

Original Private Equity Strategies – How to Build a Global Niche Market Leader from Scratch

A Case Study on Fidelio Capital's Creation of Vimian *

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Abstract

In this paper, we study sources of value creation in private equity-backed buy-and-build strategies by performing a case study on Fidelio Capital's creation of Vimian – a now global and publicly listed animal health group. We find that the value created in this case is mainly attributable to four components, which are all well-aligned with Fidelio Capital's investment model. Firstly, Fidelio Capital enjoys an investment mandate with few limited partner restrictions. Secondly, targeted markets are growing, fragmented, non-professionalized, and consist of entrepreneurially driven companies. Thirdly, Fidelio Capital has an opportunistic yet price-disciplined approach to mergers and acquisitions, where add-ons are acquired on a stand-alone basis to fuel inorganic growth. Fourthly, Fidelio Capital applies a decentralized governance model that alongside talent attraction, wide incentive programs, and group-wide support functions enables faster decision-making – facilitating organic growth. Complementary to our qualitative analysis, we quantify what share of value creation is attributable to entry (buying low), engineering (improving Vimian), and exit (selling high). We find that approximately two-thirds of Fidelio Capital's value creation for Vimian is attributable to elements within Fidelio Capital's control.

Keywords: Private equity, value creation, buy-and-build, Fidelio Capital, Vimian

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1 Introduction

In the past few decades, the private equity (PE) industry has soared, seemingly outperforming public markets, and reaching record high levels in 2021, both in terms of deal count and available dry powder (Bain, 2022). As a result, researchers and practitioners conclude that the PE market is now more competitive than ever, resulting in traditional PE value levers becoming increasingly commoditized. Therefore, to continue achieving competitive investment returns, today's PE firms must place greater emphasis on originality and alternative value creation strategies. As you will see in this paper, one way of doing so is to apply a decentralized governance model to a customized buy-and-build growth strategy.

The buy-and-build strategy can be defined as a hybrid strategy that unites the PE model with the synergistic and long-term focus on serial acquisitions performed by strategic buyers to improve operating performance (Borell & Heger, 2013). PE firms' ability to create value through the buy-and-build strategy is a debated yet under-researched topic. Some researchers argue that the buy-and-build strategy outperforms other PE strategies in terms of margin improvements, multiple expansion, and investment returns (Acharya et al. 2013; Bansraj et al., 2020). However, if not applied properly in a favourable setting, buy-and-build is inferior to other investment strategies (Borell & Heger, 2013; MacArthur, 2019), perhaps influenced by conflicting objectives in joint acquisitions made by a financial sponsor and a strategic buyer (Rousseau, 2010). Others suggest that the strategy does not create value at all and is rather a means of value transfer (Phalippou & Morris, 2019). Thus, the buy-and-build strategy's sources of value creation and success factors are not clearly identified in existing literature. Regardless, the buy-and-build strategy has become increasingly popular in the past decade. In the Nordics, for example, the strategy has been employed in combination with a decentralized governance model – characterized by limited integration, local autonomy, and supporting group functions. For instance, among such Nordic PE success cases we find AniCura, Anticimex, Norva24, Prosero, and Vimian.

Through a case study focusing on Fidelio Capital's (Fidelio) buy-and-build journey with Vimian, we set out to identify sources of value creation and success factors that have resulted in Vimian becoming a now publicly listed and global animal health group with revenues of EUR 247m.¹ Accordingly, we derive our main research question, #RQ1: *How has Fidelio managed to create value through their buy-and-build strategy with Vimian?* Between 2015 and 2020, Fidelio, by means of strategic acquisitions, built four separate platforms in niche segments of the animal health market. These four platforms, which demonstrated attractive organic and inorganic growth, were initially

¹ Pro forma revenue over the twelve months ending by March 2022.

run as separate buy-and-build cases with no plan in sight to create a larger group. However, Fidelio soon recognized multiple overlaps across the businesses and created Vimian by merging the four platforms. This merger diverges from typical buy-and-build cases with one platform per investment case and motivates our second research question, #RQ2: *What were Fidelio's motives for establishing Vimian?* In June 2021, two months after the merger was publicly announced, Fidelio listed Vimian by selling a minority stake, and has since then continued to develop the group as the majority owner. Hence, research question three evaluates the success of Fidelio's strategy, #RQ3: *Has the employed buy-and-build strategy led to value creation so far?* In connection with the Vimian IPO, Fidelio realized a 3.7x return on invested capital. Had Fidelio made a full exit at the IPO valuation, they would, *ceteris paribus*, have realized a 13x return. We argue that these high returns are mainly attributable to the following four components that are central to Fidelio's investment model: i) Fidelio having few limited partner (LP) restrictions, allowing for a flexible investment mandate and better market timing abilities; ii) Fidelio targeting niche markets that are growing, fragmented, non-professionalized, and consisting of entrepreneurially driven companies; iii) Fidelio's opportunistic yet price disciplined approach for mergers and acquisitions (M&A) where add-ons are acquired on a stand-alone basis to fuel inorganic growth; and iv) a decentralized governance model that along with talent attraction, wide incentive programs, and group-wide support functions enable faster and better decision-making – facilitating organic growth. Further, by benchmarking Fidelio entry and exit data to comparable market sources, we quantify what portion of the 13x hypothetical investment return is attributable to entry (buying low), engineering (improving the firm), and exit (selling high). We find that approximately two thirds of this return is attributable to endogenous elements. Further, evidenced by the rumored 10x AniCura investment return (a previous Fidelio buy-and-build case), as well as the aggregated 7.5x-10x return of Fidelio's first and second fund, Fidelio seems to successfully employ value creation strategies (mostly in the form of buy-and-build) on its portfolio companies.

