquirers and 4) Reverse Merger. For the entrepreneurs, another similar framework was developed and thematized into three areas: 1) Background, 2) Value creation for the entrepreneur and 3) Their experiences being integrated into a serial acquirer. These are the same themes by which we structured and researched our literature review.

3.3. Validity and reliability

There are different views on the case study as a chosen research method. The single-case study may raise concerns about uniqueness (Maxwell, 2013). Single cases may cause errors in generalization and conclusions. Hence, a discussion on the topic is justified. While criticism is valid, authors like Miller (1977) argues that in order to understand a phenomenon and its

context, case studies are better at providing in-depth understanding. Yin (2014) provides a framework of four principles commonly discussed in research validity and reliability which are presented in Appendix 10.3: 1) Construct validity, 2) Internal validity, 3) External validity and 4) Reliability.

Regarding quality, there are some aspects worth mentioning. Vestum is a young company, which helps in the recollection of events and opinions, but complicates the comparability to other actors in the industry. First, as the purpose of the study is to explore and develop existing frameworks, this is not an issue. The benefit of this short timeframe is that the study by default is unique. Secondly, due to the experience and roles our interview targets hold, the primary data should be of high-quality in combination with industry inputs from a neutral actor that has followed serial acquirers over a longer period. Critique could be directed towards the number of interviews conducted. However, the availability of large secondary data for industry wide topics as well as online interviews mitigates the issue. Further, more interviews could have been conducted, but as Vestum is still in its growth phase, the focus was rather on achieving qualitative inputs from targets and acquirer. Lastly, Vestum is a public company that is involved in many M&A deals with high confidentiality, limiting the scope.

4. Market background

4.1. Serial acquirers in Sweden

While acquisitions in the context of value creation have been widely debated, there is no denying that many of these firms have been quite successful. Addtech, Addlife and Lifco as three examples have accumulated over 300% returns over five years, excluding dividends. Investing in Bergman and Beving during the IPO in 1976 would have made you 21% per year until the end of 2021 from its spin-offs and the remaining company, returning over 5 000x the original investment (Carnegie, 2022). Both investor interest and valuations have increased tremendously but have gone in and out of favor over time (Ragnerstam 16.03.2022).

As mentioned in 2.3.1 the types are limited to Roll-ups, Platforms and Accumulators. According to Ragnerstam (16.03.2022) these companies have changed in definitions over the years. When they were pure distributors, they were defined as “trading companies” while over time they became “compounders” or “serial acquirers”. It was decided to use twelve companies as a peer group to Vestum, four for each of the serial acquirer categories that serves as background in the case (see Appendix 10.4). All of these serial acquirers except for Storskogen have some type of niche, broad or narrow. In Appendix 10.4.1 and 10.4.2, a financial summary and valuation table is presented. As Vestum does not have data for more than one year, this may serve as a backdrop in analyzing Vestum’s future potential.

First, the median and average sales CAGR has been 14.6% and 23.3%, a lot considering the organic growth rate of c.5%. Ragnerstam (16.03.2022) considers organic growth the most important factor in value creation. M&A (and some potential Foreign Exchange (FX)) have added close to 10% per year on a median perspective. Earnings Per Share (EPS) and EBITA has increased more (18% and 18.6% respectively) on a median level per year, suggesting some scale benefits or high margin acquisitions. Ragnerstam (16.03.2022) states Lifco as an example, over time increasing EBITA organically by 10% over time, in turn creating large value. Debt has increased by over 20% per year for the companies, both on a median basis and on average. Still, the companies have managed to maintain high ROIC and ROCE (based on last year's assets), while lowering the net debt to EBITDA (ND/EBITDA) over time.

Few companies dilute shareholders as the median weighted average shares have increased around 0.6% per year, with only Storskogen and Stillfront increasing shares heavily. Capex is on average low, measuring 2% of sales while M&A cash expenditure has been quite significant, with a median of 6.4% of sales over the last five years. One consideration should be done when looking at historical data of serial acquirers, and that is the difference between proforma and reported numbers. The statements are consolidated first after merger has taken place, meaning that stock measures (i.e., assets) are integrated as if they were acquired from the beginning of the year while flow measures (e.g., sales) are only partly consolidated to reflect the timing of the acquisition. For Vestum, the rolling proforma twelve months sales integrated at the time of Q4 publication stood at SEK 4.6 bn versus the reported SEK 1.3 bn (Vestum, 2022c), an industry issue, with M&A generally not included in estimates.

Table 3 – Acquisition overview. Source: Carnegie (2022), Capital IQ (2022), and Authors

	Transactions per year average 2016-2021 (Carnegie)	Cash acquistion % of sales average 2016-2021	Average recent multiples (ex earn-outs and synergies)	Has increased lately?
Instalco	17	10.7%	N/A	N/A
Lindab	2	1.3%	N/A	N/A
Bravida	14	1.6%	N/A	N/A
NCAB	2	6.1%	7x EBITA	N/A
NWG	3	4.2%	N/A	N/A
NIBE	5	3.9%	N/A	N/A
Stillfront	3	41.8%	7.5x EBITA	No
Dometic	2	19.1%	>15x EBITDA	Yes
Indutrade	12	6.4%	7.5x EBITA	Yes
Lifco	12	11.1%	7.5x EBITA	Yes
Storskogen	24	29.6%	7.5x EBITA	Yes
Addtech	12	6.4%	8x EBITA	Yes
Vestum	**45**	**>100%**	**7.5x EBITA**	**N/A**

** Storskogen and Stllfront do not contain data for the whole period, only one year for Vestum*

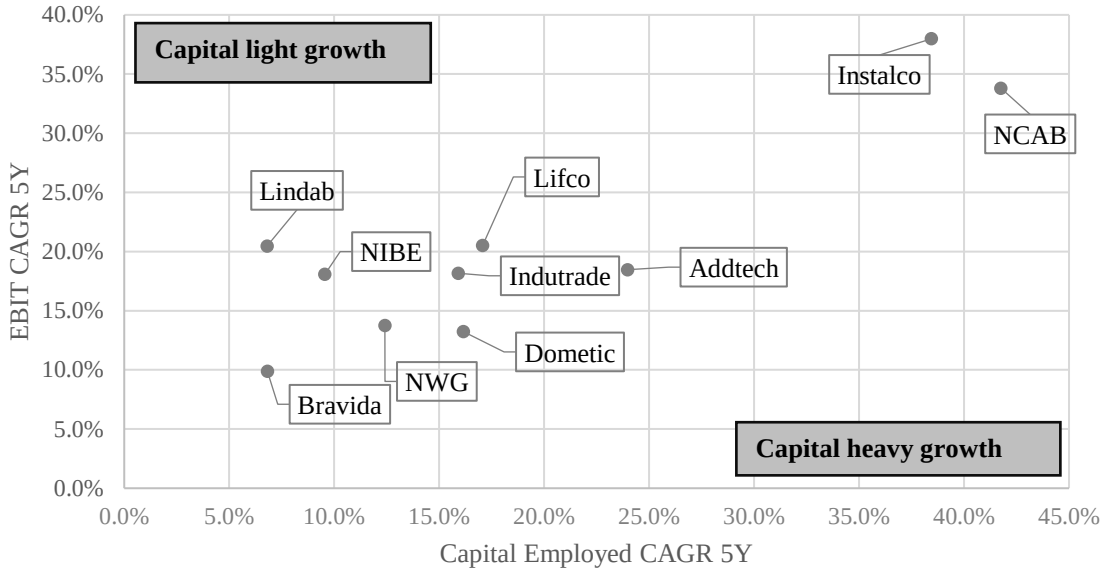
Dometic, Storskogen and Stillfront have had the highest expenditure in % of sales, while Storskogen has done around 24 transactions per year. Dometic and Stillfront has only done around 2-3 per year, what many would describe as transformational M&A. In other words, M&A with enough financial impact that it transforms the company. Recent average transaction multiples have been calculated excluding earnouts and potential synergies, based on the R12 results. Some companies do not share their transaction values as these are often considered non-significant to the total market capitalization of the company.

In general, it seems like the average paid multiple for the companies buying in the private market is around 7.5x EBITA. Ragnerstam (16.03.2022) think that this spread between listed companies and private companies creates multiple arbitrage incentives for serial acquirers. He also states that one should ask themselves whether a company being acquired by a listed firm should increase in multiple just because of that reason. If a company is acquired at 5x EBITA and the multiple for the acquiring company stays the same at 20x EBITA, then the market is according to Ragnerstam's (16.03.2022) reasoning implying that the company is an amazing stock picker, buying below fair value every single time. Believing all acquirers to be great stock pickers is naive. Lastly, he states that multiples paid for private firms have increased over time but states that Lifco's multiples have not increased over the last ten years due to its brand value and how large the pool of potential acquisition candidates is.

Valuation in the sector is high as based on estimates from Capital IQ. The median P/E in 2022 as estimated is 25.5x (median for the peer group). OMX all share (SAX) is valued at 17.7x while estimated median EPS growth is over 25% over the two coming years. These estimates tend to be purely organic, meaning that they do not include M&A. In general, the expected dividend yield is quite low for the sector around 1%. As these estimates do not contain M&A and might not be adjusted to the most recent proforma given, one should be cautious.

Table 4 shows the Earnings Before Interest and Taxes (EBIT) CAGR versus the Capital Employed CAGR over the last five years. Most corporations have not been able to grow the EBIT more than the capital employed. The largest EBIT CAGR has been achieved by Instalco of c.40%, but it has been able to do this by growing the capital employed to the same extent. Lindab, instead shows capital light growth. However, based on a fixed time period, some corporations may have seen weak, respectively strong results at their start and end date and vice versa for the measurement period.

Table 4 – Capital growth and earnings growth for selected peers. Source: Capital IQ (2022)



4.2. The Swedish construction and infrastructure market

Vestum has chosen two specific niches in which it operates, construction and infrastructure. *"We acquire and develop prominent specialist companies within construction services and infrastructure"* (Vestum, 2022a).

Vestum does not operate as a full coverage construction company like Skanska and PEAB. *"We don't buy construction companies or entrepreneurs that take full responsibility for a project, but we target niche players which are by many peoples' definition a subcontractor in the construction, facility and infrastructure business"* (Ryk 11.10.2021).

The Swedish construction market is fragmented, with over 110,000 companies registered within the construction sector as of 2020 (see Appendix 10.5.1) with approximately 87.0%, out of these employing 0-4 people. Around 10.2% holds 5-19 employees, 2.4% holds 20-99 employees and the rest <1% employs 100-500+. The registered companies within the construction sector corresponds to 9% of all registered companies in Sweden. The competition is mainly local and national, with general low competition from international firms. (Byggföretagen, 2021a)

Appendix 10.5.1 shows that there exist large amounts of specialized companies in the construction sectors. Contractors in construction and civil engineering stands for 26% of registered companies, the rest defined as specialized companies for 74%. However, specialists tend to be smaller on a broad scale, (see Appendix 10.5.2) with the total revenue accumulating to SEK 433.2 bn (49.5%) for specialists compared to the industry revenue of SEK 875.8 bn. The net income margin tends to be quite volatile (see Appendix 10.5.3) with specialists achieving a margin lower than the industry of around 6.7% in 2019 versus 7.0% for the

construction industry. Construction in general tend to have lower margins than the entire economy. As a benchmark, Skanska Sverige AB had revenues of SEK 26.7 bn in 2020, being the largest constructor in Sweden according to SCB, which implies a market share of c. 3% given a steady pattern. Similarly, Bravida, the largest installation company in Sweden had a revenue of SEK 10.0 bn in 2019 (Svensk Byggtidning, 2020) corresponding to c.2.3% market share of specialists. The market is by all means fragmented.

The number of construction starts has been rising the last 10 years (see Appendix 10.5.4), from approximately 27,000 in 2011 to around 61,000 in 2021. With different negative factors beginning to show during early 2022, such as the Russian invasion of Ukraine and the nearing cement crisis in Sweden that is expected to occur within the next two years, the construction starts are expected to drop to c. 57,000 during 2022 and further down to approximately 45,000 during 2023. In line with reduced construction starts, The Swedish Construction Federation expect the Swedish GDP growth to lower to 2.5% during 2022 and 0.3% during 2023, with even lower GDP growth during 2023 caused by the cement crisis and the effect that will have on the construction investments in Sweden. (Byggföretagen, 2022a)

4.3. Financing environment

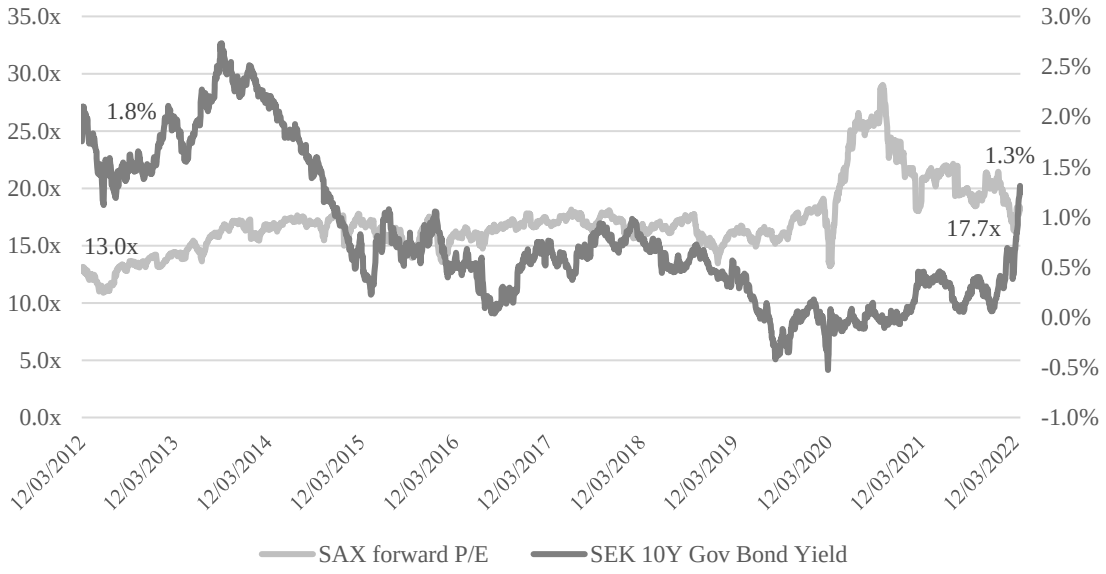
Consistently expanding a portfolio of companies requires financing, through internal or external capital. If the cost of this financing becomes cheap, capital raised through external means may be of great interest to serial acquirers. Financing may be done by either internal cash, debt, or equity issuance.

Appendix 10.6.2 summarizes the repo rate, i.e., the rate at which the central bank may lend and borrow money from commercial banks. From Jan 2011 until today, the rate has decreased from a peak of 2.0% in July 2011, bottoming out at a negative rate of -0.5% for three years from in 2016 to 2019 before being increased in two steps to 0.0%. This rate is directly related to the financing banks experience and through the intermediation process what serial acquires like Vestum experiences in their bank financing and on the bond market. Yields on the bond market in Sweden is often set through a floating rate of STIBOR 3 months + a certain amount of basis points. As the repo rate and hence the STIBOR 3 months has been dramatically lowered over the past decade, debt financing has become cheap. In credit, size matters and keeping indebtedness at a reasonable level with strong cash flows lowers your financing cost. Corporations like Lifco and NIBE are hence able to raise debt at lucrative levels for their M&A agenda. Recent developments and interest rate hikes may change the so far lucrative playing field for companies seeking M&A financing.

7 of 13 companies in our peer group are active in the bond market, and all have a debt structure (see Appendix 10.6.1). For serial acquirers, it is often even a stated target to keep a debt target level measured as ND/EBITDA.

Financing through equity is by the pecking order expensive as equity holders are last in queue for payment. By CAPM as described in segment 2.2.2 the required return may be based upon the beta, a risk-free rate, and the risk premium. PwC performs a study each year, researching the risk premium used by actors in the financial sector of Sweden, which shows that the risk premium has increased over time from around 4.5% in 2011 to 6.7% in 2021. If the historical return is constant, a decreasing interest rate will lower the risk premia. However, actors in the industry tend to use normalized long-term risk-free rates in their hurdles (PwC, 2022). Financing itself via equity by issuing stocks in acquiring targets is directly attached to the traded multiple of the company. The low interest rate environment may have led to increased multiples over time. Table 5 shows the 10Y Swedish government bond yield rate and the forward estimated P/E of SAX showing a direct increase in stock market valuations since 2011. The higher the multiples, the cheaper the equity financing. Since these segments also have higher valuations than the overall stock market, financing through equity may prove to be a cheap alternative if they can buy at a lower multiple. This is discussed by Ragnerstam (16.03.2022), contemplating whether the implied value of an acquired company entering Vestum should increase, for the sole reason of joining Vestum.

Table 5 – OMX Stockholm Index valuation versus government bonds.



Source: Bloomberg (2022)

Overall, it has been a favorable market for serial acquirers, with lower debt financing costs, a strong stock market with higher multiples implying lowered cost of equity as well as

the segment experiencing even higher multiples than the stock market. The serial acquirer market may from this effect experience some major increase in the cost of capital over time. This is stated in the interviews as well as a problem. *"If the multiples drop, the model becomes increasingly hard to operate...and it may change rapidly"* (Ragnerstam 16.03.2022). When the multiples drop in relation the private market multiples, the capital raised in relation to the corporation's current capital increases, debt, and equity all the same. Being based purely on financial alchemy through the multiple arbitrage is a dangerous model, (Åhlgren 07.03.2022, Ragnerstam 16.03.2022).

5. Case background

5.1. Conny Ryk

Ryk started his first company during High School at the age of 18 and has since founded several companies (Ryk 08.03.2022). Entrepreneur at heart, he had built and sold both Sortera (Appendix 10.8) and Sanera, founding the latter after finishing high school in 2002 and the prior in 2006 (Ryk 24.11.2021). But the journey did not start there. He was introduced to the stock market at the age of 12 by his grandfather and joined Swedish Young Shareholders' Association at the same age. The first investment managed to yield over 100% returns through a buyout just a few weeks after buying. That first success gave him a taste for the stock market which has stayed with him ever since. He was introduced to construction through his father who worked as a carpenter and started working for him at the age of 13 during summers. After finishing high school at the age of 18 studying business he started Sanera. This accumulated experience had led him to the idea of Vestum. (Ryk 24.11.2021).

"Already 15 years ago I was thinking that the construction industry was misunderstood. The construction industry is bundled together when looking at it from a financial perspective and investor perspective. If you talk construction companies people think about Skanska and JM that earns 3-4% while being cyclical, it goes up and down, while the companies are priced thereafter. But in my world, where I've worked it's about companies that are very focused on doing one thing under large volume to a large number of clients." (Ryk 24.11.2021).

5.2. WeSC

We Are the Superlative Conspiracy started 1999 as a skateboard lifestyle brand. Their name, abbreviated WeSC, was meant to represent the feeling of unity and creativity in the skateboard community. It set out to become a lifestyle brand, mixing subcultures in skateboard, art, and music by fashionable designs for the youth (WeSC, 2022). WeSC gathered inspiring household names in music and sports. This sponsorship promotion structured went under the name of We

Activists with members such as Jason Lee and Peter Stormare (WeSC, 2009). At the height of WeSC's journey in in the fiscal year of 2011, its sales amounted to SEK 408.4 million (Bloomberg, 2022). In 2008, 2009, 2010 and 2011 the company accumulated a net income (GAAP) of SEK 116.3 million. But fashion and attire are tough businesses and what was once a blooming business became a cash burning machine. In 2012, losses amounted to SEK -23.4 million and at the end of 2020 it had accumulated a net loss of SEK -301.1 million. In 2020, their sales had dropped to 21.5 million. *"We made a new share issue for WeSC after the situation had started to look better. Suddenly I owned 44% and Mangold 6%, so that did make up 50%"* (Åhlgren 07.03.2022). In 2021 two things happened; orders increased by 300% and WeSC became a construction and infrastructure company.

5.3. The reverse merger

Going public, a company may choose between different entries including an IPO, a direct listing, or a reverse merger.

After the operational turning point of WeSC, with Åhlgren and Mangold controlling the company, and orders increasing 300%, a plan had started. Ryk had an idea, three companies ready, but was missing a spot at the exchange.

On the 22nd of March 2021 (Vestum, 2021), it was announced that through a directed equity issue led by a consortium of Conny Ryk, Simon Göthberg, Olle Nykvist, Olof Andersson and Erkan Sen, WeSC was taken over by the group in a reverse merger where they gained control of WeSC, acquiring three companies during the same day. WeSC would through a directed share issuance issue a total of 36.2 million shares where Ryk purchased 18.2 million shares with the rest of the group purchasing 4.5 million shares each at a price of 2.31 SEK per share. Further, two other equity issuances took place during the day, 1.6 million new shares to settle debt with chairman Åhlgren and 10 million new shares to pay for the three acquisitions that were announced simultaneously. As of March 22nd, 2021, the new management held 60% of the share capital outstanding of which the new CEO, Ryk, held 30%. These issuances resulted in the old shareholders in WeSC going from a combined holding of 100% to 21%. WeSC would become a serial acquirer in the construction industry under its new name, Vestum. Three acquisitions were communicated, Vestum acquired Sanera Stockholm AB for SEK 60m, and the two sister companies Skandinaviska Områdesskydd AB and Kenit Produkt AB for SEK 94m. These acquisitions were financed by SEK 60m cash raised from the new investors, SEK 71m debt, and SEK 23m paid with equity. The new core business was now established, and the once blooming WeSC business would soon be put up for sale as it was now considered a non-core asset in conjunction with its turnaround.

5.4. Vestum

An international skateboard fashion company had become a construction and infrastructure *roll-up*. The acquisitions of Sanera and Skandinaviska Områdesskydd on March the 22nd 2021 (Vestum, 2021), were one of many to come. Vestum led by CEO and largest single owner Conny Ryk might have found a white space in construction, ROT (Repairs, Conversions, Extensions), and infrastructure. The company has recently created its third segment, *Water*, and are now operating through three segments: Water, Services, and Infrastructure (Vestum, 2022a). These are described together with general company information in Appendix 10.9.