This paper primarily focuses on the creation of Vimian, and actions taken thereafter, as we believe these events carry most originality and thus better illustrate unique characteristics of Fidelio's investment model. We suggest that the four core components of Fidelio's investment model work better when applied collectively. For instance, we argue that an investor will be less successful in applying an M&A approach similar to that of Fidelio's if the market does not meet mentioned characteristics. Neither does it seem wise to promote local autonomy in a portfolio company (the decentralized governance model) without enjoying autonomy and investment flexibility yourself (very limited LP restrictions). We will return to this discussion in Section 5.2.6, but for now we wish to highlight that our study yields case-specific results, which is an inherent

weakness of the case study methodology that limits us from drawing generalized conclusions. Therefore, PE firms should consider their context before seeking guidance from Fidelio's investment model and the Vimian success story. Similarly, further research is needed to solidify our academic findings.

While we argue that Fidelio's investment model has many elements of originality, we recognize that isolated components of the Fidelio model are found elsewhere. We have identified a few examples. Firstly, there are academic discussions regarding LP restrictions, yet not from a buy-and-build perspective. Secondly, while synergies are important in strategic M&A, buyout funds often evaluate target acquisitions on a stand-alone basis. Thirdly, other Nordic buy-and-build cases have applied a decentralized governance model. While this paper concludes that the decentralized governance model, the closely related entrepreneurial culture, and the wide incentive program are key success factors for Vimian, we could not address, in depth, how these elements have been affected by Vimian becoming a listed company. Such analysis would add complementary value to this paper and should preferably be conducted in the next few years, at which time potential effects would be more visible.

The rest of this paper is organized as follows. In Section 2, we review the literature on PE from a buy-and-build perspective. Section 3 presents the empirical methodology and data collection. Section 4 outlines Vimian's storyline. Section 5 details key actions taken by Fidelio, along with a qualitative and quantitative value creation analysis. In Section 6, we provide concluding remarks and recommendations for future research.

2 Literature Review

This section starts by assessing the literature on PE value creation, followed by a review of the literature on buy-and-build, including M&A. Lastly, the chapter concludes with a brief review of governance strategies which, as we will see, play an important part in this paper.

2.1 The Private Equity Model

Kaplan and Strömberg (2009) outline three categories of value accretive actions: financial, governance, and operational engineering. Financial engineering entails value creation using leverage, which reduces cash flow diversion, provides a tax shield, and allows the investor to gear returns and magnify upside potential (Jensen, 1989; Davis et al., 1994; Kaplan & Strömberg, 2009).

Governance engineering refers to setting up favorable incentive structures, controlling the boards of portfolio companies, and engaging in active monitoring. On average, PE funds allocate a significantly higher fraction of shares to management compared to public market standards (Gompers et al., 2016), and top managers are typically required to invest alongside the PE firms to obtain the shares, leaving them with “skin in the game”. In turn, management equity ownership and strong incentive structures trigger improved performance (Baker and Wruck, 1989).

Operational engineering refers to value creation through operational improvements. While the former two value creation levers have become increasingly “commoditized” (Sensoy et al., 2014; Gompers et al., 2016; Braun et al., 2017; Brown et al., 2020), operational improvement is an increasingly important value lever in a highly competitive PE market (Kaplan & Strömberg, 2009; Achleitner et al., 2010; Guo et al., 2011; Harris et al., 2014; Næss-Schmidt et al., 2017). Further, according to Gompers et al. (2016), PE firms list revenue growth as the most frequent source of value creation. In about 40% of all cases, PE firms list redefining the business model as a source of value creation, and replacing senior management is even more common.² Operational improvements are associated with deal partners’ industrial expertise, whereas deal partners with a financial background more successfully pursue buy-and-build strategies (Acharya et al., 2013).