6. The case

6.1. Choosing the construction and infrastructure industry

Ryk and Vestum's management had realized that the construction sector is bundled together by financial actors. Huge construction and civil engineering companies (e.g., Skanska, PEAB) tend to operate with low margins with e.g., Skanska reaching an EBITA margin of 5.5% and PEAB 5% in 2021. Vestum on a proforma basis of 2021 achieved an EBITA margin of 10.9%. Specialized service companies are focused as opposed to generalists, working under high volume to many clients. While these companies may turn down business for the sake of staying specialized, they may remain experts and in turn gain a strong reputation and brand while keeping employees happy, educating them in these niches. From this, service companies may remain more stable during cyclical downturns as these companies are focused on services and maintenance. If companies achieve a premium status, they may both deliver the best and get paid the best. Entrepreneurs prefer to sell to, or might only sell, to a matching owner. This owner is often the most important key in taking a decision to sell. This has been communicated by all interviewees from the entrepreneurial side. As there are numerous buyers, with similar strategies, it often boils down to the person behind. Ryk had walked the steps they are walking, and this was one of the factors. He knew this industry, and the entrepreneurs knew that he did. Sub-contractors and specialized companies in the construction and infrastructure industry are capex light. Cash conversion is high, and according to Ryk (24.11.2021) around 90% of EBITA. Service companies and competitors to Vestum like Bravida and Instalco have both had a capex to sales ratio of 0.2% over the last five years. Strong cash flows might be used to finance future acquisitions, according to Ryk (08.03.2022), the best type of financing for value creation. Something that Ragnerstam (16.03.2022) states as well with Instalco as a perfect example which may grow revenue without increasing indebtedness. Low capital requirements and corresponding high cash flow conversion is according to Ragnerstam the easiest way to

materialize a roll up strategy as the other option is to become an equity issue machine, diluting shareholders. With higher capex demand the model is harder to implement, even with a strong niche, stating Nordisk Bergteknik as having 30% cash conversion, with 8% capex to sales (Ragnerstam 16.03.2022). For a successful roll-up, fragmentation is key. *"It has to be an endless runway"* Ragnerstam (16.03.2022). Åhlgren (07.03.2022) states that for Vestums model to work, it has to operate in a fragmented market, wondering why consolidated has not happened earlier as a huge part of Swedish GDP is unlisted. According to the data gathered in 4.2 there are 81,805 registered specialist firms and of the construction sector close to 6,800 companies are registered with a size of 10-99 employees, firm sizes generally in line with acquisition criteria in Appendix 10.9.

6.2. Why the reverse merger?

Several aspects of starting this journey through a reverse merger has been brought up. Åhlgren (07.03.2022) describes how Ryk during their first meeting stated that he needed a spot on the listed market and that he needed it fast, which is also confirmed by Ryk (08.03.2022). During his time at Sortera, Ryk noticed that when paying for acquisitions in shares it is hard for the acquired to know what the real value of the shares are if the acquirer is private and instead operating in an listed environment would make it easier to see the value of what you are getting and better transparency by being able to access the publicly available information that listed companies has to provide (Ryk 08.03.2022). Further, as Ryk recently had been running a dual track process with Sortera, i.e., looking to IPO or sell the company, he realized that he would rather let the market join the journey and prove themselves from the start, rather than waiting a couple of years for Vestum to prove itself before going through a lengthy IPO process. (Ryk 24.11.2021). On top of the cash that would be raised from Vestum's management during the reverse merger, they had also secured significant bank financing which was crucial to kick-start the acquisition spree (Göthberg 16.03.2022).

When looking for an appropriate company for a reverse merger, Ryk had some key criterion to allow a smooth start to the Vestum journey. Two key aspects he was looking for was a broad ownership base and no external debt. Then Ryk found WeSC, who had a toughened shareholder base that had been through multiple equity issues. He only had to convince the majority owner Åhlgren, who personally and indirectly through Mangold Fondkomission owned over 50% of the shares and could thus avoid bringing up the issue at the annual general meeting and risk that it would not get enough votes in favor of this complete turnaround of the business model (Ryk, 08.03.2022). Lastly, the timing was perfect, you had a cheap company that were in a turnaround in its lowest point and getting a similar price in a normal market for a stock exchange spot is according to Åhlgren (07.03.2022) rare.

6.3. Finding targets

For all serial acquirers with a stated goal of adding growth through acquisitions, finding the correct target is key. Targets are found by screening or by companies that are interested in selling reaching out (Ryk 08.03.2022, Åhlgren 07.03.2022). These entrepreneurs that are interested in selling have often talked to entrepreneurs satisfied with Vestum (Åhlgren 07.03.2022). The companies are then gathered under either the water, service, or infrastructure segment.

General focus

Vestum targets small and medium-sized companies with significant *structural capital* in place (Ryk 08.03.2022). This is defined as the effectiveness of the organization, how functions are working and how the organization is built, e.g., how independent the firm is, whether the CFO has an external or internal role, whether there are systems in place or if these are Excel models or folders made by hand (Göthberg 16.03.2022). Low structural capital, according to Ryk, leads to two things: reformation is required, which takes time and is likely to dilute margins and growth will stop as focus turns to organization. Besides structural capital, Vestum focuses on EBITA. As Vestum acquires companies, some value is attributed as consolidated surplus value and amortized. Goodwill is tested for impairments, but not linearly amortized. Vestum further targets SME companies with a revenue of SEK 40-400m, corresponding to an EBITA of around 5-50m and a margin of around 12% (Vestum, 2022a). They invest in proven business models with a long history of over five-year profitability that is growing quicker than their market (Ryk 08.03.2022, Göthberg 16.03.2022). This should entail predictable cash flows, generally in a niche market run by a committed management. A normal company is somewhere around 40-50 employees where operational challenges often occur (Ryk 08.03.2022).

Financial metrics

These businesses are usually acquired at 5-7x EBITA on a debt free basis (Ryk 11.24.2021). Vestum does not focus on low multiples. The firm would rather invest in strong margins with high organic growth for 7.5x EBITA than 5.5x for something of less quality (Göthberg 16.03.2022). These multiples may be screened through R12 results, both future and present, as well as adjusted results over a span of years as to account for irregularities. Ragnerstam (16.03.2022) argues that entrepreneurs see their company value as a bag of cash rather than an exact multiple. This means that in weaker times with lower results, companies are looking to sell at higher multiples, and vice versa. "*It is the same guys, same business, same machines. So why sell for 20 when it was 50 one year ago? Then they wait"* (Ragnerstam 16.03.2022). Ragnerstam states that during the financial crisis, few acquisitions were made, due to this fact. Operationally, Vestum measures several multiples, such as ROCE, ROIC and margins. ROCE

is generally preferred in the screening process (Göthberg, 16.03.2022). Strictly looking at metrics is not the focus due to different underlying potential and stability. A service company has generally a smaller balance sheet, while an infrastructure company has heavier balance sheet demands, where future investment needs in e.g., machines may change the underlying metrics (Göthberg 16.03.2022). Lighter balance sheets are to Vestum an essential part in deleveraging and staying financially healthy in economic downturns.

Synergies

Synergies are generally not a key factor in screening. For the first 12-18 months after acquisition Vestum focuses on organization, succession, financial processes, and compliance. Over time, synergies will be a part of the focus, through revenue synergies by interconnected firms providing business to each other (Ryk, 08.03.2022). Strict cost synergies are not a factor in the screening process and usually hard to achieve. Ragnerstam (16.03.2022) states different synergies that companies may work with. 1) culture, 2) cross-selling, 3) shared purchases, 4) investments, 5) financing.

Succession

Vestum does in general shy away from investing into succession. The vision of the entrepreneur is one of Vestum's most important criteria in looking for a candidate. The entrepreneur, founders and management may have built something over generations and are looking for an exit. *"Some people are looking to buy a vineyard or a golf court in Spain to settle there, which is exactly what we don't want to see" (*Göthberg 16.03.2022). Ragnerstam (16.03.2022) states that some serial acquirers invest into successions like Bravida, while Instalco does not and hence they never meet in negotiations. Vestum prefer the entrepreneurs that have done this for 20, 30, 40, or even 50 years over a couple of generations where money is no longer an issue where Vestum may release financial pressure as entrepreneurs' private economy is often connected to their firm's performance which stops them from taking necessary risks (Göthberg 16.03.2022). Ragnerstam (16.03.2022) agrees, stating that entrepreneurs are often a local champion responsible with not only his own economy connected to the business, but *"70 families that has to be taken care of"* which may stop the entrepreneur from taking strategic decisions, such as acquiring a competitor as these employees may be friends, family, or neighbors. However, Vestum may help entrepreneurs with the succession as it is often the entrepreneur's life work being handed over, which is often hard. (Åhlgren 07.03.2022).

6.4. Integration

Vestum's organization is built upon a central management team with country managers responsible for a certain country of operations. These country managers in turn have division managers that support and assist in developing the portfolio companies. Every country has their

own acquisition agenda and source the platform companies, i.e., subsidiaries, which are placed under a division manager. (Göthberg 11.10.2021). The platform companies are encouraged to do bolt-on acquisitions. These bolt-on acquisitions will play an increasingly important role in Vestum's growth, as the number of platform acquisitions grow. Vestum does not necessarily have to acquire larger companies to ensure future growth but can instead do more smaller acquisitions which is enabled by encouraging the platform companies to do bolt-on acquisitions. (Ryk 08.03.2022).

As Vestum is defined as a roll-up, naturally there are some aspects of integration of the acquired companies. According to Ryk, the highest priority when acquiring companies is to first ensure that all organizational matters such as compliance, succession planning, financial processes, and the work streams between the companies are in order. When those aspects have been settled, Vestum looks for potential synergies. These synergies must not necessarily be that the subsidiaries are forced to buy from the same supplier through a centralized deal that Vestum has, to make potential cost savings. Instead, these synergies are the subsidiaries communicating with each other and learning what kind of services they may offer and collaborate on to gain synergies (Ryk 08.03.2022). Göthberg (16.03.2022) further emphasizes this decentralized approach to integration. He states that it is important that Vestum does not try to tell the subsidiaries what to do, but instead believes that the skilled entrepreneurs will find the best purchase agreement and by not being bound by central purchasing agreements, can be more agile and thus deliver better services to their customers. Vestum also wants the companies to keep their company names, culture, and brand as before the acquisition and more importantly that the companies continue to operate as they have been doing successfully in the past (Göthberg 04.11.2022).

6.5. Creating value for shareholders

Serial acquirers tend to focus on achieving consistent revenue growth, and through scale build higher value over time for shareholders. Ragnerstam (16.03.2022) state that value first materialize through organic profitability growth stating no direct relationship between value creation and diversification per se but argues that diversification may limit risk. Regarding the so often criticized multiple arbitrage, Ragnerstam wonders whether the value created in many of these companies is attributed solely to the spread between listed and private companies. The private market is lagging stating that during 2020 and 2021 when the stock market rushed, the private market lagged, creating higher multiple arbitrage, and in return a strong performance for serial acquirers.

Foundation

The foundation for Vestum's value creation is to acquire quality companies with better than market growth and stability at low multiples. Acquisitions will consist of both platform acquisitions, expanding into new sub-categories in infrastructure and construction as well as bolt-on acquisitions in existing platforms (Göthberg 16.03.2022). The key is then to use in-house expertise to achieve the next step in the entrepreneurs' growth journey, to achieve solid organic growth at steady margins. Åhlgren (07.03.2022) states that in order to create value as owners, Vestum must achieve higher organic growth than when the firm was acquired over time, otherwise they would be worse owners than the previous ones. During the short term however, you may need to invest more relatively to EBITA to establish new platforms, affecting earnings while doing so. Organically the acquisitions should grow at a higher pace than their market, resulting in winning market shares over time. Acquisitions will be sourced both through local M&A teams and from bolt-on acquisitions made by the acquired companies. These grass root sourced bolt-on acquisitions are also acquired at lower multiples than what Vestum normally pays as these are in general smaller than what Vestum's M&A organization source themselves (Ryk, 08.03.2022).

Geographical expansion

Vestum builds organization through geographical structures. As these moves away from the core market, local management staff must be found (Åhlgren 07.03.2022). Expanding geographically there are two potential strategies that Vestum considers: either finding a large platform acquisition, e.g., Lakers Group, with companies already acquired or hire a local talent that knows the market that may then start sourcing companies. The first one is preferred (Göthberg 16.03.2022). As of April 2022, Vestum is active in six countries. Platform acquisitions will logically become fewer as market matures (Ryk 08.03.2022). *"If ten years from today we are able to do 20 acquisitions in 20 platforms, that would be a ten times higher acquisition pace than what we see today and as long as we are able to build organization at the same pace as acquisitions, we will create value"* (Ryk 08.03.2022). Göthberg (16.03.2022) adds that for roll-ups, international expansion is important in order to create value, as the market becomes saturated. Internationally is where focus will be over time as proven geographical expansion provides Vestum with its raison d'être as a roll-up.

Competition from other acquirers

Competition exists from listed acquirers, unlisted acquirers, and Private Equity companies (Ryk 08.03.2022). Ryk, Göthberg and Åhlgren (08.03.2022, 16.03.2022, 07.03.2022) mentions Instalco, Storskogen and Lifco as listed similar actors. Göthberg (16.03.2022) also mentions unlisted consolidation players in PE-structures as competitors, such as Currentum owned by Axcel that consolidates electrical installation companies, Nordic Climate Group owned by

Capillar that consolidates climate control companies, and Layer Group consolidating painting companies owned by Litorina. Competing against these actors is according to Göthberg (16.03.2022) different in comparison to the listed competitors. From his own experience in private equity, he knows that it is a strong model, but reporting demand is intense, and focus on a successful exit can affect the long-term strategic agenda. He states *"The day after you have signed with a private equity fund, you are preparing for an exit. We, as an owner with no exit in mind, are offering entrepreneurs something else, for better or worse"*.

Financial impact

As Vestum reaches a certain scale and size, central costs from this top management structure will become smaller relatively to EBITA if the strategy works out as planned (Åhlgren 07.03.2022). To build and acquire in tangent, Vestum must expand geographically. Once they have done that, with entrepreneurs accepting 1/3 of payment in shares in a foreign country, then they have achieved the position they want (Göthberg 16.03.2022). Multiples are not the focus per se, with 5-7x being the normal according to Ryk (08.03.2022). Multiples are benchmarked against e.g., performance, stability and history. Göthberg (16.03.2022) believes that the best stock market performance comes from low acquisition multiples in combination with strong cash flows that over time lowers leverage while keeping goodwill low. They rather pay higher multiples for quality and stability to achieve performance over time.

Ragnerstam (16.03.2022) states that ROIC and ROCE are effective measuring over time to see if management is diluting shareholders, both excluding and including goodwill depending on what you want to measure. Like Göthberg, Ragnerstam believes that low multiples combined with strong cash flows should be in focus. Ragnerstam mentions that for a young serial acquirer the ROIC is likely close to the inverse of the acquisition multiples. Lakers was acquired at an EV/EBITA of 13.5x (R12) excluding a 50m earnout potential, while smaller Plåtslagaren G.H. Johansson AB was acquired for 5.7x. Åhlgren (07.03.2022) states that pursuing too many large acquisitions, quality or not, is a bad idea as the balance sheet becomes vulnerable. Ragnerstam (16.03.2022) describes that there exists a sweet spot where multiples start diluting ROIC and shareholders. Lifco can according to Ragnerstam pay somewhere around 9x EBITA before shareholders get diluted. Hence, by looking at ROIC, you can spot companies paying too much for acquisitions, diluting shareholders as well as focusing too much on margins and less on value creation. Ragnerstam (16.03.2022) mentions Instalco as having a strong brand in Sweden recently paying 5-8x EBITA for a high growth asset with an EBITA margin of 17%, which would according to Ragnerstam, in that particular case not been possible for Vestum. He states that we could all start a serial acquirer, with the only issue being what multiples we would have to pay.

Diversification

From 6.5 it is clear that Ragnerstam has not decided if diversification is good. According to Ryk (08.03.2022), there is value in diversification. One company in distress may be offset by another. Vestum may also use this diversification of entrepreneurs to fill gaps in organizations. While installation and carpentering are different businesses, the structures are similar. There are one accounting function, some work managers, some supervisors, and workers on site (Ryk 08.03.2022).

Synergies and integration

Vestum does not believe in centralized volume synergies. Ryk states from his own experience that benefits of scale are not linear. Ryk and Göthberg (08.03.2022, 16.03.2022) believes that entrepreneurs are better off choosing themselves. To be quick-footed and deliver the best service, the entrepreneur should be able to choose. Ragnerstam (16.03.2022) thinks that Vestum's deduction is too simple. He believes that entrepreneurs can both enter into sourcing agreements while keeping control themselves. Ragnerstam believes this to be free money, stating that without the use of these synergies, it is a pure multiple arbitrage. Ryk and Göthberg (08.03.2022, 16.03.2022) believes that while cost savings may be achieved, entering sourcing deals might stretch lead times when a customer is in a hurry. Further, Vestum buys successful entrepreneurs. *"All the low hanging fruits have already been picked, they have the best sourcing deals and that is not where we will make a difference"* (Göthberg 16.03.2022). Over time Vestum should seek project deals where a total project is priced (Göthberg 16.03.2022, Åhlgren 07.03.2022), e.g., installing electricity, ventilation, laying floor and setting suspended ceilings for the same client. Revenue synergies is the clear focus for Vestum except for bolt-on acquisitions where centralized sourcing from a common supplier may work (Göthberg 16.03.2022). While Vestum does not engage much operationally, financial synergies are an easy fix. Vestum uses cash pools to centralize finances to get beneficial rates. But as the companies, in general, have low financing needs both from capex, no physical products and R&D, this has low impact (Åhlgren 07.03.2022). Vestum instead focuses on integrating and unburden the companies through helping with numerous tasks, described in detail in 6.6.

What makes specialists different

Specialists may achieve margins generalists do not (Ryk 08.03.2022, Göthberg 16.03.2022, Åhlgren 07.03.2022). A generalist may never reach margins above 10% while specialists, like Sortera may achieve margins of 20-25% over a long period of time (Göthberg 16.03.2022). *"They focus on construction waste, not garbage. If a customer called and asked about picking up of garbage, they said no, we only handle construction waste. And that is how we think about Vestum"* (Göthberg 16.03.2022). There is not direct focus on ROIC and ROCE as service and maintenance businesses have light balance sheets without large capex demands, even if

infrastructure companies may have larger balance sheets. For infrastructure, keeping track of machines are important, as to not get stuck with old machines in a market downturn while for services it is primarily about occupancy and orders (Göthberg 16.03.2022).

Financing strategy

Financing strategy impacts the value creation for shareholders. Ryk (08.03.2022) believes that Vestum should pay partly through shares as they are higher valued compared to their targets, even in a tougher market, like now. Hence, using shares as payment may be lucrative. Göthberg (16.03.2022) recognizes that printing shares, in hindsight, may be an expensive deal if the stock price increases a lot over time. But he argues that the stock price and performance may never have reached those levels without the use of shares as payment in the first place. Besides, he states *"We want to build something great, and if that is what you want, it is like when you are starting a business. Being too cheap in giving ownership to key personnel is stupid, it is much better to share and getting more people on board that are talented. Then it may become much bigger, much quicker"* (Göthberg 16.03.2022). Using shares also supports Vestum's capital structure by keeping debt low, strengthening equity. The model of 30-35% shares may according to Åhlgren (07.03.2022), Ryk (08.03.2022) change over time depending on the market situation as shareholders may be diluted, but they believe that some level of reinvestment will still be a part of the future strategy. Ragnerstam (16.03.2022) believes that shareholders should remember that EBITA may increase, but the most interesting thing is EPS or EBITA Per Share as *"Anyone can raise money. That is not rocket science. Anyone with a wallet full of money can buy whatever they want. That is not hard. The hard thing is growing EPS"* (Ragnerstam 16.03.2022). Same goes for buying high margin businesses.

The current market conditions caused by the Russian invasion of Ukraine are according to Åhlgren (07.03.2022) worse than when they started. He mentions that while it is not terrible, sometimes market conditions may not allow for pursuing high growth through M&A. Because of the war, raising debt might also become harder, and the best alternative might become bank loans. With some skepticism he states raising bonds as the next best solution*." Standing here right now making a super large deal I think is bad timing wise as currently the stock is too cheap, the ratio is too low*" (Åhlgren 07.03.2022). Ragnerstam (16.03.2022) exemplifies this risk with Storskogen's share price decrease of 50%.

Raising debt is also a part of Vestum's acquisition financing with the 2Y senior unsecured bond raised at a total of SEK 1.5bn at 3m STIBOR + 415 bps. While they may use the debt market in the future, becoming too levered is risky, and the company would prefer staying at the lower range of its net debt target of 2.5-3.5x EBITDA (Ryk 08.03.2022). They state that comparable, more mature companies usually keep 1-2x EBITDA, which is likely where they will end up. Göthberg (16.03.2022) thinks that it is necessary to use leverage as a roll-up actor

in the beginning of its journey. As Vestum targets Nasdaq Stockholm main market, currently listed on First North, keeping indebtedness at a healthy level is important to be viewed as a serious company. Being listed on the main market will allow for cheaper financing, especially for the bond market and from passive financial investors. It also increases the likelihood of better bank financing (Åhlgren 07.03.2022) and will allow the company to pursue stock repurchases which are not allowed on the First North. Moreover, one important aspect of being listed on the main market is the possibility of getting your bonds rated, further decreasing financing costs (Åhlgren 07.03.2022). Over time, the cash flow from the capex light focus will be the main contributor in financing acquisitions, which is the goal according to both Ryk, Göthberg and Åhlgren. According to Ragnerstam (16.03.2022) the only thing that may break a cash flow-based acquisition model is generally a recession as it means weaker cash flows, even if some qualitative companies may suffer less. Secondly, the higher the acquisition pace, the lower the chance of being able to finance growth by cash. Cash flows is what you get after integration. First after one year, Vestum may bear fruit of one years generated cash flows. Getting there takes time. *"As these entrepreneurs have been integrated in Vestum over some time generating cash flows of their own, then this can be used to finance coming acquisitions. In time, this is supposed to become a self-playing piano"* (Göthberg 16.03.2022).

Over time, Åhlgren (07.03.2022) believes that dividends must be distributed. At a SEK 50 billion market capitalization he thinks it will be harder to pitch Vestum as a pure compounder, at some point some cash needs to be distributed, especially in a low interest rate environment. Secondly Åhlgren believes it is important that Vestum focuses on overhead costs as Vestum's model is similar to an active portfolio manager. Looking at successful investment holding companies they have been quite cheap. *"We cannot become an expensive portfolio manager. Once people start comparing these companies, Vestum cannot be the most expensive one. Comparing Investor to a fund, a very small percentage of market cap goes away in fees every year"* (Åhlgren 07.03.2022). Directed issues and placements have also been done to finance larger acquisitions and growth. So far, the company has done four. One at creation, the 22nd of March 2021 of SEK 84 million, one on the 20th of May 2021 for 215 million, and one on the 7th of October 2021 for 2 billion. The first was done specifically to acquire Sanera and Skandinaviska Områdesskydd, while the second gathered a broad investor base. The third was done in tangent to the Lakers Group acquisition. Ragnerstam (16.03.2022) states that in tougher times, it may be very hard to use equity issues in financing growth and it is an expensive alternative to other financing options.