Beyond engineering, entry (buying low) and exit (selling high) constitute a meaningful portion of value creation, and is partly connected to multiple expansion. Research on sources of multiple expansion is scarce, but Gompers (2016) suggests that it may stem from taking advantage of market timing, superior bargaining abilities, asymmetric information, or simply selling to the right buyer. On that note, Phalippou and Morris (2019) suggest that buying low and selling high mainly constitute value transfers, rather than value creation. However, other researchers show that

² Gompers et al. (2016) separates expected (pre-investment) from actual (post-investment) sources of value creation, with regards to operational engineering. We have relied on the post-investment remarks.

general partners (GPs) are better at timing exits and that such market timing skills constitute an important source of value creation (Jenkinson & Sousa, 2015; Jenkinson et al., 2022). Taking the multiple expansion analysis one step further, van Swaay et al. (2015) argue that multiple expansion could be derived from both multiple surfing (buying at a low point and selling at a high point in the business cycle) and multiple engineering (derived from operational improvements).

Criticized issues with the PE model involves transferring, rather than creating, value by excessive leverage and cost cutting, for instance (Service Employees International Union, 2008; Rasmussen, 2008). Other issues may arise due to fund structures. For instance, PE funds seek to time their exit with optimal market conditions (Gompers & Lerner, 2000). Extended funds, however, yield greater flexibility in suboptimal exit environments (Espinoza, 2018). Likewise, timing pressure means that GPs may have to divest too early to attract new capital for subsequent funds or invest despite lack of attractive opportunities (Gompers, 1996). Such deal pressures imply a loss of bargaining power and in turn lower returns (Arcot et al., 2013).

2.2 Buy-and-Build Strategies

Buy-and-build strategies refer to when a PE investor acquires a so-called platform, that is a company used as a base for further acquisitions, and subsequently merges multiple acquisitions, add-ons, into that platform (Borell & Heger, 2013). Accordingly, buy-and-build can be defined as a hybrid strategy that unites the PE model with the synergistic and long-term focus in serial acquisitions performed by strategic buyers, to improve operating performance (Bansraj et al., 2020). In fact, Acharya et al. (2013) document buy-and-build outperformance in terms of margin improvements and multiple expansion, which is well aligned with the internal rate of return (IRR) of buy-and-build cases being higher compared to more organic PE cases (Nikoskelainen & Wright, 2007; Valkama et al., 2013; Brigl et al., 2016; Bansraj et al., 2020). Not surprisingly, the buy-and-build strategy is therefore becoming increasingly popular (MacArthur, 2019; Bansraj et al., 2020).

Naturally, M&A is key to the buy-and-build strategy. In a general setting, M&A is motivated by achieving greater market power (Lin & Chou, 2016), improving operating performance (Trautwein, 1990), and/or personal benefits for top executives (El-Khatib et al., 2015). The former two motives are typically positively associated with M&A performance (Kim & Singal, 1993; Banerjee & Eckard, 1998; Epstein, 2005), whereas the opposite is true for the latter (Hayward & Hambrick, 1997). M&A success is also associated with business complementarity, as it enables synergies to materialize (Pehrsson, 2006; Bauer & Matzler, 2014). Business complementarity may for instance arise when there are alignments in technology (Makri et al., 1997), product offering (Wang & Zajac, 2007), or in the market in general (Kim & Finkelstein,

2009). Another predictor of poor M&A performance is failed integration (Kengelbach et al., 2012), yet this is often neglected or inadequately people centered (Buono, 2003). That said, all firms should not adopt the same integration strategy, and the degree of integration is inversely related to the level of innovation (Puranam et al., 2006). Further, Bauer and Matzler (2014) suggest that formal integration is less needed if the acquirer and the target are vastly different in size while fitting well culturally. Lastly, closer to the buy-and-build topic, literature on serial M&A conclude that the relationship between M&A experience and M&A performance is complex. Acquirers who execute a series of acquisitions of similar firms and who are capable of generalizing learnings from each transaction generate better M&A performance (Kengelbach et al., 2012). However, Bauer et al. (2018) suggest that while generalized M&A learnings are suitably applied to future acquisitions of similar nature, they also risk being erroneously applied to more differentiated cases, resulting in worse M&A performance.

Despite the buy-and-build strategy becoming increasingly popular, the topic is still rather under-researched. Looking further into its mechanics, Døskeland and Strömberg (2018) note that the PE investor usually looks for a platform in a fragmented industry and in turn executes a series of smaller acquisitions at rather low valuations. However, since part of the value with the initial platform is connected to its capacity to make add-ons, the acquisition of a good platform company often requires paying a substantial valuation premium (Smit, 2001). In a buy-and-build case, add-ons acquired at a lower multiple will assume the same premium upon merging with the platform, referred to as multiple arbitrage. Beyond operational improvements brought about in buy-and-build (Borell & Heger, 2013; Bansraj et al., 2020) this utilization of multiple arbitrage offers a solid trajectory to capital gains (Brigl et al., 2016; MacArthur, 2019), which is particularly important in a context where valuations are at record-highs (Ibid) and where traditional leveraged buyout value levers, as previously discussed, have become increasingly commoditized. However, buy-and-build has also been noted to underperform other strategies if misused (MacArthur, 2019), for instance when applied to companies with decreasing sales-to-asset ratios (Borell & Heger, 2013). Also, a joint acquisition made by a financial and a strategic buyer may face challenges with conflicting investment objectives, as a strategic buyer may look for long-term synergy opportunities, whereas a financial sponsor often looks for steady cash flows to service debt. Similarly, there could be conflicting cultures, and slower decision-making post investment due to shared management (Rousseau, 2010). Critics even argue that buy-and-build primarily serves to window dress PE firms' track records, ease fundraising, or justify spending committed capital (Phalippou & Morris, 2019).

Certain parts of the literature have focused on mapping the conditions for when buy-and-build tends to be applied. Bansraj and Smit (2017) find that its prevalence is positively related to i)

high industry fragmentation, ii) the existence of large targets with low asset turnover or profitability, thereby yielding a solid financial base with a high growth potential, and iii) strong exit opportunities, via high market valuations and multiple potential buyers. Hammer et al. (2017) conclude that extensive experience and reputation at the PE firm, a large platform with previous M&A experience, a fragmented industry, and favorable financing conditions all contribute to the pace and success of add-on acquisitions. Adding to that, Bansraj et al. (2020) find that synergies are mainly realized in vertical buy-and-build strategies. In contrast, however, Borell and Heger (2013) describe that most buy-and-builds are based on horizontal acquisitions, supported by the notion that targets which are close to the core adds more value (Brigl et al., 2016; MacArthur, 2019).

2.3 Governance Strategies in Multi-Divisional Organizations

Lee and Edmondson (2017) argue that significant decentralization allows organizations to be more flexible and thus better able to handle unforeseen events by allowing local managers to make appropriate local judgement calls (Haustein et al., 2014) which would not have been permitted under strict procedures and processes of a centralized structure (O'Grady, 2019). Although, while autonomous decision-making may increase flexibility and agility, it also exposes the organization to the risk of local managers making inconsistent or arbitrary decisions (Hempel et al., 2012). Subsequently, this may lead to inefficient use of resources (Foss et al., 2015). Combating these risks, Mintzberg (1979) argues that decentralization must be supported by formal control functions. Siggelkow and Levinthal (2003) conclude that neither full-scale centralization nor full-scale decentralization leads to high performance. Rather, they suggest that the optimal level of decentralization increases as intra- and cross-divisional collaborations emerge and are cemented. While the effect of decentralized decision-making is rather undocumented in quantitative studies, Baker and Wruck (1989), through a qualitative case study, identify it as contributing factor for improving performance.

3 Case Study Methodology

3.1 Empirical Methodology and Data Collection

To answer the research questions, we have performed a case study on Vimian. The case study methodology is appropriate when examining a contemporary phenomenon through an empirical inquiry and it is particularly effective when answering the “why” and the “how” of such a phenomenon (Yin, 2009). Moreover, the case study methodology is typical in PE research due to both limited data availability and questionable data quality. According to Feagin et al. (1991), the case study methodology is the ideal approach when an in-depth, holistic investigation is needed to understand a phenomenon – which well summarizes this study.

The data was collected through public sources,³ confidential materials provided by Fidelio, and qualitative interviews with business professionals closely connected to the Vimian investment case. More specifically, we conducted nine interviews with eight individuals consisting of a mix of Fidelio investment professionals and Vimian executives. See Table 1 for an overview of the interviewees and Appendix A for more extensive background of the interviewees. Using a mix of sources allows for information triangulation, which enhances data quality and helps to better capture the entirety and the complexity of the case (Yin, 2009).

Table 1

Overview of Case Interviewees

Interviewee	Role at the Time of the Interview
Gabriel Fitzgerald	Founding Partner and CEO at Fidelio
Theodor Bonnier	Director at Fidelio
Anders Johansson	Director at Fidelio
Fredrik Blomberg	Investment Manager at Fidelio
Dr. Fredrik Ullman	CEO at Vimian (ex. CEO at Indical Bioscience)
Magnus Kjellberg	CEO at Nextmune
David Ammann	Head of Strategy at Movora
Michael Thunell	COO at VetFamily

Note: Information obtained from the interviews. Vimian consists of four business verticals (Nextmune, Indical Bioscience, VetFamily, and Movora), and we have interviewed one from each vertical to ensure we establish a representative understanding of the group.

³ Public sources mainly include Capital IQ, Vimian’s IPO prospectus, and Vimian’s financial reports.

Since the interviews constitute our main data source, preparing for, conducting, and documenting the interviews have been particularly emphasized. The interviews were guided by a pre-determined set of questions. However, the interviews followed a semi-structured approach, leaving room for dynamic discussions. To ensure effective data collection and subsequent qualitative analyses, some interviewees received complementary follow-up questions.