Using directed issues is a strategy that Ryk (08.03.2022) considers looking ahead as well to gather a strong investor base. Åhlgren (07.03.2022) compares this to successful serial acquirers that have historically had loyal investors investing into directed issue after issue when

opportunities arrive. Hence, a successful serial acquirer must according to Åhlgren "*keep their institutions close to the ground when opportunities arrive*" in accordance with how Ragnerstam (16.03.2022) thinks a company should use issues, in *"deals of a lifetime"*. Ryk (08.03.2022) looking at Indutrade as a role model, states that they have been able to acquire targets even in sour markets, which is why he considers it important to always have cash in line with Vestum's plan to not distribute any dividends until 2025 (Åhlgren 07.03.2022).

Motivation strategy

Vestum always acquire with a lock-up agreement of 24 months, as to keep incentives for the entrepreneur which gives enough head room in case succession becomes necessary. By providing the entrepreneur with enough cash to release financial pressure, Vestum hope that the entrepreneur over these two years decides to stay or that they can over time work with succession until it is ready, instead of facing it directly (Ryk 08.03.2022). Vestum believes that entrepreneurs, that have been investors in their business since the start often considers it natural and motivating to remain so. They do not believe that it would be smart to use local ownership in each company. Vestum believes that culture is everything (Ryk 08.03.2022, Göthberg 16.03.2022, Åhlgren 07.03.2022). When Vestum employed an M&A Director in Norway, Göthberg asked him to come to Stockholm for two weeks, where he followed him around to understand how he as the Head of M&A operates. He joined Vestum in lunches, beers on evenings, meetings during the days, calls with investors and entrepreneurs. According to Göthberg (16.03.2022) this is the key to teaching recruits not only how Vestum works, but how they act towards entrepreneurs and each other.

How Vestum differs

Vestum and serial acquirers are doing what private equity corporations has been doing for 30 years, but the private equity (PE) firms are doing it in a private environment. How Vestum differs is their focus on a single industry where they have expertise. What PE companies tend to do is sector agnostic investing placing industrial competence on the board (Ryk 08.03.2022). Ryk note that the competition is rising in the industry, as there are both listed and private companies competing for the same deals. What is different in his reasoning is Vestum's model, and the value it has so far created for shareholders compared to investing into a private equity exit in an IPO. *"The value we built, we built because the market could join from the grass roots, instead of some private equity-company making the same thing but taking it to the stock market at five billion. You had the opportunity to join from day one instead of year five in a private equity scenario"* (Ryk 08.03.2022).

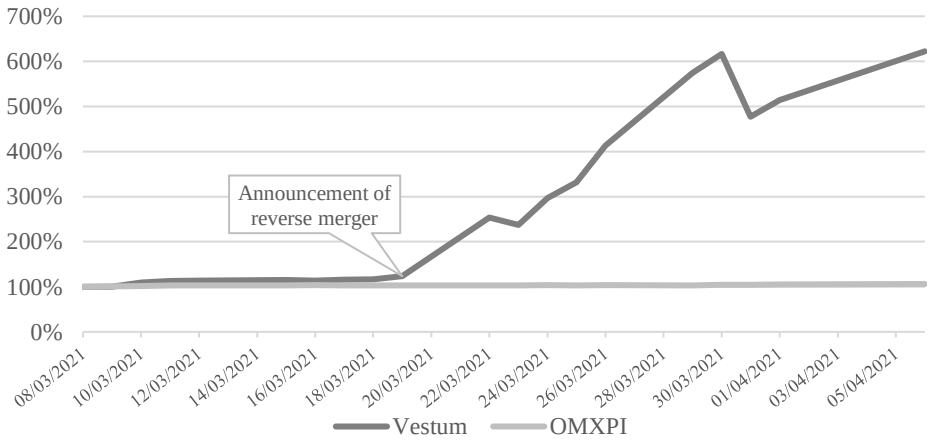
6.5.1.Stock price reaction to announcements

As Vestum as of the 21st of March 2022 has made over 40 acquisitions, some acquisitions adding less than 0.5% to sales. These acquisitions should from a shareholder perspective have insignificant importance in price discovery and hence we focus on three events: 1) the 22nd of March 2021 which includes announcements of the directed issue, the rights issue and the acquisition of Sanera Stockholm AB and Skandinaviska Områdesskydd AB, 2) the announcement acquisition of Lakers Group AB on the 7th of October 2021 and 3) the share performance from the formation of Vestum until March 2022. This is done to analyze potential value creating events by measuring excess returns. Below prices are split adjusted.

The stock price reaction around creation

On the 19th of March 2021, the share price of Vestum had closed at SEK 0.87. At 8:00 am on the morning of the 22nd of March 2021, the announcement of the total remake of WeSC was made public. As of 5:30 pm the stock had appreciated to SEK 1.78, for a total return of c.105% (Table 6). During the same day index returned c. 0.2%. Using the beta of 1.14 calculated from our WACC estimation based on peers the expected CAPM and 1.2% risk free rate the expected one-day return is c. 0.3% corresponding to an abnormal return of c.104.8%. However, a post announcement drift is visible in the graph as well. Over 10 days from announcement Vestum returned c. 403.9% and OMX all share c. 3.0% corresponding to an abnormal return of c.400%. Some minor pre-announcement drift is visible.

Table 6 – Share price development during the reverse merger. Source: Yahoo Finance (2022)

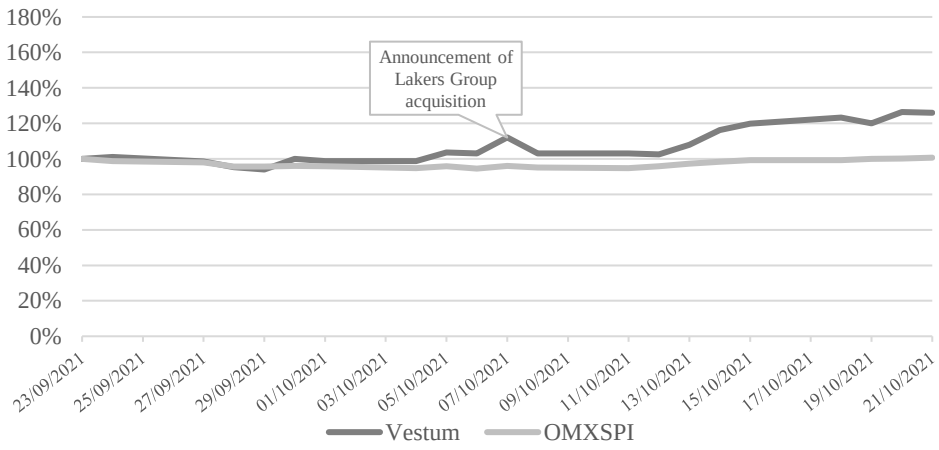


The stock price reaction around the Lakers Group acquisition

On the 7th of October 2021 at 5:31 pm, Vestum published the acquisition of Lakers Group for an EV/EBITA of 13.5x (R12), adding sales of around NOK 1.2bn and EBITA of SEK 151m. The share price had closed at SEK 37.33 just before the announcement. The day after the share price had depreciated to SEK 34.33 for a total negative return of c. -8.0% (see Table 7)

compared to the index return of c. -1.0% for a corresponding abnormal negative return of c. 7.0%. A pre-announcement drift of c. 8.7% during the day was visible, index returning c. 1.6%. Usually this could stem from information leakage or more commonly volatility as the index returned abnormally high, or other factors impacted the daily return. The actual beta may also differ. Over 10 days from announcement the total return corresponded to c. 12.5%, index returning c. 4.8%, for an abnormal return of c. 7.0%. Noted should be that the day of announcement also informed the market of the directed issue.

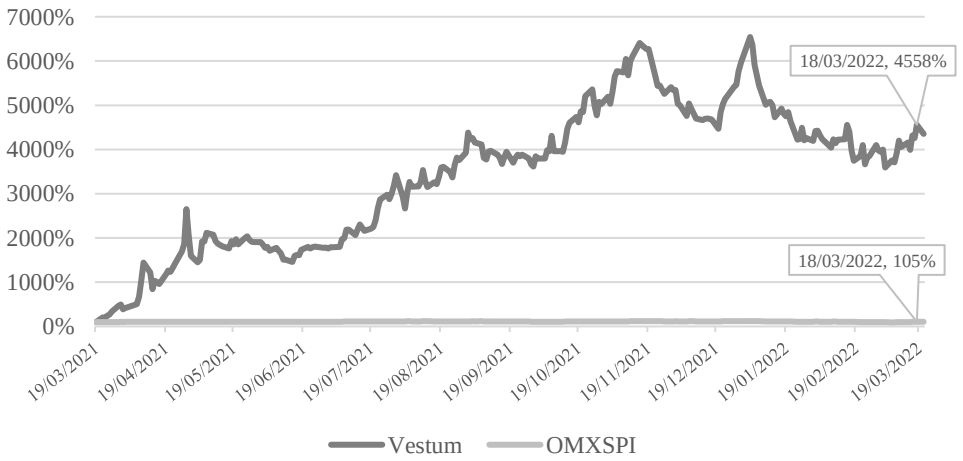
Table 7 – Share price development – Lakers Group acquisition. Source: Yahoo Finance (2022)



The stock price performance since creation

On the 19th of March, Friday prior to the announcement of Vestum's creation, the share price stood at SEK 0.87. Over the course of the following 12 months up until the 18th of March 2022, the share had appreciated over 4400% as visible in Table 8. During the same period, the stock market returned 5%. The abnormal return is visibly clear as the beta would have to be over 1100 to render a return of similar latitude.

Table 8 – Share price development 1Y from the reverse merger. Source: Yahoo Finance (2022)



Attracting entrepreneurs seems to be important for shareholder value creation for a serial acquirer as acquisitions tend to drive returns, especially for a company growing as fast as Vestum. So far, Vestum has been successful in attracting capital and in attracting companies.

6.6. Creating value for entrepreneurs

A serial acquirer is dependent on successful acquisitions and therefore it first needs deal flow and secondly it needs to keep acquisition multiples low (Ragnerstam 16.03.2022). Maintaining a valuable relationship and reputation with the business community is of high importance. Vestum has adapted its own strategy, described by both management and entrepreneurs below.

Vestum sees itself as a hub of expertise that entrepreneurs may use (Ryk 08.03.2022). The more companies it acquires, the larger the internal expertise. Secondly Vestum pitch a collaborative environment where entrepreneurs are working together to create value which Ragnerstam (16.03.2022) states as cross selling described as a pure value creating possibility. Vestum connects these entrepreneurs and host company-wide meetings where portfolio CEOs meet, socialize, and discuss operations (Ryk 08.03.2022). As stated in 6.3 and 6.5 Vestum provides a decentralized model, with no forced arrangements. Göthberg and Ryk (16.03.2022, 08.03.2022) believes that would put unnecessary pressure and take away flexibility from entrepreneurs. Limited sourcing synergies are also found as the businesses have low capital needs. Cost synergies consist mainly only of cash pooling (Åhlgren 07.03.2022) as these experts knows their business the best according to the management. *"(..) Companies on the service side of the business do business precisely by being agile, acting fast"* (Göthberg 16.03.2022).

What Vestum from a managerial perspective think entrepreneurs are motivated by in joining Vestum is mostly soft factors as described below:

i. The competence and background of Ryk and Vestum's management. Feeling a connection to the acquirer is what separates one acquirer from another and Ryk (08.03.2022) mentions that it is not only his competence that are of importance, but all of Vestum's management. Åhlgren and Göthberg (07.03.2022, 16.03.2022) both states Ryk as the most important reason for joining Vestum and believing in the idea. Ragnerstam (16.03.2022) has met Ryk through his work at Nordea on numerous occasions, calling Ryk a great spirit and presenter. Secondly, Vestum's niche of service-related companies in construction, water and infrastructure makes entrepreneurs trust their competence (Åhlgren 07.03.2022).

ii. Payment. Ceteris paribus, a higher bid is better for the entrepreneur (Göthberg 16.03.2022). Ragnerstam (16.03.2022) states the financial pressure as an often-considered issue for entrepreneurs. As the private economy is so strictly correlated to the firm's performance it is undoubtedly putting pressure on entrepreneurs.

iii. Entrepreneurs describe their businesses as sport teams, but they are lonely at the top (Ryk 08.03.2022). The owners are lonely in decision processes and discussing business at dinner at home is not ideal. Vestum hopes to solve that issue. In employee surveys it has been stated that the culture and employees is the best thing at Vestum. Keeping this culture and making entrepreneurs feel special is where Vestum need to focus as to not become one of many (Göthberg 16.03.2022), which Ragnerstam (16.03.2022) is skeptic about.

iv. Entrepreneurs prefer and respect other entrepreneurs. Vestum provides a family of successful entrepreneurs that may share ideas and support each other. Seminars are arranged for entrepreneurs to further hone their skills. Ryk is not a person that has lived in Microsoft Excel and PowerPoint (Göthberg 16.03.2022). The entrepreneurial and easy-going culture is important while at the same time as being aggressive in their strategy. The entrepreneurs may work together, something Ragnerstam (16.03.2022) describes in Lifco where entrepreneurs sit on each other's boards, something they enjoy. There is also pride in working with the best in the business. Here Vestum and other actors have an easier time competing for deals than traditional PE actors as these have a planned exit and a harsher internal scrutiny culture (Göthberg 16.03.2022, Åhlgren 07.03.2022). Ragnerstam (16.03.2022) compares two different approaches among listed roll-ups. While Bravida wants to change management and fire the CFO that is often the entrepreneur's spouse to save money, Instalco according to Ragnerstam (16.03.2022) instead keeps the CFO, comparing it to coffee money. Keeping the CFO is essential to the entrepreneur's mood and in line with Vestum's approach of not interfering to much more than adding some level of board control (Rosenqvist 07.04.2022). Secondly, Vestum keeps the brand that the entrepreneur has built over many years, which is stated by both Vestum's management team as important, as it is the life work of the individual. Åhlgren (07.03.2022) mentions Lakers, where they did not change the brand, keeping what the customer knows.

v. Help with administrative processes, investments and perfecting the structural capital. Ragnerstam (16.03.2022) notes cash pooling as an easy financing option, where entrepreneurs themselves may struggle in finding loans. Åhlgren (07.03.2022) mentions that he was surprised how easy small fixes were, like helping with HR that entrepreneurs tend to see as tough. In investing, as mentioned in 6.3 Ragnerstam mentions the fact the entrepreneurs feel responsibility that may hinder them from investing into lucrative projects. Vestum gives this support.

vi. Lastly Ryk believes that humans are in their foundation striving for greatness and bettering themselves. Mankind wants to evolve, and that does not stop with the sale of one's company. Ryk contributes this mission as their most important: trying to keep entrepreneurs motivated in staying in Vestum either by fully utilizing their competence through widening

tasks or increasing their competence which Ragnerstam (16.03.2022) also mentions. Vestum have incentive programs in place. When money is no longer the sole driver, but taking the next step is, Vestum is the right place (Göthberg 16.03.2022). Ryk (08.03.2022) states that once entrepreneurs are asked what motivates them, even if money is stated it is often not the truth. Ryk compares it to himself, with a solid cash balance, but his drive being stronger than ever. In Vestum's setting, they take away the financial pressure, but gives the opportunity of internal entrepreneurship as maybe a division manager or even a country manager. Vestum looks to help the entrepreneur going from 100 million in sales to 200 million (Göthberg 16.03.2022).

Vestum believes that in order to keep incentives, some part of the payment should be done by issuing shares. Göthberg (16.03.2022) states that as entrepreneurs have been business owners their entire life and removing it would hurt their spirit, with Åhlgren (07.03.2022) stating that entrepreneurs are proud business owners. However, Åhlgren states that entrepreneurs in tougher market climates might refrain from receiving shares, like now, during war in Europe, but he believes the lock-up period helps entrepreneurs get comfortable in placing a part of their wealth on the stock market. Secondly, sharing ownership shows generosity according to Göthberg, and being too cheap is not a good idea. They target around 30-35% share issuance with a lock up period of 24 months. As c. 70% is paid by cash, entrepreneurs are mostly financially free, and hence Ryk's goal and belief is that the money invested in the firm, stays in the firm (Ryk 08.03.2022). The 24 months lock-up is insurance as it gives Vestum and entrepreneurs a chance to solve successions, whether chosen or not. Succession is one of the most common reasons for selling (Ragnerstam 16.03.2022). The entrepreneur may become sick, or due to something else out of the entrepreneur's control. Vestum may help the entrepreneur in this process and in turn help themselves. A scenario could be that Vestum acquires a 50-year-old entrepreneur looking for an exit, but also keeping the legacy of the firm by securing the structure. After three to four years the entrepreneur may start working 40% for five to ten years, relieved from operational pressure and his private economy no longer strictly tied to the firm, working with business development or advisory. Often, Ryk (08.03.2022) speaking from his own experience, entrepreneurs have someone at home that are tired of them getting calls until 11.30 pm every evening. Somewhere along the line the entrepreneur promised the one waiting at home to start working less and Vestum may help in that plan.

What motivates entrepreneurs in general?

Incentives are important but not the key factor (Johansson 24.03.2022). Johansson mentions that for all his entrepreneurial life he has had an underlying pressure from being solely responsible for peoples' private economy. Stating that it is even worse as an owner as you are always weighing the work versus your own profit. Money can therefore to Johansson never be the sole motivator. Ekman (25.03.2022) states that marketing, especially through the internet

was generally nonexistent and developing that motivated him. He never envisioned 80 people working in the company, but it happened. Ekman claims he has always been an entrepreneur, starting his first business after high school. Rosenqvist (07.04.2022) also states that he has always been an entrepreneur, motivated by grabbing opportunities in white spaces. He started off as a local contractor contracted by Banverket. When operating his machine, he was always thinking on how to make it easier for the railway labor by mechanizing processes. Starting off 1988 when Banverket was formed and large railway investments took place. He saw an opportunity like Ekman to scale up and change an industry, and he took it.

Rosenqvist and Ekman (07.04.2022, 25.03.2022) both state themselves as risk willing. Rosenqvist claims *"I have always been a start first, calculate later person. (..) If you start calculating you see that it is not possible and then you never dare to try"* (Rosenqvist 07.04.2022). Johansson (24.03.2022) feels like taking risks as an entrepreneur is difficult as your decisions are responsible not only for your financial wellbeing, but the financial wellbeing of all employees and in turn their families. Ekman (25.03.2022) states that risks should be calculated, and if the positive outcome exceeds the negative, he takes that risk, but like Johansson he has felt the pressure. *"I tend to compare [the firm] to a snowball that you are rolling up a hill only getting heavier and heavier, and there is always a risk of you becoming sick and the snowball rolling all the way back again"* (Ekman 25.03.2022).

Getting in contact with Vestum

Ekman (25.03.2022) encountered Ryk in 2007 through providing services for Sortera. Over time, they kept in touch and discussed business. The reason Ekman believed they were acquired so early is that in starting Vestum is because they needed contributors they could trust and knew, hence Sanera and Skandinaviska Områdesskydd was acquired. Johansson (24.03.2022) met Ryk through a tenant from his real estate firm in April 2021. They kept in contact, but he was not ready to sell in April, stating that as Vestum grew he matured with the decision. Rosenqvist (07.04.2022) has known Ryk for eight years through meeting him in business projects and real estate deals. When Vestum was planned he was contacted by Ryk, with Sanera and Skandinaviska already acquired, where Ryk were active already.

Conny Ryk and his background

Johansson, Ekman, and Rosenqvist has been in contact with other acquirers (24.03.2022, 25.03.2022, 07.04.2022). The common factor for choosing Vestum among all interviewees are Ryk and his background. "*He communicated an understanding and protective view as he knows what is stressful. He knows what you shouldn't do, as he himself has experienced it"* (Ekman, 25.03.2022). *"I have been fascinated by Conny for a long time. He has kept his eyes on me, and I have been following him as well. He has built Sortera in parallel with a large real estate business in parallel with other business and one may wonder if he has 28 hours a day"*

(Rosenqvist 07.04.2022). *"Conny comes from the same type of business. He knows the drill. And through that he feels more down to earth. It is no guy straight from school into a stock brokerage and then coming up with this idea. There is an understanding and it is not only about increasing profits. It does not work like that in our field"* (Johansson 24.04.2022). Ekman (25.03.2022) also states that in the end of the day you want to be part of the winning team, and with Sortera's history, it looked promising. Vestum also separates themselves in the due diligence process where instead of just providing a list of question, they support the entrepreneurs gather what is needed in the process (Rosenqvist 07.04.2022). Entrepreneurs often have the information in their head, not in folders according to Rosenqvist, but the M&A team at Vestum is helpful in the processes.

Payment

Besides Ryk's background payment and form of payment is important. Payment through cash relieves pressure as some financial stability is secured (Johansson, Ekman, 24.03.2022, 25.03.2022). They state that the private economy is so tightly connected to their firm's performance that pressure rises over time. The payment release some of that burden. Also, as Johansson states, you are responsible not only for your economy. Rosenqvist (07.04.2022) even mentions that in the beginning when you start it might even be friends as you ask *"Do you have some time to work for me? But then they stay for 40 years"*. They become a natural and participatory part of the company culture model. And for the first time the entrepreneur may feel that they could leave, and then suddenly it does not appear as interesting to leave anymore (Johansson 24.03.2022) and besides once you have some stocks you tend to leave them their as you have to make an active choice. The opportunity that the money gives is enough and waiting too long is according to Johansson (24.03.2022) not worth it. "*There is no use in getting a sports car at 65. Then it is no fun anymore*". Rosenqvist (07.04.2022) stated that he thought 20-30% of shares was reasonable and did not consider it too much. He mentions that for many entrepreneurs, it is financially a bigger decision, and the sum must reach a level where it makes a large financial difference in their life. Entrepreneurs tend to think in sums rather than multiples (Ekman 25.03.2022). For Ekman, the sum after tax in cash decided how financially free he would become, and that sum that he felt the company should be sold for never changed even at 70 million in sales. He states, *"We had an e-shop, we were in a good position and when you sell you are dependent on the money that is left after sale"*. Johansson (24.03.2022) is uninterested in the stock market and states that cash is what matters, not mentioning multiples, mentioning buying the firm Danderyd's El for SEK 4 million and not a specific valuation multiple. But for this model to work all understand the need of incentivizing the entrepreneur through share ownership.