The interviews were carried out between May 13 and June 9, both in person and through digital media. The interviews, which lasted between 30 and 120 minutes, were both recorded and transcribed to ensure correct information transfer and enhance data quality. To further ensure a fair representation of collected data and to correct potential factual errors and misinterpretations, Fidelio received drafts of the paper prior to publication.

3.2 Advantages and Drawbacks of the Case Study Methodology

The case study methodology is associated with advantages and drawbacks and has been both praised and criticized in academia. On the positive end, Flyvbjerg (2006) proclaim that the case study methodology is an effective way to thoroughly investigate real-life events and test views directly in connection to a phenomenon that unfolds in practice. Moreover, it provides a unique opportunity to find relationships, patterns, or information that were originally unanticipated. As such, case study findings are potential sources of new hypothesis formulations (Jacobsen et al., 2002), which could then be tested using other research methodologies (Flyvbjerg, 2006). Compared to other methodologies, the case study is an effective tool to understand real causal processes in depth, as opposed to quantitative experiments which instead serve to analyze artificially created settings (Gomm et al., 2000). The case study methodology is also associated with several drawbacks. Yin (2009) identifies lack of rigor as the greatest concern, as researchers' degree of freedom entices them to cut corners and fail to follow systematic procedures. Moreover, given its qualitative nature, it is subject to verification bias, resulting in the researcher looking for ways to confirm preconceived notions (Diamond, 1996). Furthermore, even if carried out correctly, findings from one or a few case studies do not offer enough foundation to establish general conclusions (Flyvbjerg, 2006), making the methodology less powerful from a purely scientific standpoint.

4 The Vimian Story⁴

In this section, we describe the main sequence of events of the Vimian story. We will introduce Fidelio, the animal health industry, and Vimian's four animal health business verticals which were initially four separate platforms. Then, we outline the rationale behind creating Vimian through the merger of these four platforms, followed by an elaboration on why Fidelio listed the group shortly after the merger. Thereafter, we present Vimian's performance, both from an operational, a financial, and an investor perspective.

4.1 Fidelio Capital

Founded by Gabriel Fitzgerald in 2010, Fidelio is a Swedish investment company headquartered in Stockholm. With an investor base consisting only of families and affluent individuals, who demand less restrictions than traditional LPs, Fidelio enjoys a long-term, flexible, and global investment mandate. Essentially, Fidelio could acquire any company across any industry or geography. Similarly, the funds' time horizons are set at +20 years, with potential extension. This flexibility constitutes the cornerstone in the Fidelio investment model. By enjoying significant autonomy, Fidelio avoids being externally pressured to invest or divest at the wrong time, which could have resulted in loss of bargaining power and/or worse fund performance. While many PE investors also have a global investment mandate, they are typically larger and require bigger equity tickets than Fidelio. At the same time, smaller investors tend to be more regional. In the investment phase, Fidelio's flexible mandate allows the firm to be opportunistic and avoid competition with accompanying bidding wars. The targets are primarily small- and medium-sized businesses operating in global niche markets where Fidelio believes to be able to maximize value creation. As we will discuss in Section 5.2, Fidelio employs a price-disciplined M&A strategy, avoiding paying size (and platform) premiums or high valuations motivated by synergy realization.

Mirroring their ambition to build small firms into global industry leaders, Fidelio prefers to have majority ownership, although still with the flexibility to take minority positions. Representative of starting small, Fidelio has historically deployed 35% of invested capital in initial platforms, while the remaining 65% has been deployed to finance add-on acquisitions. Such capital allocation reduces the risk associated with entering new platforms. Likewise, it allows Fidelio to increase its involvement in selected industries and thereby develop niche industrial expertise. While Fidelio's support is valuable, they find it naïve to expect their industrial expertise to surpass that of entrepreneurs. Therefore, they apply a decentralized governance model along with wide

⁴ This section is partly based on confidential information provided by Fidelio.

incentive programs, as we elaborate on in Section 5.1.2 and 5.1.3. Put differently, the autonomy Fidelio enjoys from LPs is further entrusted to the entrepreneurs Fidelio invest in. The increased risk of a more volatile short-term outlook caused by decentralization is mitigated operationally by support functions (also discussed in Section 5.1.2) and strategically by having a longer investment horizon. As a result, entrepreneurs typically enjoy partnering with Fidelio, which creates a positive reputation for Fidelio among practitioners and, in turn, attracts stronger deal flow and inorganic growth. By the summer of 2022, Fidelio had invested in 12 platforms and had made over 150 add-on acquisitions across more than 15 countries since inception. The funds, Fidelio Capital I (at SEK 600m) and Fidelio Capital II (at SEK 3,340m) have returned an aggregated gross MOIC in the range of 7.5x-10x.

AniCura Case Study

As of July 2022, Fidelio's only fully exited investment was AniCura, a European provider of animal hospitals and clinics specialized in veterinary care services for companion animals. The exit represented the largest veterinary deal in Europe and the second largest worldwide. Between 2011 and 2018, Fidelio (and Nordic Capital, following Fidelio's partial sale in 2014) applied a horizontal buy-and-build strategy with AniCura. The animal health market displayed features such as high organic growth, fragmentation, and limited professionalization, making it suitable for buy-and-build. Accordingly, Fitzgerald decided to establish a group of animal hospitals and build a large, multi-national animal health services group. To get clinicians onboard with Fidelio's proposition, Fitzgerald suggested that the veterinarians would remain in charge of daily operations and local decision-making while offloading corporate responsibilities on the headquarter function and Fidelio – who also supported the company group on strategy and M&A execution. Thus, the AniCura culture was permeated by the veterinary trade rather than corporatization and capital gains, which attracted more clinicians to join AniCura and accept Fidelio and Nordic Capital as growth partners.

Throughout Fidelio's and Nordic Capital's ownership, over 200 acquisitions were made, revenue grew at a 46% CAGR, and EBITDA margin increased from 4.9% to 11.6% (between 2012 and 2017). In 2018, AniCura was sold to Mars Petcare at a rumored EUR 2bn enterprise value, corresponding to an investment return (money on invested capital or MOIC) of over 10x for Fidelio (Bloomberg, 2018) and 7x for Nordic Capital (Private Equity News, 2018). Further transaction details remain undisclosed.

4.2 The Animal Health Market

The size of the global animal health market amounted to EUR 45bn in 2020, with a forecasted cumulative annual growth rate (CAGR) of 8.4% until 2025, as presented in Appendix B. In turn, the market was typically split between the companion animal and livestock segments, accounting for 37% and 63%, respectively. Looking closer at the companion animal health market (see Appendix C), where Vimian had most presence, growth until 2025 was forecasted at 8.7% per annum, mainly driven by a global growth in pet ownership, the fact that pets are increasingly

“humanized”, and an increased awareness of animal diseases with corresponding treatments. The companion animal health market had demonstrated great resilience to market downturns, evidenced by growth in pet expenditure during both the 2008 financial crisis and the Covid-19 pandemic. Regarding the larger livestock market, Vimian was only present in the EUR 3bn diagnostics segment, with a 9.5% forecasted CAGR until 2025 (see Appendix D), among other things, driven by increased demand for antibiotic-free meat and a growing threat of zoonotic diseases (infectious diseases transmitted from animals to humans).

While building AniCura, Fidelio realized that several segments at the supplier level of the animal health market offered attractive opportunities by virtue of high organic growth, fragmentation, and limited professionalization. For instance, there was plenty of “white space” in the EUR 6.9bn specialty pharma segment in the sense that allergy was the most common chronic disease among pets, but it was underdiagnosed and rarely treated. Likewise, in the EUR 16.7bn veterinary services segment, ongoing merger waves required independent veterinary clinics to outsource non-core activities to keep up with professionalization. Yet, mostly local players with an insufficient offering provided such services, resulting in independent veterinary clinicians falling behind. Adding to organic opportunities, Fidelio recognized that several segments mainly consisted of smaller entrepreneurial firms which, by themselves, did not have the capacity to scale their businesses beyond their existing offering and geographical reach.

4.3 Building the Vimian Embryo

In this section, we elaborate on the background of each of Vimian’s four current business verticals (Nextmune, Indical Bioscience, VetFamily, and Movora), which were initially treated as separate platforms and investment cases. Refer to Appendix E for a timeline overview, starting from Fidelio’s first Vimian-related acquisition and ending with the Vimian IPO.

4.3.1 Nextmune

In 2015, Fidelio was introduced to Artuvet Animal Health B.V (AAH), a Netherlands-based provider of allergy diagnostics and treatments for companion animals, via their network established in connection to building AniCura. Mainly thanks to their animal health experience, Fidelio gained deal exclusivity early on and engaged in bilateral negotiations. As a leading European player, AAH had begun capitalizing on the specialty pharma “white space” and displayed strong organic growth and cash generation. Being the sole producer of licensed animal allergy vaccine in Europe, AAH had established a strong brand that was considered “gold standard” by leading Swedish dermatologists in Fidelio’s network. Excited about the opportunity, Fidelio acquired the

company in December 2015, which eventually became Nextmune, Vimian's specialty pharma business vertical. Through a mixture of internal sourcing and structured sales processes, Fidelio acquired an additional 10 add-ons within Nextmune before the Vimian IPO. Starting as an allergy platform, Fidelio expanded Nextmune's offering towards dermatology and other areas of specialty care. Similarly, mainly through M&A, Nextmune established presence across the value chain, including R&D, manufacturing, distribution, and online retail.