Culture

Culture is everything according to all three. Johansson (24.03.2022) mentions that a company is built on genuine employees that enjoys work. Investing in the employees is important and being cheap is noticed by personnel, creating a vicious cycle of unmotivated employees and lower results. He mentions that private equity actors have been in contact with him but felt afraid Galore would be integrated into an organization where "*everything is numbers*". Ekman (25.03.2022) states that he did not feel that other financial buyers understood their business stating, *"I heard a lot of flaws in speaking with the number capitalists that often comes directly from finance missing that entrepreneurial spirit"*. A friend of his stated *"If you sell, exit directly because your existence will become worse directly"* speaking about other buyers. In the end Vestum were chosen because of their open culture and Ryk's background. Rosenqvist (07.04.2022) mentions several acquirers as well. He felt that his gut feeling about other bidders through the years has led him to drop out. *"You do not speak the same language, it is often financial investors, with different values and it just did not feel right as you are responsible in providing for a large number of employees and their families and through that you need to think in longer terms than tomorrow morning"*. For entrepreneur led companies Rosenqvist states that the culture is usually strong, with low employee turnover, without any centralized management. Payment is important, but he states that the last dime is not what decides the deal but instead the general impression. Johansson (24.03.2022) states that he has heard horror stories from large established installation firms. For unlisted companies he is even more sceptic as it is harder to value your shares, and you never know when or if ever the stock will be listed.

Securing the firm's future

Securing the company's future has also been mentioned by two of three entrepreneurs as an important factor in selling. Johansson (24.03.2022) and Ekman (25.03.2022) mentions that by selling to a company and keeping the brand, they may secure the company from themselves, ensuring that the company lives on in case something would happen to them. When discussing competitors, Bravida and Instalco are mentioned as firms that may destroy brands by Johansson (24.03.2022) stating that *"In a few years, it will be written Instalco on everyone's outfit"*. Rosenqvist (07.04.2022) agrees in that companies are looking for a way to secure that their business may carry on as it is. Rosenqvist (07.04.2022) mentions that as an entrepreneur, there is never a moment of rest, which is what an entrepreneur enjoys and needs. Rosenqvist mentions incentive programs together with an engaging working life as important. As an entrepreneur you want to work, but for the first time it is possible to stop (Ekman 25.03.2022, Johansson 24.03.2022). Johansson (24.03.2022) mentions that with his stock holdings there is an upside in working hard. His incentives are strong, but after the lock-up his plan is not set. It is not clear entrepreneurs will stay, but the possibility of doing so with right incentives brings motivation.

Internal careers

Motivation may also be brought by internal careers. While Rosenqvist is no longer involved operationally, he states that pursuing an internal career may bring great joy to entrepreneurs (07.04.2022). Vestum operates through divisions with a manager in each branch and internal careers is something many entrepreneurs probably aspire. Working with the own firms simultaneously as building an internal career may increase motivation (Rosenqvist 07.04.2022, Ekman 25.03.2022). Ekman also state that he thinks that the internal career is dependent on incentives. In his position, he has the opportunity to step down and if he did not have that possibility, the incentives for an internal career would likely be larger. Johansson (24.03.2022) claims that it does not provide him with motivation as it is hard, as a lifelong entrepreneur, being an employee. Ongoing business ventures is where Johansson gets his motivation, and as a result, it is not given that an internal career may have been a factor for entrepreneurs in selling to Vestum. One factor raised by Ekman (25.03.2022) is that once you get acquired, it does not stop you from performing as people are inherently proud and want to perform.

Structural factors

Vestum may also help with structural factors. Johansson (24.03.2022) mentions that in his line of work, organizations are in general terrible, stating *"What you earn at the customer, you lose in administration".* He states that besides help with administration, entrepreneurs may need help with succession, which also Rosenqvist (07.04.2022) mentions. Joining Vestum may also help Galore take the next step in ensuring quality and increasing seriousity outwards to the customer. One step taken to increase administrational quality is a common IT framework that is currently being built which should help entrepreneurs connect in business and common sourcing (Ekman 25.03.2022). Johansson (24.03.2022) states that Vestum gives entrepreneurs the tools they need to enter agreements, stating working clothes as an example where they have entered a common deal, but also states that common sourcing may never become a large focus in Vestum. As discussed in 6.3 Vestum source deals through entrepreneurs as well. Being integrated into Vestum may provide that comfortability. Johansson (24.03.2022) believes in buying poorly managed companies with strong customers and business models that may be improved. By being integrated into Vestum, financial pressure is lifted, and the courage to take that acquisition decision may become possible. Johansson (24.03.2022) states that it is often impossible receiving loans as a smaller private company, where Vestum may help. However, Ekman (25.03.2022) states that as his firm was already creditworthy with a strong cash position, buying Paradox Security would have been possible even without Vestum. Rosenqvist mentions that as acquisitions are a part of Vestum's strategy, sourcing is done from his firm as well. With that as a background, he found companies through his network that he might not have thought about acquiring otherwise. However, financially it is not stated if Vestum made it possible.

Network of entrepreneurs

Local entrepreneurs are often alone in their decision process (Rosenqvist 07.04.2022, Johansson 24.03.2022, Ekman 25.03.2022). Vestum provides the entrepreneurs with a network of other successful entrepreneurs which they respect and may discuss business with (Rosenqvist 07.04.2022, Johansson 24.03.2022, Ekman 25.03.2022). Ekman mentions this as *"You are standing at a top of a small mountain, but the top is not that large, suddenly you are standing on a huge mountain where you get to know how other do business, which is very self-fulfilling".* Johansson (24.03.2022) note this as a key issue in selling. He mentions that he is now able to hear from entrepreneurs in other business segments how they conduct business while before selling he discussed business with his partner. Vestum has created an environment that have strong connections between entrepreneurs and management, stronger than for competitors according to Ekman (25.03.2022). By letting everyone network, getting to know people Johansson (24.03.2022) thinks that collaboration is bred. As Vestum is built on humbleness and not only *"desk people"* he believes entrepreneurs feel calmer as you are not used to the financial world. Ekman (25.03.2022) states that getting culture right becomes increasingly hard with growth which is why middle management is so important. Rosenqvist (07.04.2022) has focused on culture his entire business life and states that his employee satisfaction index is very good which he states Ryk works with as well. He mentions that by a strong culture and leadership, it was easy entering Vestum as the employees stated, *"If Anders believes in them, we do as well"*. He mentions Vestum as providing positive stress to employees, which entrepreneurs appreciate. In the end of the day, it is stated by all entrepreneurs that collaboration through culture is what bring revenue synergies.

7. Discussion and analysis

7.1. Has Vestum created value for shareholders to date?

Vestum has built an organization from around SEK 30 million in sales to a proforma sales of over 5 billion. With a market cap of SEK 13.4 billion (as of 21.04.2022) and a share appreciation of over 4000%, it is fair to say that so far, Vestum has created shareholder value in excess.

Abnormal returns

Looking at 6.5.1 it is visible that Vestum at creation quickly created high shareholder returns. Ten days post announcement the cumulative abnormal return reached c. 400%, a common methodology used in estimating shareholder value (e.g., Hazelkorn, 2004; Andrade et al., 2019; Chartterjee & Kuenzi, 2001; King et al., 2004). Looking at the largest acquisition Vestum has made until date in acquiring Lakers, cumulative abnormal returns reached c. 7%, however, before announcement there was a positive drift of c. 8.4% and at the day of announcement

returning abnormal negative returns of c. -7.%. The effect is unclear, meaning that it is difficult knowing whether 1) the acquisition was too expensive, 2) the market had anticipated and knew about it or 3) it was mere volatility. We argue that solely looking at abnormal returns are a to narrow estimation of value created, especially for a young firm as Vestum, as stock prices tend to see volatility over time. As an example, comparing the stock return would you have bought shares in the first of November 2021 to buying in April 2021 holding until 21.04.2022 has made you c. -20% versus c. 915%. This shows why the method is flawed and hence why both qualitative measures and quantitative measures must be analyzed such as accounting measures, expert's assessments, and subjective evaluations (Adnan & Hossain, 2016).

Accounting measures

For accounting measures, it is hard to perform a solid analysis as the company is so new and there is a large discrepancy between the actual rolling numbers (the proforma numbers) and the latest reported ones. Nevertheless, reaching a ROIC above our calculated WACC of 8.2% should not prove too difficult if the multiples paid are in the range given by Vestum's management. An EV/EBITA multiple of 9x would still render ROIC higher than WACC, being value creative by the definition of Mellen & Evans (2010). Growing organically will also show whether Vestum are good owners by the definition of Ragnerstam and Åhlgren, but that is yet to be known as it is not yet published. Keeping EBITA margins over their target is where centralized costs may become an issue, but could also possibly get better by scale, but so far, the proforma numbers looks promising with a margin of c. 11%.

Other factors

Vestum should look out for becoming an expensive fund manager, as Åhlgren stated it should never become. From a financing perspective, being large is good. Credit rating institutes tend to give higher credit ratings to larger institutions, and from this perspective, Vestum has created some value. This may hold true even for diversification, even if that could be discussed as value creating or not. While buying companies increases your diversification it may result in a conglomerate discount, where pre merged entities are valued higher than the corresponding merged entity (e.g., Custodio, 2014; Ammann et al., 2012). This does not tend to be the case looking at valuations in the serial acquirer peer list and since Vestum states buying for 5-7x EBITA, it is unlikely but could be a topic for future discussion. In general, Vestum has created large value measured as abnormal returns so far if you were an investor early, but looking at other accounting measures, it is yet to be discovered. Going forward, as Vestum is dependent on future acquisitions we argue that keeping strong relationships with the business community and especially creating value for entrepreneurs deciding to join Vestum is important.

7.2.Has Vestum created value for entrepreneurs?

In a highly competitive market, where many actors want to get hands on your business, Vestum needs to stand out. This section aims to assess value creation from the entrepreneur's perspective.

Expertise and other business-related factors

We find that the CEO and founder of Vestum, Ryk, plays a key role in the entrepreneurs' decision to sell which could relate to entrepreneurs wanting to gain access to additional expertise, as mentioned by Scott Management (2020) or other business-related factors as discussed by Mellen and Evans (2010). The interviewed entrepreneurs named Ryk as the single most crucial factor for selling to Vestum and that Ryk's entrepreneurial experience from founding several successful businesses and his humble approach were the key factors as mentioned in section 6.6. This may lead to Vestum getting access to deal flow other buyers may not.

Type of payment

Type of payment when acquiring entrepreneurs is not as important as one would think. While it depends on the amount received for the company, as the entrepreneurs mention, the large cash inflow grants some personal financial stability and sometimes grants the entrepreneur the possibility to stop working, but as they get this possibility, they might realize that they do not want to stop. Getting a cash payment enough to satisfy the financial needs of the entrepreneurs was found to be in line with Singer and Wodar (2011), meaning that it is mostly important up to a certain amount. Cash was found to be the key factor for the entrepreneurs while less focus was put on the amount of Vestum equity they received, even though the entrepreneurs realizes that the share ownership serves as an incentive and an upside in continuing to work. As entrepreneurs value this cash payment, this is value creating in contrast to getting paid fully in equity. However, as other serial acquirers pay with cash or cash and equity, this is not something that is unique for Vestum. The possible difference here might be the extreme share price appreciation compared to other serial acquirers, but how sustainable this share price growth is yet to be discovered.

Large network of entrepreneurs

The synergies of being part of a network of multiple subcontractors may not be as visible yet due to the young age of the firm. This is discussed by Ekman (25.03.2022) who states that when the common IT infrastructure within Vestum is fully developed, the companies within Vestum will have a better knowledge about each other and thus increase the possibility of cross-selling services. The interviewed entrepreneurs all appreciate the collaboration part of Vestum's strategy but realizes that it may take some time until the full potential materializes. This paper

also found that being part of a larger platform gives the entrepreneurs more access to both expertise and a community among other entrepreneurs. As mentioned in section 6.6, Vestum gathers entrepreneurs in similar segments in buckets where they are encouraged to discuss and learn of each other's businesses. Further, seminars are arranged to develop the entrepreneurs' skills. Johansson (24.03.2022) confirms that this network will increase the collaboration and the interviewed entrepreneurs agree that this it is a key aspect in achieving synergies and creating value.

Operational efficiency

Even though Vestum target firms with significant structural capital in place, they may further improve it for the acquired companies as well as assist in administrative processes and investments. Vestum also encourages the platform companies to do bolt-on acquisitions (Ryk 08.03.2022). Cash pooling is the easy financing option that entrepreneurs get access to when joining a serial acquirer (Ragnerstam 16.03.2022) because entrepreneurs on their own may struggle to get loans (Johansson 24.03.2022). Ragnerstam (16.03.2022) also mentions the fact that entrepreneurs might feel a responsibility that might hinder them from investing in lucrative projects as they are responsible for the employees, which in turn might be friends and family. By getting acquired, some of the risk associated with doing investment disappears and this plays a role in selling their company (Ekman 25.03.2022, Johansson 24.03.2022). Scott Management (2020) argue that serial acquirers may assist in further expanding the businesses through more expertise and resources. With this higher safety net that comes with a larger organization, the entrepreneurs may find the courage to undertake acquisitions on their own (Johansson 24.03.2022). In the context of providing better conditions for entrepreneurs to expand their business, Vestum does create value. Another interesting aspect that Rosenqvist (07.04.2022) noticed after having sold a few businesses was that Vestum stands out in the due diligence process and instead of just dropping a list of questions to the entrepreneur, they assist the entrepreneurs in gathering the information that is needed, thus making it easier for entrepreneurs that may not have sold a business before.

Internal careers

Looking at the possibilities of internal careers, both Ryk (08.03.2022) and Ragnerstam (16.03.2022) mention that the entrepreneurs want to constantly evolve and says that this is of large importance. Vestum wants to be the company you join when money is no longer the most important thing, where you instead want to develop yourself and the firm (Ryk 08.03.2022). If you are a skilled business leader joining Vestum, taking the next step could be getting promoted to a division manager, or even a country manager (Ryk 08.03.2022). One example of this is Carl-Johan Callenholm, the former CEO of Lakers Group that is currently the country manager in Norway. The study found that an internal career may increase motivation dependent on your

financial position based on interviews with the entrepreneurs. Even though Rosenqvist is longer involved operationally, he believes that an internal career might bring joy to other entrepreneurs getting acquired. Both Rosenqvist and Ekman states that working with your own firm while getting the possibility to develop oneself with an internal career may increase motivation. Ekman (25.03.2022) mention that the internal career within Vestum could be of interest if he was not as set financially as he became after getting acquired. Johansson (24.03.2022) provides a different view on internal careers, stating that he gets his motivation from ongoing business ventures, not from being an employee. Based on the conducted interviews, it seems like the internal career opportunities may create value for the entrepreneurs.

Legacy

Another topic brought up by the entrepreneurs was the legacy of the acquired firm. Johansson (24.03.022) and Ekman (25.03.2022) both wants the firm to carry on as it were and ensuring that the company will live on, in case something would happen to them, which is also in line with what Scott Management (2020) mentions might serve as a key criterion when selling. Examples brought up by the entrepreneurs include listed companies Bravida and Instalco, where all firms in the end will be rebranded as the firm acquiring them, removing the brand of the firm the entrepreneurs have put time and effort into building. Hence, by letting the acquired firms keep their own brand, the mark that they have left may live on, even though they sold. Ekman (25.03.2022) mentioned that people are proud and keeping the brand may be a good way of letting the entrepreneurs' creation live on, even though it is a part of a larger organization. Based on the interviews conducted, this seems like an important aspect of value creation for the entrepreneurs, and hence Vestum is creating value through this strategy.

7.3. The idea and potential of Vestum

The construction and infrastructure niche

Vestum has a clear goal, it is acquisitions driven, it targets specialists in two niches and from that base it will grow geographically (Ryk 08.03.2022, Göthberg 16.03.2022). Ryk is an expert in the field, and we conclude that entrepreneurs prefer selling to an experienced professional as entrepreneurs stated in 6.5. Ryk (08.03.2022) argues that they buy specialists more stable than their sector with stronger margins and higher growth. Vestum's proforma EBITA margin is 10.9% for 2021 but wants to achieve over 10% over time. Looking at average net income margins (Appendix 10.5.3) for the construction sector, it might hold true. An 10.9% EBITA margin is higher than the corresponding margins for sector peers Bravida and Instalco and the pure construction companies PEAB and Skanska, putting some weight on Vestum's reasoning. Specialists are connected to fragmentation. We argue that Vestum operates in a fragmented market, which Ragnerstam (16.03.2022) deems necessary. Scott Management (2020) states that

financial buyers and strategic buyers often target larger acquisitions than serial acquirers, increasing the white space for serial acquirers. From 6.1 we find around 7 000 companies with a size in line with Vestum's targets and for add on acquisitions even more. We would define the market as mature in the fourth stage (Kotler et al. 2016) but significant growth may be found from M&A. That is a normal strategy in mature market according to Davis (2012). Hence it might be an interesting market for a serial acquirer, as though it is mature, it has not been consolidated, and a significant part of the market is yet to be listed on the stock exchange (Åhlgren 07.03.2022). This could potentially point to Vestum arriving at the start of an acquisition cycle, which could lead to higher acquisition performance as moving early would mean selecting the best targets and customer relationships (McNamara et al., 2008) while possible avoid paying too much, often the case in late-stage acquisition cycles (Mitchell & Mulherin, 1996; Song & Walkling, 2000 in McNamara et al., 2008). But it could also mean that Vestum may face severe consequences by being the first movers as market dynamics may change according to Cho et al. (1998).

Regarding outlook and stability of the sector, spending in construction as % of GDP has increased and construction starts have been higher than in many years. However, Byggföretagen (2022a) estimates decreasing construction starts going forward. The stability that Ryk is taking about may stem from the fact that while service in construction may hurt from decreasing construction starts, many are always needed. Houses needs refurbishments, and elevators need regular checkups. However, with an expected falling GDP growth reaching only 0.3% in 2023 (Byggföretagen, 2022a) it remains to be seen if Vestum's targets are as stable as they say. From Carnegie's (2022) report, it is discussed that ROIC and earnings growth is what brings high value over time. We argue that it relates to cash conversion connected to the capital intensity with Ryk deeming specialists in construction and infrastructure as capex light (08.03.2022) achieving an EBITA to Free Cash Flow to Firm (FCFF) cash conversion of 90% (24.11.2021). As an example, the competitors Instalco and Bravida have averaged 0.2% capex to sales per year. Mellen & Evans, 2010 also state ROIC as an important measure, but for private firms. For public firms it may be collected directly from actual stock performance. We see this as of too narrow of a discussion as the stock market is known to at times value things too high, or too low, and since Vestum was created one year ago, other factors are important.

The importance of ROIC and low capex requirements

We argue that ROIC and capex requirements are among the most important financial metrics in measuring potential. Some industry actors tend to agree with Scott Management (2020) stating that serial acquirers may achieve great results by reinvesting cashflows at high returns on investments which Carnegie (2022) agrees with. Carnegie (2022) states why ROIC is so important. The famous multiple arbitrage is in their opinion not as important as people tend to

think, low acquisition multiples are. Any ROIC higher than the WACC is according to Carnegie value creating, in line with the Economic Value-Added methodology (EVA) discussed by Berk & DeMarzo (2017). Even if the multiple arbitrage would decrease, investing into companies would still be value creating as long as the multiples in the private market would not increase to a level where the inverted multiples would yield lower ROIC than WACC. This pre-tax ROIC is discussed in Carnegie (2022) using an example of a 5x EBITA and 8x investment as yielding 20% and 12.5% pretax. Given a tax rate of 20%, this would by our reasoning yield a ROIC of 16% and 10% after tax. Multiples could reach around 10x EBITA before Vestum would acquire an implicit ROIC of below 8.2%, the calculated WACC, where acquisitions would be value destructive. Even then, Göthberg (16.03.2022) states that basing multiples on the latest results is not always correct. One should also remember that this is pre synergy and central cost multiples, meaning that it could still become value creative or destructive as integration takes place. Furthermore, for Vestum, a company constructed during the last year, their adjusted ROIC will be close to the exact after-tax multiples paid on average, as the Enterprise Values (EV) acquired is their balance sheet. Over time, that will change as the M&A decreases in relative size discussed in 7.5.

In the report (Carnegie 2022) it is mentioned that with acquisition multiples of 8x EBITA, a cash conversion of 75% and organic growth of 5% a business could grow EBITA by 15% per year without increasing leverage. Vestum's first 13 acquisitions averaged 7.5x R12 EBITA, which might be too high since Vestum looks at different time horizons depending on the acquired target. As Ryk (24.11.2021) states that Vestum is trailing at a conversion rate of 90% and peers Instalco and Bravida achieving even higher conversion, it is not deemed impossible from our side reaching this type of growth. It is understandable why a company like Constellation Services (2016), one of the largest serial acquirers in the world, measures organic growth and ROIC in their investments. We argue, which we discuss in 7.4.3 as well, that cash is king, and that cash conversion and ROIC is connected. However, as explored by Canuck Analysts at Exploring Context and restated by Carnegie (2022), M&A returns tend to be diminishing, likely implying that multiples increase over time in line with McNamara et al. (2008) as arriving late to an acquisition cycle is detrimental to business performance. Furthermore, over time it will get increasingly difficult scaling the business for high M&A growth, but Vestum will likely have gathered routinized structured processes by then, which often limits issues in overpaying (e.g., Nelson & Winter, 1982; McNamara et al., 2008). Average ROIC for the peer group has been 17.6%, far over a normal WACC. Bravida and Instalco achieved 15-22% over the last five years respectively, with a cash conversion of around 90-100%. This brings the analysis to why the capital light service model may create a lot of

value over time, as cash becomes the preferred way of paying for acquisitions, the driver of the model.

Financing of acquisitions and growth

Maintenance capital needs are small for specialized service companies in construction and infrastructure. Hence, capital needs for a serial acquirer like Vestum is financing of acquisitions. Vestum currently finance acquisitions by 70% cash, 30% new issues. The preferred payment method generally, by the pecking order of finance is debt according to Myers and Majluf (1984). The authors argue that a company refraining from issuing shares may increase capital preservation if the stock price in the future is concluded a bargain, but also argue that by avoiding issuing stock, you may lose great deals. If investments generate ROIC over WACC, they are in general value generating and as concluded it generally exist a multiple arbitrage between acquirers and target (Dong et al., 2006). While this may be lucrative, as Ragnerstam (16.03.2022) states that for this to remain after integration the company must believe in the acquiring company buying below fair value every time, which is unlikely.