4.3.2 Indical Bioscience

In July 2016, owing to their track record in animal health, Fidelio was invited to meet with Qiagen regarding the carve-out of a Germany-based provider of molecular and immunodiagnostic solutions. Shortly thereafter, Fidelio and Qiagen engaged in a bilateral dialogue on the topic. As a non-core Qiagen asset, Fidelio saw strong potential to enhance performance by providing more resources to the business. On top of exposure to the attractive livestock diagnostics segment, the company demonstrated solid growth momentum, having outgrown the market more than twofold during the past two years, realizing a 17% CAGR. In 2018, Fidelio acquired the carve-out, which was renamed Indical Bioscience. Since inception, the company has grown both organically, through in-house product development, and through add-on acquisitions which have strengthened the firm's livestock offering and expanded the offering to the companion animal segment. Under Fidelio's ownership, Indical Bioscience has emerged into a global provider of diagnostics and monitoring solutions, selling primarily to laboratories and other biotechnology companies.

4.3.3 VetFamily

In connection to Mars Petcare's acquisition of AniCura in 2018, the European Commission ruled that AniCura's purchasing organization, VetFamily, had to be spun off. VetFamily was a Sweden-based membership platform for independent veterinary clinics that offered supporting services such as marketing, digitalization, business development, knowledge sharing, and product procurement. Having already acquired VetFamily for AniCura in 2014, Fidelio was well-educated about the business and the management team. While it was a competitive sales process, this advantage sealed Fidelio the deal. With its 1,000 member clinics, VetFamily had assumed a market leading position across several geographies and established links to clinician decision-makers otherwise hard for suppliers to access, making it highly complementary to Nextmune's offering. Moreover, the market was untapped with great runway to grow both organically and inorganically. Fidelio acquired VetFamily in February 2019 and as of the IPO the platform had more than doubled its membership count to 2,600. As VetFamily generated revenue from clinics for its

services and from partnering suppliers when its members made purchases from those suppliers, VetFamily operated across the entire value chain, yet mainly focusing on veterinary clinics.

4.3.4 Movora

In May 2018, prior to Fidelio exiting AniCura completely, AniCura introduced an opportunity to Fidelio, this time KYON, a Switzerland-based provider of veterinary orthopedic solutions. Following a bilateral process, Fidelio acquired KYON in June 2019. Less than a year later Fidelio, through internal sourcing, identified an opportunity to create a larger group by merging KYON with its US-based competitors BioMedtrix and Veterinary Orthopedic Implants (VOI). In the merger, Fidelio created Movora and what sequentially would become Vimian's MedTech vertical. As a merged entity, Movora became the second largest and the fastest growing player in its market segment. There were also substantial synergies related to cross-selling (selling products from multiple group entities to the same customers) and back-end structures (e.g., Enterprise Resource Planning (ERP) and Customer Relationship Management (CRM) systems), along with the possibility to combine KYON's and BioMedtrix's R&D capabilities with VOI's commercial excellence. Lastly, the merger enabled more exit routes. As a group, Movora offered veterinary orthopedics implants to universities, surgeons, and veterinary chains. Movora was mainly active in the R&D, product ownership, and direct sales parts of the value chain.

4.3.5 The Idea of Creating an Animal Health Group Emerges Over Time

During the few years prior to 2021, each of the four separate animal health platforms had grown organically and through M&A, resulting in both product and geographical expansion. Subsequently, the lines between the businesses became blurrier, and Fidelio noticed that it was not always clear into what platform a new potential add-on would fit best. See Table 2 for an overview of Fidelio's animal health investments by the end of 2020. Over time, Fidelio also identified more areas for fruitful cross-vertical collaborations. Looking at external factors, the animal health market had grown at a healthy pace in the last few years and growth was forecasted to accelerate following the surge in companion animal ownership during Covid-19. As a result, the industry had attracted more interest from investors looking to get exposure to the industry. On top of that, Fidelio was contacted by international investment banks who were interested in the animal health businesses and argued that a merged animal health group would constitute an attractive investment case, confirming that Fidelio's merger idea had merit in the market. As the idea gained additional merit, Fidelio engaged in a more thorough assessment of and preparations for a merger.

Table 2

Overview of Vimian's Business Verticals

Company	Nextmune	Indical Bioscience	VetFamily	Movora
Business Vertical	Specialty Pharma	Diagnostics	Veterinary Services	MedTech
Year of Fidelio Entry	2015	2018	2019	2019
No. of Acquisitions (As of Jun-2021)	11	3	6	4
Sales Reach, Countries (Jun-2021)	>70	>80	9	>50
Revenue (2020PF)	572	222	148	467
PF Adj. EBITDA (2020PF) ⁵	186	75	58	178
Net Debt / PF Adj. EBITDA (2020)	3.6x	0.9x	0.3x	1.0x
Group Revenue Increase (Entry to 2020)			4.8x	
Group Adj. EBITDA Increase (Entry to 2020)			6.6x	

Note: This table provides an overview of Vimian's business verticals. The data is obtained from Fidelio. Financials are presented in SEKm.