We argue that as Åhlgren (07.03.2022) states, it will not always be possible issuing large equity issues even with a strong investor base, and entrepreneurs may not like receiving shares during volatile periods. We hence believe that while this may increase incentives, it should be a flexible model for Vestum to over time achieve strong performance. However, academia is conflicted with e.g. Andrade et al (2019) and Chartterjee and Kuenzi (2001) stating that stock-based acquisitions lead to abnormal returns while Hazelkorn et al. (2004) show in the US market that stock-based acquisitions on average results in negative market returns. However, the full picture shows that for Vestum, it might be a viable strategy. Eckbo et al. (1990) find that a combined acquisition strategy might be preferred, which to us makes sense from the discussion on ROIC and WACC, as acquiring is what matters given strong capital returns. As Vestum by our reasoning operates in a mature industry, using stocks as financing may according to Yuan et al. (2005) lead to worse returns, which is not given in a growing market. However, even if Vestum operates in a mature market, their valuation is high, meaning that raising equity can still be smart. Also, we would reason that it is still possible to find high growing targets, especially in segments like Water which operates in a market in need of high investments (Åhlgren 07.03.2022). Lastly, one should not understate incentives given to the entrepreneur by issuing at least a small level of shares, even if this could be solved by internal options programs, and the fact that the balance sheet will remain solid.

Why we believe using stocks is smart given strong growth prospects early, we would argue that over time, using internal financing is where serial acquirers may shine, reinvesting into the business as Scott Management (2020) discusses. For that to happen, Vestum needs to achieve high cash conversion. We argue that as ROIC contains the numerator Net Operating

Income Less Adjusted Taxes (NOPLAT) and the denominator Capital Invested, a high ROIC will to some degree intertwine with low capex demands and high margins. Margins impacts NOPLAT and capex impacts Capital Employed. As margins are impacted by degree of Depreciation and Amortization (D&A), which is connected to capex over time, businesses with low capex needs will often experience strong underlying ROIC given that margins are strong. Looking at Instalco and NCAB as two examples, both have had EBITA margins of around 8-10% and capex to sales of around 0.2% and been able to achieve average ROICs of 45 and 22% respectively. Hence, while it may appear conflicting at first that Vestum does not focus on ROIC, but operating margins and investment needs (Göthberg 16.03.2022) as different companies have different capital intensities it makes sense. What drives ROIC is exactly those two parameters, so keeping track of the underlying factors that impacts the metric is by our reasoning smart. However, over time, measuring ROIC is in our reasoning very important as underlying ROIC versus WACC is what in the long-term drive performance, from a value creation perspective.

As Vestum are aiming to achieve over 10% EBITA margin over time, with low capex demands we argue that Vestum might not only be a multiple arbitrage play, but a value creating opportunity given that they remain strong owners. As Ryk (24.11.2021) states that Vestum are operating at a cash conversion of around 90%, we deem it likely that Vestum may achieve strong performance, given that they succeed as owners, and that acquisitions prove strong, even if multiples would increase by some amount. Furthermore, a strong cash conversion is important as it may be used to pay off debt, which is another financing option for Vestum, that they have used successfully so far. Keeping debt low, preferably at an investment grade rating is also important as it decreases cost of financing (Kisgen, 2006), with Indutrade being investment grade raising debt at a rate of around 1%. Hence, central financing as talked about by Åhlgren (07.03.2022) and Ragnerstam (16.03.2022) may prove useful. Using debt usually also send a strong signal to investors of confidence in future performance. Myers and Majluf (1984) theorizes that shareholders prefer complete internal financing, but also states that debt is better than issuing shares. Interestingly, they state that in lines with (Carnegie 2022) that any positive net present value project should be undertaken, regardless of financing option (Myers and Majluf, 1984). Therefore, considering the points mentioned, we do not agree with Ragnerstam (16.03.2022) in that Vestum is purely a multiple arbitrage, even if it helps, but agrees with him that changing the firm to the better after acquiring, separating themselves from competitors by synergies or other soft factors are of high importance.

Why soft factors matter

First of all, Vestum is unique. It is a roll up, it operates in two specific niches in construction and infrastructure. What separates Vestum is not mainly which fields they operate in, there are

numerous serial acquirers, listed and unlisted with similar models as stated by the entrepreneurs in 6.6. What we see separate Vestum is their aggressiveness in expansion, their humility and low top control. Vestum is not keen on cost synergies except for pooling as stated by Ryk (08.03.2022) which believes sourcing deals to existing until a certain limit before it may even become a burden for the supplier. While we believe in this idea, we argue that a strategy like Instalco's described by Ragnerstam with numerous connected suppliers deals as a smart one but do acknowledge that sourcing is not even a major issue for Vestum. Their business is a people business, and we do believe one of Vestum's major strength is attracting talent and entrepreneurs. Collaboration and revenue synergies are top priority for Vestum. Ryk and Vestum's management believes in staying away from controlling too much, replacing the board, and firing the CFO – as concluded often a related person in smaller companies. This matter of thinking is something that Ragnerstam as well states as healthy, with firms pursuing these hard measures paying more for acquisitions. We therefore believe that while Vestum may have a hard time increasing margins over time, they will likely be able to keep multiples lower than competitors that pursue stricter methods.

Vestum's strategy goes against the common motivation of M&A, achieving cost synergies (Davis, 2012). However, in line with Mellen & Evans (2010) we argue that there are more important factors, e.g., bettering a product offering and risk minimization. These are things any corporation with specialists may help in, but not exclusive to Vestum and not what we believe will differentiate Vestum in the future. Culture however is extremely important, if not everything, as stated by Vestum's management and as Johansson (24.03.2022) puts it – a company is built on motivated personnel. For Vestum, personnel are entrepreneurs and attracting more entrepreneurs is the whole foundation for Vestum's model. The entrepreneurs have all stated Ryk as the most important reason for choosing Vestum, and we believe, while some bias may exist since entrepreneurs are shareholders in Vestum that this will be a key factor in Vestum's journey. Vestum's open environment, their focus on getting to know one another and common it structures etc. are all part of these soft factors, but the culture that is described is likely what separates one acquirer from another. There is room for more than just one serial acquirer as well, and in the end of the day it is about preference. One entrepreneur may be looking for cash, and a golf court in Spain in line with Göthberg's statement, while another is looking for taking the business to the next level and cooperating with entrepreneurs they respect. The potential lies in being able to keep their unpretentious culture, while scaling the organization and making entrepreneurs feel like a place where they want to be, not where they want to sell. So far, they have succeeded in creating abnormal returns and due to the facts described in 7.1 we see potential in Vestum going forward, given that they are able to battle the significant risks mentioned in 7.5.1 that exist in an acquisition-based model.

7.4. Valuation approach analysis – three examples

7.4.1. Approach 1

Detailed financial information is available in Appendix 10.10.1. In this first approach we used comparable companies from regular construction companies, i.e., generalists, and infrastructure peers. We use this simplistic approach with Bravida being the only serial acquirer to show it is hard to motivate a serial acquirer's valuation to companies that are of a different nature. With this set of construction and infrastructure service companies, we notice a large spread in EV/EBITA valuation between NCC, which is a large full-service construction company, and Netel, which is offering infrastructure services. The lower valuation multiples of the construction companies may be caused by lower margins, growth, capex needs and more, as previously mentioned in 6.1 but is nonetheless worth comparing to.

By taking this prudent approach and using these regular construction companies, and two service companies in a quick valuation of Vestum, Vestum's price is currently higher than the motivated value and the downside from current price would be c. 64%.

7.4.2. Approach 2

Detailed financial information is available in Appendix 10.10.2. Equity analysts often provide organic estimates excluding M&A. This methodology has been adapted to value Vestum through a simplistic Discounted Cash Flow (DCF) model with five years + terminal value of estimates in a simple three statement model. Like in approach 1, net debt, proforma numbers of EBITA and Sales have been gathered at the year end of 2021, with a cutoff of integrated companies at the end of 2021. Statements and driving assumptions are attached in Appendix 10.10.2. From this approach, given organic growth of 3% and 11% margin with a cash flow conversion of 80%, Vestum would never reach low enough multiples for it to yield high returns and hence a downside of -51% is derived from this approach. ROIC-WACC starts of negative, indicating that acquisitions have been quite expensive decreasing ROIC (including goodwill) to a level below WACC indicating value destruction by the definition of Mellen & Evans (2010) and Berk & DeMarzo (2017). However, over time, with decreasing M&A (in this scenario 0%) it increases over time, in line with Table 10 as it would slowly move towards the underlying ROIC of the combined businesses. ROCE decreases in this scenario as debt is never paid off and equity increases at a high pace.

As is often the case in a DCF valuation with short estimation period, the terminal value is the largest contributor to current valuation. As this is a serial acquirer, using a strictly organic approach is of low use. As Vestum has acquired many companies not included in these organic estimates, it is a flawed model, but it could also show that market sentiment is dependent on Vestum's future abilities to acquire businesses at reasonable multiples, just as Ragnerstam

(16.03.2022) mentions as a dangerous thing – the multiple arbitrage. Connected to theory of Myers and Majluf, (1984) firms who refrain from issuing shares may miss lucrative deals. By showing a scenario in Approach 3 where Vestum do achieve high M&A growth we hope to show why Shleifer and Vishny (2003) argues that higher earnings growth may through acquisitions lead to higher stock market valuations.

7.4.3. Approach 3

Detailed financial information is available in Appendix 10.10.3. Same inputs as in Approach 2, except the inclusion of M&A which impacts all statements. Statements and driving assumptions are attached in Appendix 10.10.3. From this approach, Vestum would reach low enough multiples for it to yield high returns with an upside of 10%. ROIC-WACC would in this scenario increase over time indicating that acquisitions at these multiples are value creating. As the relative M&A expenditure decreases over time ROIC increases as it converges towards the long term ROIC of the business. ROCE decreases as debt is increasing. Like discussed in approach 1, it is likely that some level of M&A going forward is priced in the current valuation. M&A would be strictly value creative given ability to finance acquisitions at similar interest, which is reasonable if ND/EBITA stays around 3x. However, as rates are increasing, this may become more difficult in the current environment. Looking at an ongoing scenario with a cash conversion of 80%, organic growth of 3% and EBITA margin of 11% paying 8.5x EBITA, Vestum could add 15% revenue growth from M&A per year while keeping net debt constant at 2x ND/EBITA. That is powerful, and something seen in our dataset with Lifco, that has grown by c. 14% during the last five years, 4% organically corresponding to 10% added M&A per year, while decreasing ND/EBITDA, which is also something Ragnerstam (16.03.2022) mentions as strong in firms with high cash conversion and strong organic growth.

As discussed by Carnegie (2022) it is easy to see why it is easier to grow by acquisition than organically with high enough cash conversion. This might also show why as stated in Scott Management (2020) serial acquirers tend to reinvest cash rather than distributing it. In the end of the day, achieving 80% EBITA to cash conversion might be tough, and keeping a growth of 15% is probably unreasonable through M&A over longer periods of time. Some discussion on sensitivity of inputs is therefore of interest, discussed in Appendix 10.10.3. It is clear that multiples, cash conversion, profitability of the firm and magnitude of M&A impacts the implied debt of the firm, which could in turn likely trigger higher financing costs or covenants as well, not included in the model. Cash conversion and long term ROIC prospects are important, in line with Carnegie (2022) and Ragnerstam (16.03.2022). Cash conversion impacts ROIC as capex impacts the balance sheet and EBITA through depreciation, impacting both the numerator and denominator. From the discussion in 6.1 and 7.3 it is understandable why one

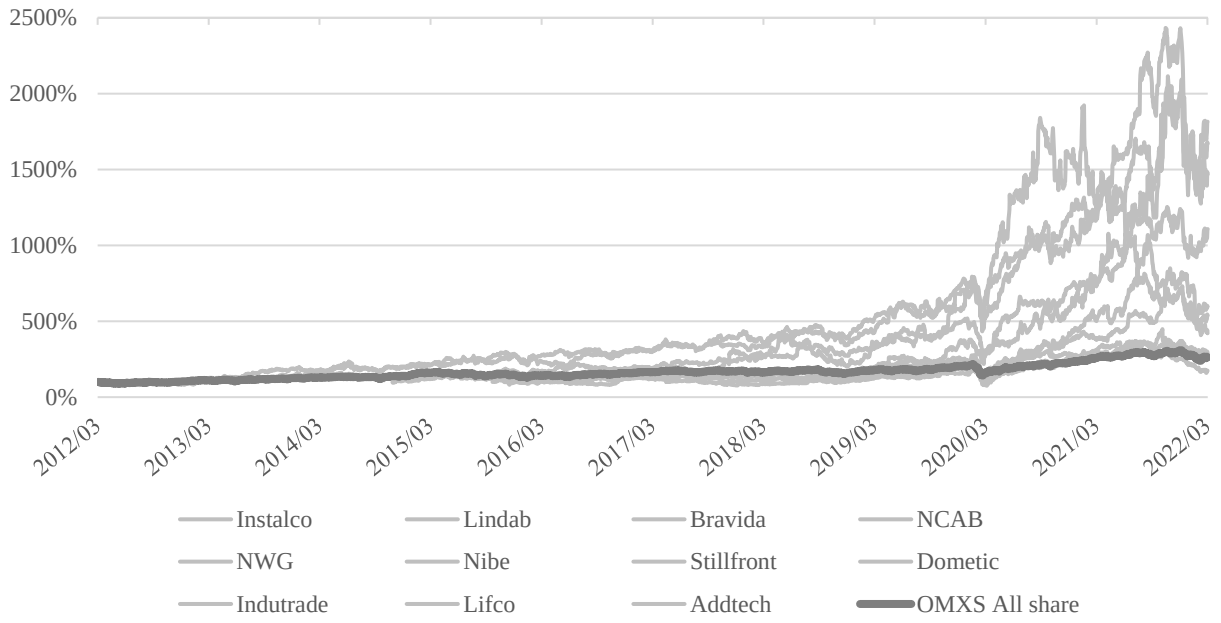
would choose an industry with high cash generation and low capex needs and relatively high margins.

7.5. Have serial acquirers created value?

Abnormal returns

Some argue serial acquirers to be pure market errors, where mostly unlisted companies are integrated into listed companies for a valuation arbitrage. This segment will look at it from the perspective of Adnan & Hossain (2016) examining abnormal returns and accounting measures, also exemplified by King et al. (2004) who uses return-based accounting metrics. Serial acquirers have been successful in achieving high stock market returns during the last ten years. Looking at Table 9 the stock returns of our peer group excluding Vestum and Storskogen are visible. In the peer group, only one single stock was outperformed by the OMX all share over the ten-year period from 2012-03-30 to 2022-03-30. From this perspective it seems that the model has worked quite well in this short historical time frame measuring value creation by abnormal stock returns. But it would have to be calculated and statistically tested further as valuation multiples (10.4.2) in the sector exemplified in Appendix 10.11 has increased.

Table 9 – 10Y indexed share development, OMXS comparison. Source: Yahoo Finance (2022)



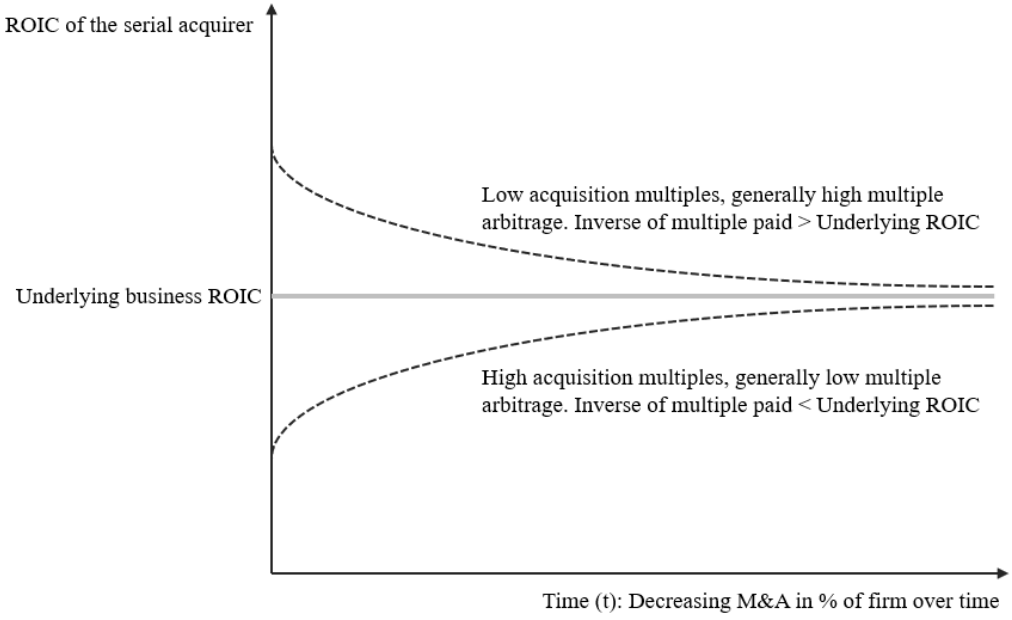
Accounting measures perspective

From an accounting measure perspective there are numerous things one could look at, some return-based metrics, i.e., capital returns or margins in line with King et al. (2004) or organic sales growth and EPS growth in line with Ragnerstam (16.03.2022). From Appendix 10.4 in 4.1 we concluded that during the last five years, organically these companies have been able to grow at around 5%, which is over the GDP growth of Sweden, some signs of either an attractive

market or strong performance. Median EBITA margin has been close to what Vestum expects over 10%. The companies have been able to grow EBITA based on a median and average level CAGR of 18.6% and 28.1%, without diluting shareholders that much on an EPS level as EPS have grown by 18% on an average level and 23% on a median level. Only Stillfront and Storskogen have suffered some dilution with weighted average shares increasing by 21.5% and 19.5%. Overall, strong EPS growth should lead to strong results given that the ROIC remains elevated above WACC by the definition of Mellen & Evans (2010). ROIC on a median and average level has been 15.2 and 17.6%, indicating that the company has been able to achieve a ROIC higher than their WACC, even if Dometic's ROIC looks less promising as the WACC could be higher than 7.9%. While some of the growth may stem from increasing debt as visible in the table, ND/EBITDA has decreased, suggesting that they have potentially decreased their credit risk as well over time, possibly lowering their WACC. They are also becoming larger and diversified which tend to show in credit ratings. We argue that cash conversion is directly connected to margins and capex. Looking at capex in % of sales, it is generally very low, around 2% of sales, while M&A in % of sales is significantly higher. Cash conversion and ROIC in combination is what (Carnegie 2022) mentions in their report as important for a successful serial acquirer. General low capex volumes and high margins helps in keeping ROIC high. We argue that this supports what Ragnerstam (16.03.2022) has stated, that many firms have been extremely successful in creating shareholder value.

In the concept of ROIC, we have created Table 10, conceptually describing the relationship on a general level, describing the relationship of time and decreasing relative M&A growth and ROIC for a serial acquirer in a specific industry.

Table 10 – Conceptual graph of a recently created acquirer. Source: Authors



At the start of a compounding journey, like Carnegie (2022) and Ragnerstam (16.03.2022) mentions, a serial acquirer's ROIC is closely related to the inverse of the multiples paid for the firms. Consider a firm that started from scratch, buying one firm the first year. The enterprise value paid will likely make up most of the balance sheet, and the earnings achieved from that firm will be the earnings acquired, as it only operates through this business. The ROIC for the first year will be very close to the inverse of the multiple paid (pre-tax) as capital invested and enterprise value by our definitions is the same thing, equity + net debt. The first year, 100% of sales and earnings stem from acquired business. Over time, added earnings through M&A becomes smaller, as growing in absolute numbers gets increasingly difficult. As enterprise values added from acquisitions integrated into the balance sheet becomes less important as the firm is growing organically the ROIC would converge from the inverse of the multiples paid towards the underlying organic ROIC of the consolidated firm. Given high multiples paid, with the inverse being smaller than the underlying ROIC, it would converge upwards and vice versa.

Given this generalized idea, we would only in some years know whether Vestum in the long run will achieve high ROIC. Given this conceptual setting, increasing acquisition multiples, that tend to happen in later stages of an acquisition cycle in an industry (e.g., Mitchell & Mulherin, 1996; Song & Walkling, 2000 in McNamara et al., 2008) will hurt acquirers ROIC harder as M&A is a larger % of their growth, especially at the start of a compounding journey. We argue that serial acquirers seem to have been value creating and should be further investigated.

7.5.1.The dangers of the serial acquirer model

Some general thoughts have risen from the interviews and data collection, which could be a subject for future research.

i. With Jensen (1986) describing what could be described as empire building, investors in serial acquirers should look at for poorly structured incentives programs where acquisitions, no matter quality, are incentivized. As Ragnerstam (16.03.2022) states *"Are they cheering after the acquisition is done, or five years after it is done?".*
ii. Higher acquisition multiples over time or through competition, in line with theory.
iii. Difficulties in building the M&A organization quick enough.
iv. Corporations using M&A to reach pre-determined goals as stakeholder pressure rises (Lubatkin, 1983; Penrose, 1959 in McNamara, 2008).
v. Earn-out structures in the actual enterprise value paid, or future cash flows. Earn-outs dependent on certain metrics can be paid out and may be used to lower stated acquisition multiples or to manipulate earnings. This is handled differently between acquirers, some

integrating earn-outs into net debt, some not. As this is subject to managers valuation, one should be cautious.

vi. A model based purely on a multiple arbitrage. If it cannot consistently grow over time through M&A by internal generated means (cash), it is likely no good. As described in 4.3, cost of financing has been favorable for serial acquirers for many years, which will likely change as interest rates shift upwards and the economy staggers.

vii. Hardships in finding a suitable successor, especially for service-based companies where the individual is often a large part of the business.

8. Conclusion & final remarks

Value creation for shareholders

The investigation of Vestum has shown that abnormal returns have so far been created but is a flawed way of measuring value creation in an acquirer as young as Vestum. By our methodology we find that Vestum have great potential in becoming a successful acquirer as target multiples lead to higher capital returns than the weighted cost of capital. The strategy of entering the specialist services market in construction and infrastructure offers a fragmented industry where organic growth may be achieved with stable margins, low capex demands and high cash conversion. All these factors are strong signals for future performance through a strong acquisition pipeline and future self-financing possibility. The financing strategy may or may not prove successful over time as acquiring by cash is preferred by most entrepreneurs and shareholders alike. We find that high ROIC and low capex demands are connected and important in financing growth over time. Being one of the first movers in the consolidation journey in the industry is a risk, as dynamics may change. While the multiple arbitrage is often discussed by critics as the most important factor for a successful serial acquirer model, we argue with base in theory that as long as Vestum can find attractive opportunities yielding above the hurdle rate, they should over time prove value creating. Lastly, we argue, especially for the long term, that soft factors matter in achieving strong future performance.

Value creation for entrepreneurs

The background and expertise of Conny Ryk was the most important factor for entrepreneurs when deciding to sell their business. This could also result in Vestum getting access to deal flow other serial acquirers may not. When it comes to payment, most value is created for the entrepreneurs by cash payment to lose some personal financial pressure. Further by leveraging the network of different subcontractors, value may be created over time, as the acquired entrepreneurs will have more equals to discuss business matters with, and cross sell services to grow their firm. There are also operational factors that could further expand the acquired

businesses, such as financing possibilities, investment expertise and other organizational matters. Vestum may also create value for the entrepreneurs through their internal career opportunities, as entrepreneurs can take the next step in their professional career if they wish. Lastly, value is created for the entrepreneurs through letting firms' brands live on.

Serial acquirers

It is obvious why serial acquirers has gained so much interest as the segment have seen abnormal returns. As valuations have increased, further investigation is necessary. Our comparison group has achieved high organic sales growth and earnings growth while generally maintaining low dilution. As debt has not increased significantly in relation to earnings, we argue that value creation has been achieved, with a ROIC of the group over a reasonable WACC. Further it is suggested that low acquisition multiples have led to investments often done at values below their fair value, but that skepticism should be put forward regarding whether the riskiness of the firm increases or decreases with acquisitions, and if they are generally good stock pickers or not, as implied by the multiple arbitrage often achieved. Investigating the performance of a serial acquirer takes time, as acquisition multiples are strictly connected to the capital returns achieved in the beginning of the acquisition journey. We argue that an investor should look for serial acquirers becoming self-financing over time. This will become especially important in the new financing environment, with falling stock markets and higher interest on loans.

Potential future research

First, we believe that assessing a serial acquirer with longer history could be of interest. This could potentially triangulate results found in this study or help dissolve wrong conclusions. Secondly interviewing entrepreneurs that choose not to sell to Vestum, entering other organizations may prove important to reduce the bias of representing the same organization that you are giving your opinions about. Lastly, we argue that statistical testing of the factors stated as important in our study are of interest to test hypotheses. This could be done by examining serial acquirers successful in achieving long term abnormal returns and the factors important in achieving them.

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10. Appendices

10.1. Benchmarking an investment

10.1.1. Cost of capital

Discussion

There are essentially two types of financing options for a firm or a project: equity and debt. For a firm only consisting of equity, the cost of capital is the equity cost of capital. For a levered firm, consisting of both equity and debt, this expands into the concept of the weighted-average cost of capital (Berk & DeMarzo, 2017). The Equity Cost of Capital, or the costs of an equity investment, equals the expected returns gained from an investment. This is often benchmarked by exposure to the non-diversifiable risk called the Capital Asset Pricing Model (CAPM) which won William Sharpe the Nobel Prize. Under CAPM the prerequisites are 1) a diversified portfolio and 2) an efficient portfolio that represents the systematic risk, the non-idiosyncratic risk of the market. The calculation is stated below. This method assumes perfect capital markets, no friction and that financing decisions are zero-NPV transactions (Berk & DeMarzo, 2017). Differences in riskiness of projects and investments begs the question as to whether using the WACC of the company is correct. Berk and DeMarzo (2017) sees that as flawed as market risk may differ immensely between investments. A higher operating leverage as an example, should increase market exposure and require higher hurdles.

Equation 1 – CAPM

$$r_i = r_f + \beta_i x\ (E[R_{Mkt}] - r_f)$$

$$Risk\ premium\ for\ security\ i\ =\ \beta_i x\ (E[R_{Mkt}] - r_f)$$

The market portfolio is by reasoning difficult to catch, as that would entail all securities and constructing that would be least to say problematic. Berk & DeMarzo (2017) state that indices are often used, such as the S&P 500 for American stocks. There are then two key inputs left, the risk-free rate and the risk premium. The risk-free rate in the CAPM is based on the risk-free rate at which investors can both borrow and lend. The authors use short-term US treasuries but note that most investors cannot borrow at the actual risk-free rate – a common criticism of the model. Further, investors and financial analysts mainly use longer yields (Berk & Demarzo, 2017). Some argue that one should use the maturity related to the investment holding period itself. Once the risk-free rate is set, the risk premium can be solved for by looking at historical returns, i.e., the expected return of the market over time. For the S&P 500, Berk & DeMarzo (2017) measures the excess returns (risk premium) as below.

Equation 2 – Risk premium

$$E[R_{Mkt}] - r_f)$$

The Beta is then estimated by linear regression against the corresponding index selected, and the equity cost of capital may be calculated. From an industry perspective, actors often use their own risk benchmarks. PwC (2021) in Sweden produces a risk premium study every year, asking corporate finance professionals, fund managers and private equity actors what risk premiums and risk-free rates they use in investments. They tend to use varying risk premiums and add size related premiums depending on company market cap as well as higher long term normalized risk-free rates. Once the equity cost of capital is decided, one must decide the Debt Cost of Capital.

In a perfect world, one could use direct yields. There are two problems with this. First, debt can default, rendering the Yield to Maturity useless and secondly, not all debt is listed, which makes this harder to calculate. Since there is a default risk, debt cost of capital can be calculated with a debt beta using CAPM, similar to equity (Berk & DeMarzo, 2017).
Lastly, one could calculate the WACC by the unlevered cost of capital.

Equation 3 – Unlevered cost of capital

$$r_U = \frac{E}{E+D} r_E + \frac{D}{E+D} r_D \rightarrow \beta_U = \frac{E}{E+D} \beta_E + \frac{D}{E+D} \beta_D$$

D = Net debt as we measure Enterprise Value, meaning the total company value of both debt and equity, where cash can be used to pay off debt. However, as levered firms experience tax benefits from debt, this must be included. Hence, the unlevered cost of capital only considers the pre-tax cost of capital. The new WACC given a fixed leverage ratio may hence be stated as:

Equation 4 – WACC formula

$$r_{WACC} = \frac{E}{E+D} r_E + \frac{D}{E+D} r_D (1 - \mathrm{t}_C) = r_U += \frac{E}{E+D} \mathrm{t}_C r_D$$

The calculated WACC of Vestum

The cost of financing for Vestum was calculated by the methodology described below. However, the risk premium and long-term risk-free rate was based on PwC's risk premium study (PwC, 2021). As Vestum is a newly listed firm we used a peer-based methodology, calculating the debt beta as estimated by Capital IQ estimate of debt rating (B+) giving a cost of debt of 4.1%, which is close to their bond financing. Equity beta was calculated by using the

median asset beta of the peer group of 0.9 and a target net debt leverage ratio of 72.2%, which is the current adjusted calculated 3x ND/EBITDA level. This may be a bit high, but a fair method given the prudent cost of debt. The Cost of Equity was then calculated at 10% per year and the WACC based on the Swedish corporate tax rate decided at 8.2%, which we deem reasonable. The table and calculation table are presented below.

Table A1 – WACC peer group

Company	MCAP	Net debt	Equity Beta	Debt Rating est	Debt Beta	Asset Beta
Indutrade	80 777	5 139	1.14	BBB-	0.10	1.07
Lindab	17 419	1 458	1.31	BBB	0.10	1.22
Dometic	24 161	12 805	1.01	BB-	0.17	0.72
Addtech	46 619	2 798	1.12	BBB	0.10	1.06
NIBE	192 534	5 574	0.96	BBB+	0.10	0.93
Lifco	102 335	5 399	0.85	BBB+	0.10	0.81
Bravida	22 362	1 003	0.89	BBB+	0.10	0.86
NCAB	11 779	735	1.33	BB-	0.17	1.26
Stillfront	13 701	3 481	0.39	BB+	0.17	0.35
NWG	3 997	677	0.69	BBB-	0.10	0.61
Instalco	18 005	1 650	0.83	BBB	0.10	0.77
Storskogen	37 002	1 387	2.19	BB+	0.10	2.11
Peer median	23 261	2 224	0.98	N/A	0.10	0.89
Peer average	47 558	3 509	1.06	N/A	0.12	0.98

*Data from Bloomberg, versus OMX 30, Capital IQ Credit scores
*Stillfront and Storskogen not included as short history

Data as of 28 March 2022. Source: Bloomberg (2022), Capital IQ (2022)

Table A2 – Calculated WACC of Vestum

MCAP	Net debt	E/(D+E)	Target ratio	Debt Rating est	Debt Beta
12 942	1 485	89.7%	72.3%	B+	0.26
Levered Equity Beta	**10Y Risk free**	**Cost of Equity**	**Cost of Debt**	**Tax Rate**	**Implied WACC**
1.14	2.4%	10.0%	4.1%	21.0%	**8.2%**

** Target based on 3x NET DEBT/EBITDA goal given next years estimate of EBITDA*
** Given the medium asset beta of 0.9x, long term risk free rate and risk premiums given by PwC*

Data as of 28 March 2022. Source: Bloomberg (2022), Capital IQ (2022)

10.1.2. ROIC and ROCE

ROIC is according to Berk & DeMarzo (2017) the most useful assessment tool in measuring underlying business performance. There exist many definitions of how to properly measure this. Mellen & Evans (2010) uses a cash-based methodology, not very common, defining it as ROI (Return on Investment). Berk & DeMarzo (2017) states that in measuring actual returns to capital providers, one should include both equity holders and debt holders. The return that they share is then stated as Interest + EBIT after tax (NOPLAT = net operating profit less adjusted taxes). The value of these assets in book terms are Book Value of Equity + Net debt. Hence, it is similar to the market values hurdle WACC, which is why it can be used in the value creation methodology as an excess value created. The formula for ROIC used is given below.

Equation 5 – ROIC

$$ROIC = \frac{EBIT\ (1 - tax\ rate)}{Book\ value\ of\ equity + Net\ debt}$$

Similar measurement could also be made by looking at the Return on Capital Employed (ROCE). Not defined in Berk & DeMarzo (2017), and with many different definitions, we use the definition below in our calculations.

Equation 6 – ROCE

$$ROCE = \frac{EBIT}{Book\ value\ of\ equity + Total\ debt}$$

Similar in structure to ROIC, but with the difference that tax is not included and that you do not subtract cash. According to commonly used industry site Investopedia (2022) ROIC is more complex as one should subtract not all cash, but the operating cash. Meaning that in ROCE, cash would be seen as necessary, as maintenance cash. While under the definitions used in ROIC, all cash is viewed as non-operating. In our calculation of ROIC we view all cash as operating. Secondly as effective tax is deducted under ROIC, the difference may arise through different tax classes between assets, not operating performance.

10.2. Types of serial acquirers

Roll-ups

Roll-ups has the highest degree of integration of the acquisitions of the different kinds of serial acquirers and other key attributes of roll-ups are that there are scale benefits from the acquisitions and that the company offers a commodity-like product. Carnegie (2022) mention Instalco, Bravida and Cary Group among others as examples of Swedish roll-ups. Roll-ups may be an operator in a single market with a large total addressable market (TAM) (Carnegie, 2022). Due to quite homogenous operators, this could ease the due diligence process, the qualitative assessment and provide sensible over the board KPIs. Hence one large benefit is ability to quickly reach scale, while the main risk is incoming consolidation.

Platforms

Along the scale of different types of serial acquirers, platforms generally place second on the highest amount of integration. Platforms offers a wider product diversification than roll-ups and arrange their subsidiaries in clusters according to subsector. The portfolio companies benefit by being a part of a platform through operational excellence programs offered to them. Scott

Management (2020) lifts Lifco and Assa Abloy as two Swedish platform companies. Platforms mainly consist of groups of pooled companies, often similar to small roll-ups with some level of synergies (Carnegie 2022). The distinctions between product groups are generally clear. However, the M&A organization's circle of competence as the authors calls it may have to be scaled to a higher level, due to differences in segments.

Accumulators

Accumulators are not very different from platforms. They offer a product differentiation and operational excellence programs for the acquired companies with the main difference being the integration amount as accumulators has little to no integration of the acquired companies. Notable Swedish accumulators are Addtech and Vitec Software according to Scott Management (2020). Accumulators, with the lowest level of integration are sector-agnostic (Carnegie 2022). Often the goal is to find stable, high-quality businesses in niche markets. Benefits include mainly low TAM constraints and higher diversification, but at the cost of low integration, making decentralized responsibility with local managers very important. This puts pressure on strengthening M&A decision making through a robust best practice as well as keeping acquisition multiples low. Pitching a long-term stable home to owners of businesses may prove harder as well than for Roll-ups and Platforms.

Holding companies

Holding companies stand out compared to the other types. They acquire companies in unrelated businesses and usually do not integrate them at all. The holding companies primarily influence through board representation with the best example of a Swedish holding company being Investor AB, according to Scott Management (2020).

In this case study, focus will be on the first three, excluding Holding Companies, due to the widely different holding strategy – just holding companies - opposed to constantly acquiring in a niche or few areas. The difference between a holding company like Investor AB and Addtech is large. One a large financial buyer entering minority positions in strong large companies without integration and the other a company with an outspoken M&A agenda, entering majority positions in small companies surrounding two industry niches.

10.2.1. Type overview

Table A3 - Comparison overview of serial acquirer types

Types of serial acquirers

Type	Roll-up	Platform	Accumulator
Degree of integration	High		Low
Total achievable market (TAM)	Low		High
TAM definition	Usually single, large industry and/or country	Multiple large industries, not restricted to a single country	Several small industries, spanning over many countries
Opportunities	Easy to scale acquisition volume early on, resulting in fastest growth for years	Mix between good acqusition volume early on and easy TAM expansion, leading to good growth at good multiples	Large TAM resulting in acquisition multiples staying low the longest
Risks	Acquisition multiples increase earlier relative to other types. Expensive international platform deals	Paying too much for new platforms Company may be unwilling to allow platforms to perform bolt-on acquisitions	Growth slowing down earlier relative to other types due to difficulties in scaling deal volume
Examples	Instalco, Lindab, Bravida, NCAB	Nordic Waterproofing Group, Nibe, Stillfront, Dometic	Indutrade, Lifco, Storskogen, Addtech

Recreated table based on Carnegie (2022), Exploring Context (2021) and Scott Management (2020) with own examples

Source: Carnegie (2022), Exploring Context (2021), and Scott Management (2020)

10.3. Validity

Construct validity

Measures to which extent the research measures what it's supposed to measure. That is a hard task as interviews are subject to different opinions, even if this may increase the theoretical weight (Bryman and Bell, 2017). However, this also requires that the interviewer is prepared and efficient in interpreting information according to Kvale (1996) in Bryman and Bell (2013). As each answer is subject to subjective information respondent validation was used as described in Bryman and Bell (2017) and Yin (2014) by distributing quotes and arguments. Secondly, we followed Yin's (2014) advice on multiple sources of data as well as dependent and independent interviewees. Triangulation is hopefully achieved by using both primary sources (interviews) and secondary sources (e.g., annual reports, websites, research reports). Interview subjects were selected from the start of the study to represent both dependent (e.g., the CEO) and independent (Equity Analyst) actors.

Internal validity

Concerns the conclusions drawn and significance of causality in explanatory case studies. As the study is exploratory this is not of great importance.

External validity

Regards the generalization issue in case studies. Silverman (2017) argues that single-case studies cannot be used to draw general conclusions. Statistical significance is by reasoning, impossible to achieve in one setting due to insufficient sample. Even so, the single-case study can be influential. The goal of the case study itself does not have to entail statistical generalization. Conclusions are not drawn on a general basis, but interpreted from a unique perspective, that in later research may lay a foundation for further research through hypotheses. The sole goal of the study is to expand the theoretical universe in Value Creation in M&A, which according to us, has mainly used narrow interpretations of what value creation is.

Reliability

Regards repeatability, in other words, assuring that the study may be performed again, with the same operational strategy, with the same results. Firstly, our methodology is based upon strictly semi-structured interviews which hinders replication. An exploratory study-based primary on interviews will be, to an extent, based upon the setting and interview subjects chosen. Recommendations made by Yin (2014) are that interview questions, recordings and transcripts are to be made public to anyone interested in replicating the study. GDPR has made this significantly harder. While interview questions will be provided upon request, recordings in this study are to be deleted.

10.4. Business description comparable companies

Table A4 – Description of comparable companies

Type/Company	Industry (Cap IQ)	Market Cap (2022-03-2	Description
Roll-ups			
Instalco	Construction and Engineering	SEK 18.01 bn	Instalco provides installation services in heating, electrical, ventilation, plumbing and other. It operates mainly in Sweden and the rest of the Nordics.
Lindab	Building products	SEK 17.42 bn	Lindab develops and markets products for improved indoor climates and construction through ventilation systems, profile systems and building systems. It operates mainly in the Nordic region and Western Europe.
Bravida	Construction and Engineering	SEK 22.36 bn	Bravida provides installation services and technical services for properties and industrial facilities. It operates in the Nordic region mainly through Sweden.
NCAB	Electronic components	SEK 11.78 bn	NCAB act as a distributor of printed circuit boards (PCBs) for a large amount of clients in eg. the Industrial, Automotive and Medical sector. Its customers are widespread with the largest markets in USA and Germany.
Platforms			
NWG	Building products	SEK 4.00 bn	NWG produces and supplies waterproofing products in product and services as well as installation. It operates mainly in the Nordics.
Nibe	Building products	SEK 192.53 bn	NIBE develops and market products for indoor climate comfort as well as heating and control solutions. Main markets are the Nordics, North Europe and USA.
Stillfront	Computer and mobile games	SEK 13.70 bn	Stillfront develops, publishes and market free to play games with long life cycles mainly to mobile phones. Largest markets are Germany and USA.
Dometic	Auto parts and equipment	SEK 24.16 bn	Dometic provides solutions mainly for mobile living such as refrigerators and air conditioners, with similar solutions for the hospitality sector. Largest markets are Germany and USA.
Accumulators			
Indutrade	Industrial machinery	SEK 80.78 bn	Indutrade develops and markets components, systems and services to a large number of industries. Products includes flow technology and sensor technology. Largest markets are the Nordics and Rest of Europe (ROE).
Lifco	Industrial conglomerates	SEK 102.33 bn	Lifco develops and markets services and goods in dental, demolition, tools and systems solutions. Its largest markets are the Nordics and ROE.
Storskogen	Industrial conglomerates	SEK 37.00 bn	Storskogen is a sector agnostic acquirer operating in installation, logistics, infrastructure, digital services, social activities and others. Sweden is the largest market.
Addtech	Trading and distribution	SEK 46.62 bn	Addtech operates as a tech trading firm in automation, electrification, energy, industrial solutions and process Technology. It operates mainly in the Nordics.

Source: Capital IQ (2022)

10.4.1. Financial summary

Table A5 – Financial summary of comparable companies

SEK m			Sales			EBIT			EBITA			EBITDA			EPS			NOPLAT (EBIT-Tax)		
Company	MCAP (SEK)	EV (SEK)	FY21	5Y CAGR	5Y org	FY21	5Y avg	5Y CAGR	FY21	5Y avg	5Y CAGR	FY21	5Y avg	5Y CAGR	FY21	5Y CAGR		FY21	5Y CAGR	
Vestum	12 942	14 429	1 316	N/A	N/A	61	N/A	N/A	61	N/A	N/A	177	N/A	N/A	0.0	N/A		55.0	N/A	
Indutrade	80 777	85 927	21 715	10.9%	3.8%	2 840	11.1%	18.2%	3 239	12.8%	17.4%	3 523	14.2%	16.7%	4.7	18.3%		2 212.0	17.8%	
Lindab	17 419	18 877	9 648	4.2%	4.7%	1 269	9.2%	20.5%	1 300	9.3%	21.0%	1 855	11.6%	24.0%	7.0	11.8%		1 004.0	22.7%	
Dometic	24 161	36 966	21 516	11.7%	3.7%	2 979	13.1%	13.2%	3 368	14.6%	15.0%	3 676	16.2%	14.3%	5.6	3.9%		2 349.0	9.3%	
Addtech	46 619	49 918	11 336	13.0%	5.5%	1 009	8.7%	18.5%	1 259	10.4%	19.1%	1 323	10.9%	18.8%	2.6	17.2%		801.0	18.6%	
NIBE	192 534	198 108	30 832	15.0%	6.3%	4 438	12.5%	18.1%	4 438	13.6%	15.3%	5 408	15.7%	16.9%	1.7	17.6%		3 498.0	19.4%	
Lifco	102 335	107 845	17 480	14.2%	4.2%	3 174	16.1%	20.5%	3 174	16.1%	18.1%	3 720	18.7%	20.3%	5.3	21.4%		2 533.0	21.5%	
Bravida	22 362	23 381	21 876	8.1%	2.2%	1 512	6.3%	9.9%	1 513	6.4%	9.8%	1 548	6.5%	9.8%	5.6	11.1%		1 194.0	10.0%	
NCAB	11 779	12 514	3 220	21.4%	10.4%	387	9.4%	33.7%	406	9.8%	33.7%	429	10.0%	34.3%	1.5	30.6%		308.0	33.3%	
Stillfront	13 701	17 205	5 936	56.9%	7.9%	1 136	22.5%	49.9%	1 136	23.6%	49.2%	1 860	26.4%	67.4%	1.6	37.9%		939.0	50.1%	
NWG	3 997	4 684	3 664	15.1%	5.2%	368	8.5%	13.7%	404	9.4%	15.5%	447	10.6%	15.5%	10.7	10.6%		289.6	13.1%	
Instalco	18 005	19 674	8 890	29.9%	4.2%	702	8.3%	38.1%	728	8.4%	39.1%	900	8.9%	44.3%	2.1	40.4%		560.0	41.4%	
Storskogen	37 002	38 389	17 496	79.1%	6.6%	1 495	7.8%	80.5%	1 744	8.8%	84.2%	2 305	10.3%	94.0%	0.6	54.9%		1 209.0	82.8%	
Peer median	23 261	30 173	14 408	14.6%	4.9%	1 382	9.3%	19.5%	1 407	10.1%	18.6%	1 858	11.3%	19.6%	3.7	18.0%		1 099	20.5%	
Peer average	47 558	51 124	14 467	23.3%	5.4%	1 776	11.1%	27.9%	1 892	11.9%	28.1%	2 249	13.3%	31.4%	4.1	23.0%		1 408	28.3%	

*Stillfront only 3-4 years of data
*Storskogen only 2-4years of data

SEK m	Book Equity (SEK)		Total Debt		Net Debt		Goodwill	ROCE 5Y avg		ROIC 5Y avg		Avg Capex % of sales 5Y		ND/EBITDA		Weighted avg shares	
Company	FY21	5Y CAGR	FY21	5Y CAGR	FY21	5Y CAGR	FY21	Inc GW	Ex GW	Inc GW	Ex GW	Capex	M&A	FY21	5Y CAGR	FY21	5Y CAGR
Vestum	3 593	N/A	3 003	N/A	1 485	N/A	2 648	N/A	N/A	N/A	N/A	N/A	N/A	8.4x	N/A	188.8	N/A
Indutrade	10 303	18.6%	6 599	12.4%	5 139	9.0%	5 439	18.5%	26.5%	15.4%	22.7%	2.0%	6.4%	1.5x	-6.6%	364	0.2%
Lindab	5 650	8.0%	2 000	3.8%	1 458	3.3%	3 014	13.6%	27.9%	11.4%	25.2%	2.8%	1.3%	0.8x	-16.6%	76	0.0%
Dometic	22 447	9.9%	17 213	29.2%	12 805	32.1%	20 503	14.7%	8.9%	7.9%	18.9%	2.0%	19.1%	3.5x	15.6%	310	0.9%
Addtech	3 219	16.8%	3 218	33.4%	2 798	35.1%	2 727	26.1%	23.8%	20.0%	34.6%	0.8%	6.4%	2.1x	13.7%	270	0.2%
NIBE	21 657	12.3%	10 320	4.9%	5 574	-0.2%	15 623	8.1%	12.8%	11.8%	30.1%	3.8%	3.9%	1.0x	-14.6%	2 016	1.4%
Lifco	10 756	17.7%	6 908	16.1%	5 399	12.6%	9 562	14.1%	19.9%	16.3%	42.7%	1.8%	11.1%	1.5x	-6.4%	454	0.0%
Bravida	6 832	10.9%	2 597	-0.8%	1 003	-16.1%	9 530	4.6%	16.4%	14.8%	-75.0%	0.2%	1.6%	0.7x	-23.6%	204	0.2%
NCAB	774	37.1%	871	46.8%	735	52.9%	924	47.3%	41.5%	45.1%	99.4%	0.2%	6.1%	1.7x	13.8%	187	4.1%
Stillfront	4 487	189.4%	4 614	N/A	3 481	N/A	12 752	793.6%	19.4%	-52.4%	17.1%	11.6%	41.8%	1.9x	N/A	367	21.5%
NWG	1 460	8.7%	904	20.7%	677	93.4%	1 040	11.1%	14.7%	28.6%	14.2%	33.5%	4.2%	1.5x	67.4%	24	0.0%
Instalco	2 501	35.2%	2 345	42.4%	1 650	46.9%	3 847	36.0%	24.2%	160.5%	22.1%	-84.1%	10.2%	1.8x	1.8%	260	8.8%
Storskogen	16 588	112.0%	7 555	80.5%	1 387	32.0%	12 195	98.8%	14.3%	29.8%	14.9%	42.9%	29.6%	0.6x	-49.4%	1 427	19.5%
Peer median	6 241	17.3%	3 916	20.7%	2 224	32.0%	7 485	16.3%	17.5%	28.3%	15.2%	27.7%	6.4%	1.8%	1.5x	-6.4%	290	0.6%
Peer average	8 890	39.7%	5 429	26.3%	3 509	27.4%	8 096	89.4%	19.0%	-11.9%	17.6%	16.9%	11.8%	2.3%	1.5x	-0.4%	497	4.7%

*Stillfront only 3-4 years of data
*Storskogen only 2-4years of data

Data as of 28 March 2022. Source: Capital IQ (2022)

10.4.2. Valuation comparison

Table A6 – Valuation comparable companies

Company	MCAP (USD)	EV (USD)	P/E			EPS	Unlevered FCF yield (FCF/EV)			FCF	Div yield			DPS
			FY2021	FY2022	FY2023	2Y CAGR	FY2021	FY2022	FY2023	2Y CAGR	FY2021	FY2022	FY2023	2Y CAGR
Vestum	1 493	1 653	205.0x	51.3x	45.6x	112%	-1.4%	1.7%	3.6%	0%	0.0%	0.0%	0.0%	0%
Indutrade	9 280	9 834	40.5x	35.4x	32.6x	11%	2.2%	3.3%	3.6%	27%	1.0%	1.1%	1.2%	11%
Lindab	2 023	2 180	34.1x	17.1x	16.6x	43%	2.7%	5.1%	6.3%	48%	1.7%	2.2%	2.3%	16%
Dometic	2 870	4 247	14.6x	11.0x	9.6x	23%	-3.0%	8.2%	9.2%	0%	3.0%	3.5%	4.0%	16%
Addtech	5 333	5 688	69.9x	46.6x	42.6x	28%	2.5%	2.2%	2.7%	1%	0.7%	0.9%	1.0%	24%
NIBE	22 119	22 718	59.8x	53.9x	49.0x	11%	0.5%	1.6%	1.8%	97%	0.5%	0.6%	0.6%	10%
Lifco	11 725	12 318	44.6x	36.9x	34.8x	13%	2.1%	3.2%	3.1%	18%	0.6%	0.7%	0.7%	9%
Bravida	2 458	2 621	19.4x	18.5x	17.7x	5%	5.4%	6.0%	6.9%	8%	2.7%	2.9%	3.0%	6%
NCAB	1 345	1 424	44.1x	30.7x	28.2x	25%	0.1%	3.9%	3.6%	416%	0.8%	1.4%	1.6%	35%
Stillfront	1 524	1 901	17.4x	7.2x	6.6x	63%	12.8%	6.4%	9.6%	-17%	0.0%	0.0%	0.0%	0%
NWG	442	516	15.9x	12.8x	11.9x	15%	1.0%	9.5%	7.7%	169%	3.6%	3.7%	4.1%	7%
Instalco	2 010	2189.4	35.0x	29.6x	26.5x	15%	3.5%	4.1%	4.3%	8%	0.9%	1.0%	1.2%	13%
Storskogen	4 462	4611.3	42.8x	21.4x	18.4x	53%	1.2%	4.6%	5.5%	134%	0.4%	0.4%	0.4%	0%
Peer median	2 664	3 434	37.7x	25.5x	22.4x	19%	2.2%	4.3%	4.9%	23%	0.9%	1.1%	1.2%	10%
Peer average	5 466	5 854	36.5x	26.7x	24.5x	25%	2.6%	4.8%	5.4%	76%	1.3%	1.5%	1.7%	12%

Company	MCAP (USD)	EV (USD)	EV/Sales			Sales	EV/EBITDA			EBITDA	EV/EBIT			EBIT
			FY2021	FY2022	FY2023	2Y CAGR	FY2021	FY2022	FY2023	2Y CAGR	FY2021	FY2022	FY2023	2Y CAGR
Vestum	1 493	1 653	11.7x	2.8x	2.6x	113%	87.0x	19.4x	17.8x	122%	250.5x	36.0x	32.2x	179%
Indutrade	9 280	9 834	4.2x	3.7x	3.5x	8%	26.0x	21.0x	19.4x	14%	32.2x	27.2x	25.0x	12%
Lindab	2 023	2 180	2.1x	1.8x	1.7x	8%	10.9x	10.6x	10.0x	2%	16.0x	13.9x	13.1x	7%
Dometic	2 870	4 247	1.8x	1.4x	1.2x	17%	10.7x	8.0x	6.8x	20%	13.3x	10.3x	8.8x	17%
Addtech	5 333	5 688	4.7x	3.8x	3.5x	14%	40.0x	25.8x	23.7x	28%	52.4x	35.9x	32.4x	25%
NIBE	22 119	22 718	6.9x	6.1x	5.5x	11%	39.1x	32.7x	29.3x	15%	47.6x	42.4x	37.5x	12%
Lifco	11 725	12 318	6.6x	5.8x	5.4x	8%	29.1x	25.0x	23.3x	10%	36.1x	32.2x	29.6x	9%
Bravida	2 458	2 621	1.1x	1.0x	0.9x	6%	15.7x	11.5x	10.6x	17%	16.1x	14.7x	13.6x	5%
NCAB	1 345	1 424	4.1x	3.1x	2.9x	17%	30.9x	23.2x	20.9x	19%	34.2x	24.9x	22.3x	21%
Stillfront	1 524	1 901	3.0x	2.6x	2.2x	10%	9.5x	6.8x	5.7x	23%	15.6x	7.8x	6.5x	48%
NWG	442	516	1.3x	1.2x	1.1x	6%	10.7x	8.6x	7.9x	12%	13.0x	11.2x	10.7x	6%
Instalco	2 010	2 189	2.3x	1.9x	1.8x	11%	22.6x	18.6x	17.0x	12%	29.0x	23.2x	21.1x	14%
Storskogen	4 462	4 611	2.5x	1.7x	1.5x	41%	18.6x	13.0x	11.2x	40%	28.7x	18.4x	15.6x	48%
Peer median	2 664	3 434	2.7x	2.2x	2.0x	11%	20.6x	15.8x	14.1x	16%	28.8x	20.8x	18.4x	13%
Peer average	5 466	5 854	3.4x	2.8x	2.6x	13%	22.0x	17.1x	15.5x	18%	27.8x	21.8x	19.7x	19%

Data as of 28 March 2022. Source: Capital IQ (2022)

10.5. The construction industry

10.5.1. Registered companies in construction

Table A6 – Registered companies in construction

Area	Registered companies	% of companies
Construction of buildings	25718	23%
Civil engineering	3315	3%
Demolition and site preparation	16361	15%
Construction installation	21367	19%
Building completion and finishing	32285	29%
Other specialised construction activities	11792	11%

Source: Byggföretagen (2021a)

10.5.2. Revenue per segment in construction

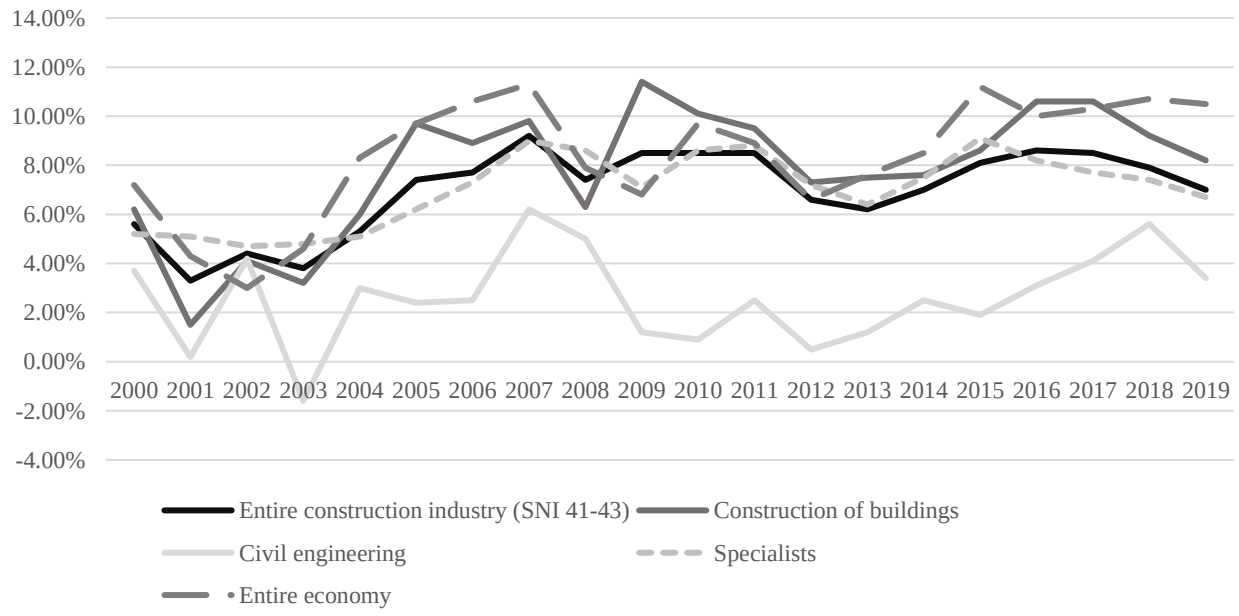
Table A7 –Revenue per segment in construction

SEK (m)	2018	2019
Construction of buildings revenue	342 706	350 229
Civil engineering revenue	87 409	92 136
Specialists revenue	415 128	433 205

Source: SCB (2020)

10.5.3. Average net income margin construction

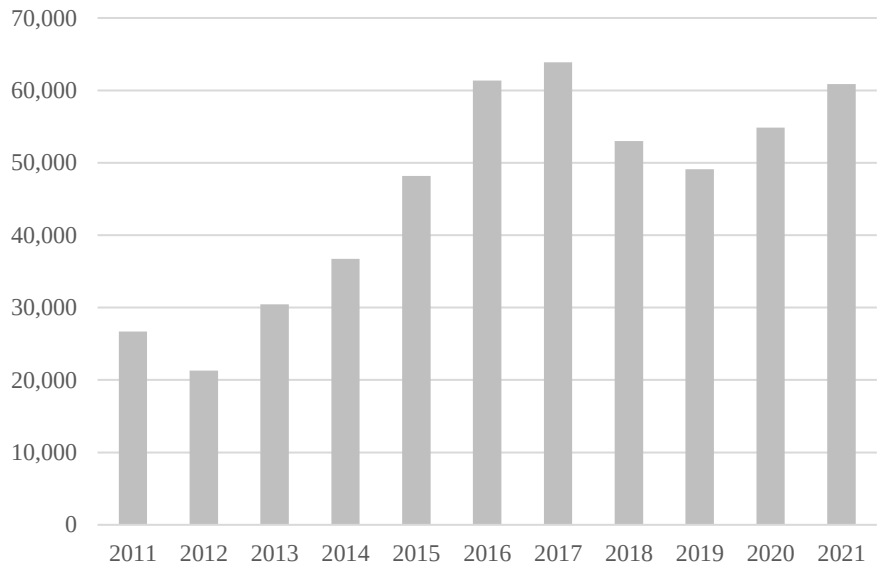
Table A8 – Average net income margin in construction



Source: Byggföretagen (2021b)

10.5.4. New construction starts

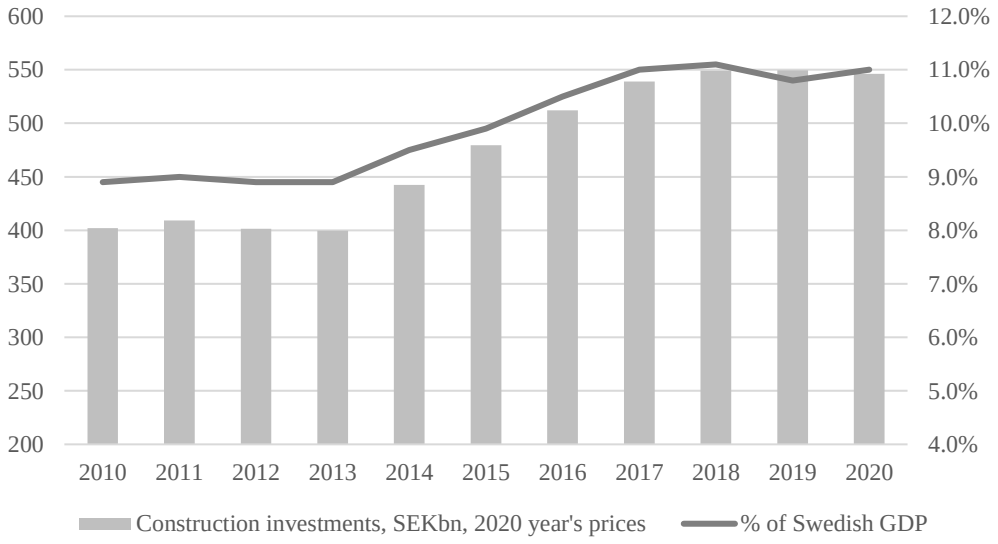
Table A9 – New construction starts



Source: SCB (2022)

10.5.5. Construction investments

Table A10 – New construction starts



Source: Byggföretagen (2022b)

10.6. Financing environment

10.6.1. Bond issuances

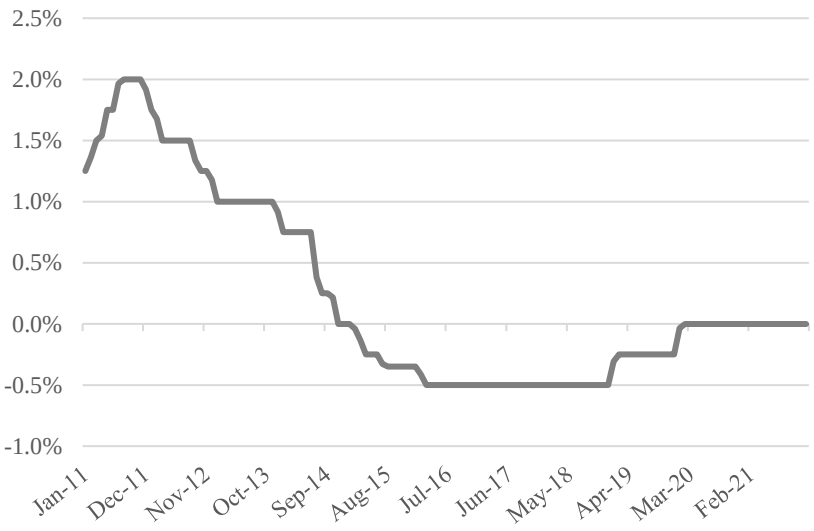
Table A11 –Bond issuance overview

Recent bond issues	Seniority	Date	Tenure	Capital raised	Interest rate	Market cap at issue	Reported ND/EBITDA at issue
Roll-ups							
Instalco	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Lindab	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Bravida	N/A	N/A	N/A	N/A	N/A	N/A	N/A
NCAB	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Platforms							
NWG	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Nibe	Unsecured	2021-06-03	5	SEK 2bn	3m STIBOR + 85 bps	SEK 184.3bn	1.0x
Stillfront	Senior unsecured	2021-05-11	4	SEK 1.5bn	3m STIBOR + 275 bps	SEK 26.4bn	6.3x
Dometic	Unsecured	2019-04-29	7	EUR 300m	300 bps fixed	SEK 22.7bn	3.0x
Accumulators							
Indutrade	Senior unsecured	2022-03-17	4	SEK 650m	3m STIBOR + 105 bps	SEK 79.1bn	1.4x
Lifco	Unsecured	2021-08-26	2	SEK 750m	3m STIBOR + 53 bps	SEK 114.0bn	1.2x
Storskogen	Senior unsecured	2022-01-21	3	SEK 1bn	3m STIBOR + 307 bps	SEK 79.0bn	1.7x
Addtech	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Vestum	Senior unsecured	2022-10-21	2	1.5bn SEK	3m STIBOR + 415 bps	SEK 14.7bn	2.8x

Source: Bloomberg (2022)

10.6.2. Monthly average repo rate

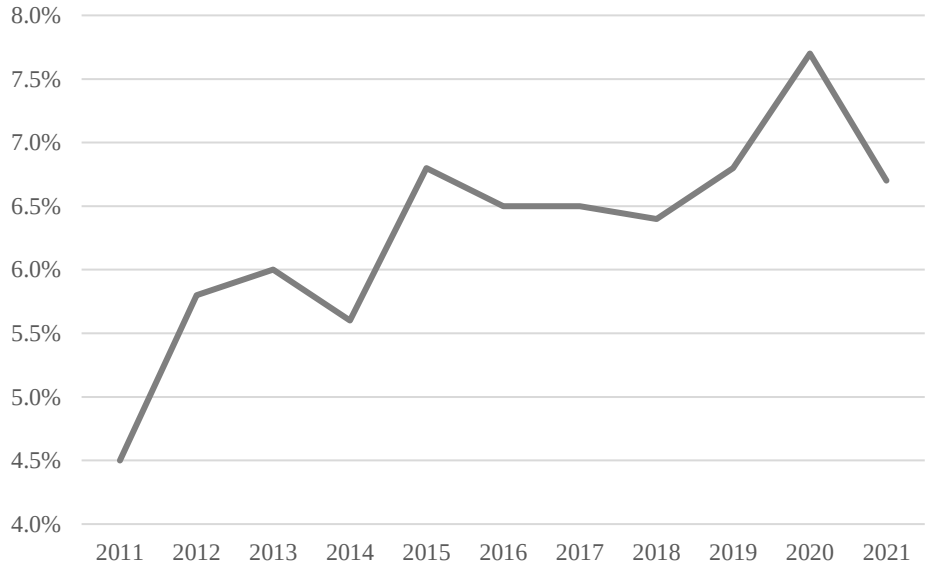
Table A11 – Monthly average repo rate



Source: Sveriges Riksbank (2022)

10.6.3. Market risk premium

Table A12 – historical market risk premium



Source: PwC (2021)

10.7. Swedish Government bond yields

Table A13 – Swedish Government bond yields at different maturities

Maturity	YTM
3m	-0.03%
6m	0.02%
2Y	0.68%
5Y	1.14%
6Y	1.19%
8Y	1.21%
10Y	1.21%
30Y	1.26%

As of March 28, 2022. Source: Bloomberg (2022)

10.8. Sortera

Sortera is an environmental and climate focused company operating in recycling, materials and industry which Ryk managed to grow from a revenue of SEK 80 million in 2012 to 1.4 billion in 2021 acquiring a large number of companies in the process. Sortera Group AB is a Nordic company, employs c. 400 in the three segments: Recycling, Materials and Industry. Services include Industrial Sanitation, Slug Handling, Construction Bags, High Pressure Washing and Water Sanitation. It was founded by Ryk in October 2006, acting as its CEO until February

2020 before stepping over as a Senior advisor. In May 2012, Norwegian Private-Equity actor Norvestor acquired 75% of Vestum, with founders Henrik Westöö and Ryk keeping 25% (Norvestor, 2012). At that point in time, its turnover was around SEK 80 million, focusing on BIG BAG operations for the construction industry. In April 2016, Norvestor divested its stake to impact Private-Equity firm Summa Equity, at the time with a pro forma revenue of SEK 193 million in 2015 (Norvestor, 2016). In March 2021, it was sold once again to Private-Equity company Nordic Capital, with a revenue of SEK 1.4 billion (Nordic Capital, 2021).

10.9. Vestum general information

Information below is retrieved from Vestum (2022a).

Segments

1. Water, including specialists with focus on improving the services for water infrastructure. Examples include companies specialized on pump technology and aftermarket services within water and sewage.
2. Services, specialists serving the construction industry with a focus on renovation and maintenance services that predominantly serve as subcontractors. Examples include companies providing plumbing, suspended ceilings, electricity, and floors.
3. Infrastructure that includes specialist companies that provide services within land and civil engineering, railroad, and other infrastructure work.

Vision

"Vestum shall become the leading Nordic acquisition-driven company focused on the construction services and infrastructure industries".

Business concept

Vestum's business concept is to acquire small and medium-sized companies within the construction, infrastructure, and water services that are well run and profit-generating where Vestum can support the entrepreneurs in growing the business. They support the entrepreneurs through working together with them to improve strategy, processes, and implementation.

Organization

As Vestum believes that the best decisions are made by the individuals running the businesses, Vestum applies a decentralized business model. The financial responsibility lays upon the subsidiaries to generate business, cash flow and profits which in turn contributes to flexibility and in keeping the entrepreneurial spirit within the company.

Executive management & Chairman

1) Chief Executive Officer & Founder: Conny Ryk

2) Chief Financial Officer: Olof Andersson

3) Deputy Chief Executive Officer: Erkan Sen

4) Head of Legal: Olle Nykvist

5) Head of M&A: Simon Göthberg

6) Head of Vestum International: Carl-Johan Callenholm

7) Chairman of the Board: Per Åhlgren

Investment criteria

Vestum is targeting small and medium-sized companies with revenue of SEK 40-400 million or EBITA of SEK 5-50 million within the aforementioned segments. Further, Vestum is looking to partner with businesses that display a proven business model with predictable cash flows that are run by a committed and motivated management. Currently, Vestum is mainly looking for companies that are headquartered in the Nordics, but add-on acquisitions may deviate from this criterion.

Shareholder structure

As of 28th February 2022, Vestum's management held approximately 31% of the outstanding shares and the largest 15 shareholders own c. 72% of the outstanding shares. The three largest shareholders are CEO Conny Ryk (15.8% of share capital outstanding), the Board member Anders Rosenqvist (8.3% of the shares outstanding), and Chairman Per Åhlgren (6.1%).

Source: Vestum (2022b)

10.10. Valuation approaches

10.10.1. Approach 1

Table A14 – Approach 1 valuation summary

Vestum valuation	
EBITA proforma end of FY 21	499
Average EV/EBITA FY 21	12.7x
Motivated enterprise value	6 360
Net debt	1486
Motivated equity value	4 874
Current equity value	13 404
Current EV/EBITA FY 21	29.8x
Downside (%)	-64%

As of 21 April 2022. Source: Vestum (2022c), Authors

Table A15 – Approach 1 comparable companies' valuation

Construction & Infrastructure peers	Market cap	EV	EV/EBITA FY 21
NCC AB	13 211	13 946	8.0x
Veidekke ASA	17 598	14 764	10.0x
JM AB	16 724	21 127	9.6x
Peab AB	27 977	40 045	13.9x
AF Gruppen ASA	21 905	23 226	15.4x
Bravida Holding AB	21 305	22 324	14.8x
Netel Holding AB	2 042	2 360	17.6x
Peer average	17 252	19 685	12.7x
Peer median	17 598	21 127	13.9x

As of 21 April 2022. Source: Capital IQ (2022), Authors

10.10.2. Approach 2

Assumptions:

i. WACC: 8.2%.

ii. Organic growth: 3%. Derived from long term GDP growth and the average of Instalco and Bravidas' 5Y organic CAGR.

iii. M&A growth: 0% as we consider an organic scenario.

iv. EBITA margin: 11.0% based on a 10.9% proforma margin in 2021. Wants to achieve at least 10% over time.

v. Interest % of net debt: We assume 0% interest earned on cash and 4.5% interest paid on debt as a prudent measure with the WACC formula using 4.1% cost of debt and the latest bond raised at 415 bps + 3m stibor. As market rates are rising, we increase our cost of debt.

vi. Effective tax: Swedish corporate tax is 20.6% and Norwegian tax is 22.0%. To account for increasing international exposure we apply an 21.5% effective tax rate.

vii. EBITA to FCFF cash conversion: As Vestum has not released its proforma numbers for capex and with only one year's net working capital we derive FCFF directly from EBITA to a cash conversion rate. Close peers Instalco and Bravida operating in the service segment has both had a c. 100% average conversion rate from 2016 to 2021. Median rate has been c. 90% which is what Ryk states as the conversion rate (24.11.2021). As Vestum has higher exposure to infrastructure with higher capex needs than pure service companies we use 80% as a prudent measure in our estimation, with Storskogen achieving an average of 75% and Lifco 80%.

viii. Capex Acquisitions: The model is based on a starting multiple of 7.5x EBITA as this has been the most common multiple paid in our earlier research for similar firms and close to the exact average multiple paid for the 13 first acquisitions made. This might be too prudent as Vestum states that they usually buy for around 5-7x EBITA, but for the sake of staying conservative we keep it. In approach 1 we assume no M&A, but multiples input for both approach 1 and 2 considers increasing multiples over time for prudency as multiples tend to increase over time in a cycle at the disadvantage of the firms (eg. Mitchell & Mulherin, 1996; Song & Walkling, 2000 in McNamara et al., 2008).

ix. Debt issued: The model assumes 100% financing by debt in acquisitions. While Vestum uses 25-35% shares as payment, in order to implement a DCF valuation we disregard equity issues as that would change multiples and further assumptions would have to be made about impact on market cap from equity issuances. In order to simplify comparability this is disregarded.

x. Equity: Increases by net income with no assumed dividends.

xi. Terminal value: Terminal growth of 3.0% with a WACC of 8.2%.

Table A16 – Approach 2 inputs and projected income statement

Inputs SEKm	
WACC	8.2%
Sales 2021	4 595
EBITA 2021	499
EBITA margin	10.9%
Equity 2021	3 593
Total debt 2021	3 004
Cash 2021	1 518
Net debt 2021	1 486

Income statement simplified SEKm

	FY 22e	**FY 23e**	**FY 24e**	**FY 25e**	**FY 26e**	**Terminal**
Sales	4 733	4 875	5 021	5 172	5 327	5 487
% organic	**3.0%**	**3.0%**	**3.0%**	**3.0%**	**3.0%**	**3.0%**
% M&A	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**
EBITA	521	536	552	569	586	604
% margin	**11.0%**	**11.0%**	**11.0%**	**11.0%**	**11.0%**	**11.0%**
Amortization	-18.9	-19.5	-20.1	-20.7	-21.3	-21.9
% of sales	**-0.4%**	**-0.4%**	**-0.4%**	**-0.4%**	**-0.4%**	**-0.4%**
EBIT	502	517	532	548	565	582
% margin	10.6%	10.6%	10.6%	10.6%	10.6%	10.6%
Interest	-135	-135	-135	-135	-135	0
% of total debt	**-4.5%**	**-4.5%**	**-4.5%**	**-4.5%**	**-4.5%**	**-4.5%**
EBT	367	382	397	413	429	582
Tax	-79	-82	-85	-89	-92	-125
% effective tax	**-21.5%**	**-21.5%**	**-21.5%**	**-21.5%**	**-21.5%**	**-21.5%**
Net Income	**288**	**300**	**312**	**324**	**337**	**457**

Source: CapitalIQ (2022), Authors

Table A17 – Approach 2 simplified cash flow statement, balance sheet, selected metrics, and valuation multiples

Cash flow simplified SEKm	FY 22e	FY 23e	FY 24e	FY 25e	FY 26e	Terminal
FCFF	416	429	442	455	469	483
EBITA to FCFF conversion	**80.0%**	**80.0%**	**80.0%**	**80.0%**	**80.0%**	**80.0%**
Capex acquisitions	0	0	0	0	0	0
EV/EBITA multiple paid	**7.5x**	**7.7x**	**8.0x**	**8.2x**	**8.5x**	**8.5x**
Debt issued	0	0	0	0	0	
FCFE post M&A	**416**	**429**	**442**	**455**	**469**	

Balance sheet simplified SEKm					
Equity	3 881	4 180	4 492	4 816	5 153
Cash	1 934	2 363	2 805	3 260	3 729
Total debt	3 004	3 004	3 004	3 004	3 004
Net debt	**1070**	**641**	**199**	**-256**	**-725**
Capital Employed	6 885	7 184	7 496	7 820	8 157
Capital Invested	4 950	4 821	4 691	4 560	4 428

Metrics	FY 22e	FY 23e	FY 24e	FY 25e	FY 26e
ROCE	7.6%	7.5%	7.4%	7.3%	7.2%
ROIC	7.8%	8.2%	8.7%	9.2%	9.7%
ROIC-WACC	-0.4%	0.0%	0.5%	1.0%	1.5%
ND/EBITA	2.1x	1.2x	0.4x	-0.5x	-1.2x

Market valuations SEKm					
Market Cap	13 404	13 404	13 404	13 404	13 404
EV	14 474	14 045	13 603	13 148	12 679
EV/EBITA	27.8x	26.2x	24.6x	23.1x	21.6x
EV/EBIT	28.8x	27.2x	25.6x	24.0x	22.5x
P/E	46.6x	44.8x	43.0x	41.3x	39.8x

Source: CapitalIQ (2022), Authors

Table A18 – Approach 2 valuation summary

DCF simplified SEKm	FY 22e	FY 23e	FY 24e	FY 25e	FY 26e	Terminal
FCFF post acquisitions	416	429	442	455	469	483
Discount factor	92.4%	85.4%	78.9%	73.0%	67.4%	67.4%
Present value FCFF	385	366	349	332	316	
Sum of present value FCFF	1 748					
Terminal value (Gordon Growth)	9 285					
Present value terminal value	6 261					
Enterprise value	8 009					
- net debt	1 486					
Motivated equity value	6 523					
Current equity value	13 404					
Current EV/EBITA FY 21	29.8x					
Motivated EV/EBITA FY 21	16.1x					
Downside(-)/Upside(+) (%)	-51%					

Source: Capital IQ (2022), Authors

10.10.3. Approach 3

Assumptions:

i. Sales growth from M&A: Starting at 50% in 2022 as Vestum has already achieved R12 sales of SEK 6 billion not included in proforma at end of year 2021. Over time it decreases to 15% in 2026. This level decreases so that ND/EBITDA meets Vestum mid target of around 3x. For the terminal value no M&A is included as the terminal growth must be higher than global GDP growth, which would in theory mean that the company becomes larger than the world economy. This is a recognized flaw with the model but deemed less important since the general idea is to show metrics and multiples impact, not precise value. Also, Vestum's goal of reaching SEK 3 billion in EBITA by 2025 is deemed unreasonable, especially given the current market situation, as it would require 53% average M&A growth until 2025. That would require a net debt of around 5x to EBITA in the end of the estimation period.

ii. Capex acquisitions: Same acquisition multiples assumed as in approach 1 financed fully by debt. Acquired companies assumed at same operating margins as Vestum. Debt increases by capex from cash acquisitions as financed by debt.

iii. ND/EBITDA: As we assume 100% debt financing, ND/EBITDA cannot increase to a level which would break covenants. In our scenario we assume that it reaches c. 3x in 2026.

From these assumptions we arrive at the final metrics and multiples below for the firm.

Table A19 – Approach 3 inputs and projected income statement

Inputs SEKm	
WACC	8.2%
Sales 2021	4 595
EBITA 2021	499
EBITA margin	10.9%
Equity 2021	3 593
Total debt 2021	3 004
Cash 2021	1 518
Net debt 2021	1 486

Income statement simplified SEKm

	FY 22e	**FY 23e**	**FY 24e**	**FY 25e**	**FY 26e**	**Terminal**
Sales	7 030	9 350	11 501	14 146	16 692	17 193
% organic	**3.0%**	**3.0%**	**3.0%**	**3.0%**	**3.0%**	**3.0%**
% M&A	**50.0%**	**30.0%**	**20.0%**	**20.0%**	**15.0%**	**0.0%**
EBITA	773	1029	1265	1556	1836	1891
% margin	**11.0%**	**11.0%**	**11.0%**	**11.0%**	**11.0%**	**11.0%**
Amortization	-28.1	-37.4	-46.0	-56.6	-66.8	-68.8
% of sales	**-0.4%**	**-0.4%**	**-0.4%**	**-0.4%**	**-0.4%**	**-0.4%**
EBIT	745	991	1219	1499	1769	1822
% margin	10.6%	10.6%	10.6%	10.6%	10.6%	10.6%
Interest	-135	-220	-301	-375	-468	0
% of total debt	**-4.5%**	**-4.5%**	**-4.5%**	**-4.5%**	**-4.5%**	**-4.5%**
EBT	610	771	918	1125	1301	1822
Tax	-131	-166	-197	-242	-280	-392
% effective tax	**-21.5%**	**-21.5%**	**-21.5%**	**-21.5%**	**-21.5%**	**-21.5%**
Net Income	**479**	**605**	**721**	**883**	**1021**	**1431**

Source: CapitalIQ (2022), Authors

Table A20 – Approach 3 simplified cash flow statement, balance sheet, selected metrics, and valuation multiples

Cash flow simplified SEKm	**FY 22e**	**FY 23e**	**FY 24e**	**FY 25e**	**FY 26e**	
FCFF	619	823	1012	1245	1469	1513
EBITA to FCFF conversion	**80.0%**	**80.0%**	**80.0%**	**80.0%**	**80.0%**	**80.0%**
Capex acquisitions	1 895	1 786	1 646	2 075	1 984	0
EV/EBITA multiple paid	**7.5x**	**7.7x**	**8.0x**	**8.2x**	**8.5x**	**8.5x**
Debt issued	1 895	1 786	1 646	2 075	1 984	
FCFE post M&A	**619**	**823**	**1012**	**1245**	**1469**	

Balance sheet simplified SEKm					
Equity	4 072	4 677	5 398	6 280	7 302
Cash	2 137	2 960	3 972	5 216	6 685
Total debt	4 899	6 686	8 332	10 406	12 390
Net debt	**2763**	**3726**	**4360**	**5190**	**5705**
Capital Employed	8 971	11 363	13 729	16 687	19 692
Capital Invested	6 835	8 403	9 758	11 470	13 007

Metrics	**FY 22e**	**FY 23e**	**FY 24e**	**FY 25e**	**FY 26e**
ROCE	11.3%	11.0%	10.7%	10.9%	10.6%
ROIC	11.5%	11.4%	11.4%	12.1%	12.1%
ROIC-WACC	3.3%	3.2%	3.2%	3.9%	3.9%
ND/EBITA	3.6x	3.6x	3.4x	3.3x	3.1x

Market valuations SEKm					
Market Cap	13 404	13 404	13 404	13 404	13 404
EV	16 167	17 130	17 764	18 594	19 109
EV/EBITA	20.9x	16.7x	14.0x	11.9x	10.4x
EV/EBIT	21.7x	17.3x	14.6x	12.4x	10.8x
P/E	28.0x	22.2x	18.6x	15.2x	13.1x

Source: Capital IQ (2022), Authors

Table A21 – Approach 3 valuation summary

DCF simplified SEKm	FY 22e	FY 23e	FY 24e	FY 25e	FY 26e	Terminal
FCFF post acquisitions	-1 277	-964	-634	-830	-515	1 513
Discount factor	92.4%	85.4%	78.9%	73.0%	67.4%	67.4%
Present value FCFF	-1 180	-823	-500	-606	-347	
Sum of present value FCFF	-3 456					
Terminal value (Gordon Growt	29 096					
Present value terminal value	19 620					
Enterprise value	16 164					
- net debt	1 486					
Motivated equity value	14 678					
Current equity value	13 404					
Current EV/EBITA FY 21	29.8x					
Motivated EV/EBITA FY 21	32.4x					
Downside(-)/Upside(+) (%)	10%					

Source: Capital IQ (2022), Authors

Sensitivity:

i. Given average acquisition multiples in lines with the Lakers Group acquisition of 13.5x we would instead reach a ROIC close to the WACC of 8.4% in 2026, meaning that acquisitions would start destroying value for a downside of 29%. Net debt would reach levels above covenants almost directly meaning that it would not be sustainable with a M&A growth of approach 3 magnitude.

ii. Given a cash conversion of 30% in line with Nordisk Bergteknik according to Ragnerstam (16.03.2022) ND/EBITA would reach levels above 4.5x, ROIC would slowly fall below the WACC and because of the large impact on terminal value, the downside is 100%. In order to keep debt steady at around 3x, it could add closer to 6% from M&A each year, not as impressive.

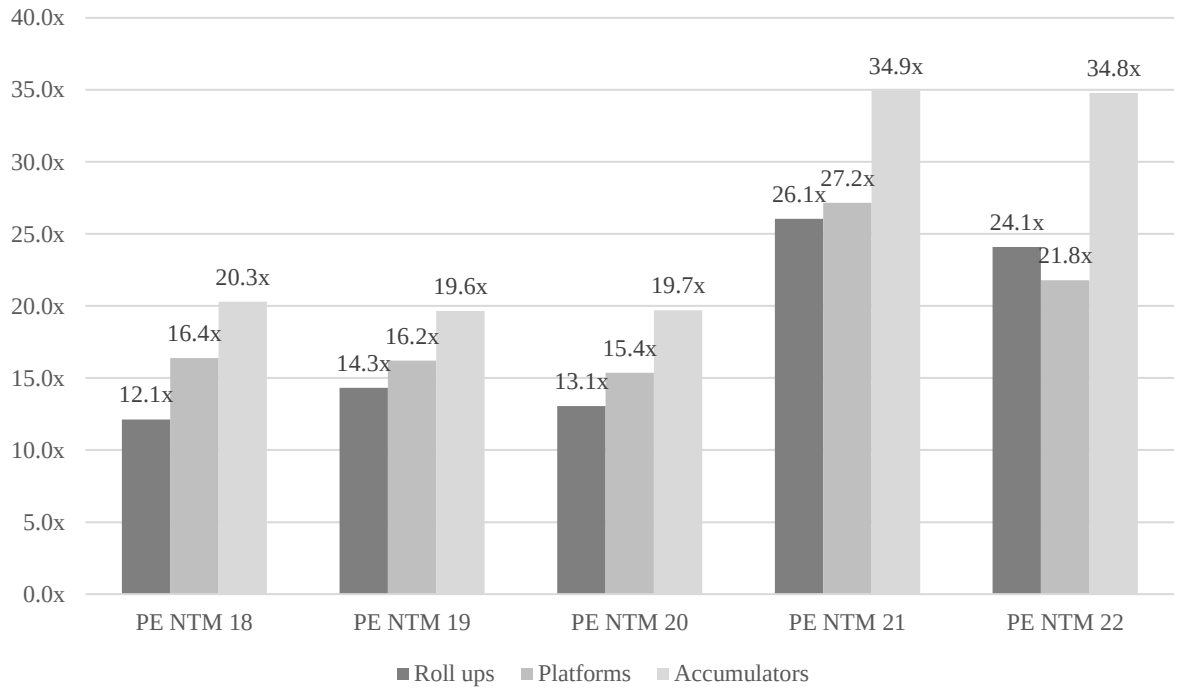
iii. Given an EBITA margin in line with Bravida of around 6.5%, ROIC would fall below 7% and net debt increase severely over time for a downside of 40%.

iv. Given a M&A growth of 10% in line with Lifco, net debt would decrease to 1.2x in 2026 but for a downside of 35% suggesting that Vestum must achieve strong growth to motivate its current valuation.

10.11. Price to earnings NTM of the peer group

Below multiples are gathered Next Twelve Months (NTM) from Capital IQ in our peer group and calculated by the average of the available multiples each year.

Table A22 – Price to earnings NTM of the peer group



Source: Capital IQ (2022)

10.12. Acquired firms summary

Table A23 – Acquired firms summary

#	Acquisitions	Date
1	Sanera Stockholm AB	22/03/2021
2	Skandinaviska Områdesskydd AB	22/03/2021
3	Rosenqvist Entreprenad AB	07/04/2021
4	Containertjänst i Tyresö AB	25/05/2021
5	Mälardalens Spår och Anläggning AB	25/05/2021
6	GGAL Group AB	25/05/2021
7	Installera SW AB	25/05/2021
8	We Ar(e) Group AB	31/05/2021
9	MTB Mark & Trädgårdsbyggarna AB	03/06/2021
10	FlexiRail AB	10/06/2021
11	Hyrex Holding AB	18/06/2021
12	F Forsmans VVS AB	23/06/2021
13	Powerstruc AB	06/07/2021
14	Plåtslagaren G.H. Johansson AB	08/07/2021
15	Skåne Montage AB	30/08/2021
16	SweRör J. Borg AB	02/09/2021
17	Hanell Entreprenad i Gävle AB	15/09/2021
18	Arctic Infra	21/09/2021
19	Takakustik i Stockholm AB	22/09/2021
20	Markax AB	24/09/2021
21	Universalisolering Fredriksson AB	29/09/2021
22	Ekmans Ståldörrar	30/09/2021
23	GW Asfalt & Trädgårdsanläggningar AB	05/10/2021
24	Lakers Group AB	07/10/2021
25	Infracon Sverige AB	26/10/2021
26	Malte Rutberg Entreprenad AB	28/10/2021
27	Elcentralen Nacka AB	01/11/2021
28	Amsler Hiss AB	02/11/2021
29	KWA Isolerteknik AB	09/11/2021
30	Tannefors Glas AB	23/11/2021
31	MCR Mobile Contrainer Repair AB	04/01/2022
32	Oceanterminalen Fastighetsförvaltning AB	04/01/2022
33	NA Altanglas AB	20/01/2022
34	Mälarmontage Glas & Metall AB	21/01/2022
35	KvalitetsMark R AB	24/01/2022
36	Västsvensk Byggskruv AB	25/01/2022
37	Galore i Uppsala AB	02/02/2022
38	LTI Group	03/02/2022
39	Scanregn A/S	11/02/2022
40	Marbit AB	14/02/2022
41	RockCon AB	21/02/2022
42	KylKontroll Göteborg AB	28/02/2022
43	Abax Dörrsystem	11/03/2022
44	Kjellgrens El i Tumba AB	18/03/2022
45	Fibber AS	22/03/2022

Source: Vestum press releases

10.13. Short biographies of interviewees

Short biographies of people involved in the case, both Vestum-related parties and unrelated parties.

Table A24 – Short biographies of interviewees

Vestum and related parties

Conny Ryk Vestum	Vestum's founder and current CEO. Has previously founded Sanera (currently owned by Vestum), Sortera (currently owned by Nordic Capital), and a real estate company. Conny was the CEO of Sortera until 2020.
Simon Göthberg Vestum	Part of the founding management team of Vestum and currently Head of M&A. Previous experience includes private equity and investment banking.
Per Åhlgren Vestum	Investor through GoMobile NU AB. Current Chairman of the Board at Vestum. Co-founder and current Chairman of the Board at Mangold AB, Board Member at Bong AB and has previously that worked with sales and trading in London during 10 years with leading banks.
Jimmy Ekman Vestum	Vestum's subsidiary Skandinaviska Områdesskydd's co-founder and current CEO. Has developed the organization from being run out of a car to over SEK 100m in sales. Previous experience includes e-commerce start-ups.
Anders Rosenqvist Vestum	Vestum's subsidiary Rosenqvist Entreprenad's founder and previous CEO. Current Board Member in Vestum. Has founded other businesses within real estate, international rail, etc.
Anders Johansson Vestum	Vestum's subsidiary Galore Electro's founder and CEO. Before founding Galore, Anders worked with security systems at Stanley Security.

Unrelated to Vestum

Carl Ragnerstam Nordea	Equity Research Analyst and Head of Small Caps at Nordea. Carl Ragnerstam covers serial acquirers among other businesses and has over 6 years' experience in equity research.

Source: Interviews