4.4 Creating Vimian

4.4.1 Merger Rationale

Assessing the creation of a larger animal health group from an operational perspective, Fidelio identified several advantages. To begin with, a larger platform, consisting of the four businesses, would broaden the scope of growth opportunities. Such a group would more naturally be considered a "home" for entrepreneurs within animal health, making it easier to attract individual entrepreneurs to join while also better enabling the establishment of new business verticals in cases where an acquisition would not naturally fall under one of the existing verticals. Further, all verticals faced similar challenges in going through a professionalization phase. Bringing them together under one umbrella would better facilitate improved operational excellence through knowledge sharing, both with regards to front-facing customer preferences (such as validating product-market fit) or marketing efforts suitable for veterinary industry customers, as well as back-end structure systems (e.g., ERP, CRM, and Business Intelligence (BI) systems). Additionally,

⁵ Adjustments are made for extraordinary, non-recurring items such as M&A related costs, system upgrades, restructuring costs, inventory set-up, legal fees, and other one-off costs.

sharing contacts and facilitating introductions to both customers and suppliers across the group constituted attractive opportunities to achieve cross-selling and better supplier arrangements. Put differently, there were synergies to be realized, although it was not within Fidelio's philosophy to be dependent on them (we explain why in Section 5.1.1) and the primary goal was to accelerate growth rather than integrating the verticals. Still, to have synergies emerge organically, Fidelio, among other things, converted local incentive programs to a group-wide incentive program contingent on Vimian's performance, as we elaborate on in Section 5.1.3. And to accelerate that growth, Vimian would assume the position of a supporting entity, "distributing resources, networks, and sales channels" to its ecosystem of smaller, yet rapidly growing businesses, as noted by Dr. Fredrik Ullman (CEO, Vimian), as we elaborate on in Section 5.1.2.

Fidelio also recognized that the merger provided benefits from an owner perspective. By setting up the Vimian headquarter (HQ), the group would become more self-sustaining. Subsequently, Fidelio could gradually phase out their four investment teams for each vertical and replace them with one team of investment professionals responsible for the joint group. Furthermore, as indicated by both investor appetite and investment banks, a merged animal health group enabled more attractive exit outlooks, both in terms of exit routes and valuation. A large group that was growing rapidly both organically and through M&A, with exposure to the animal health industry, was believed to be a compelling investment case that would attract a lot of investor interest.

4.4.2 Merger Risks

In their assessment, Fidelio also identified merger uncertainties. Changes in governance and organizational structure carry the risk of negatively affecting company culture. Hence, Fidelio found it imperative that each business was excited about the merger. With that in mind, Fidelio involved the respective management teams early on in the merger evaluation process to collect feedback. Similarly, as Fidelio preferred employing a decentralized governance model, see Section 5.1.2, they declared that each business would continue to operate as usual, with no formal organizational change forced upon them. Moreover, there were meaningful economic incentives for management and employees with the merger. As almost all employees had been given the opportunity to invest alongside Fidelio, see Section 5.1.3, there would be significant personal gains should the valuation provided by the investment banks hold merit.

4.5 Listing Vimian

4.5.1 IPO Rationale

By the end of 2020, prior to the official creation of Vimian, Fidelio started assessing the group's IPO readiness and subsequently initiated the process to list Vimian on the public stock exchange. Not having an outspoken exit strategy, Fidelio rather opportunistically saw a great opportunity in taking Vimian public after the merger. For one thing, Vimian faced larger capital needs ahead than what Fidelio would be able to provide – having already allocated approximately 55% of the SEK 3.3bn Fund II into Vimian's business verticals. As such, Fidelio was highly exposed to the animal health sector while also unable to meet future capital needs. For another, Fidelio was convinced that Vimian would continue to grow rapidly and wanted to retain majority ownership. While an IPO was compatible with retaining majority control through a partial exit, it also, as noted by Fidelio, provided a higher indicative valuation compared to the private market. Public markets traded high at the time, M&A-driven firms assumed premium valuations, and the animal health industry attracted accelerating investor interest as Covid-19 had caused a surge in pet ownership. Following the IPO, Fidelio maintained majority ownership of 54% of the shares (57% of the votes) and committed to a three-year lock-up, thereby signaling continued belief in the group. Shareholding employees were given the opportunity to sell 30% of their stock with the same three-year lock-up on remaining shares. On top of maintained control, the high valuation, and access to capital – the IPO resulted in operational benefits such as a stronger M&A function and more favorable debt terms, as we will return to in Section 5.1.1 and 5.1.5, respectively. Vimian started trading on NASDAQ First North Growth Market on 18/6/2021.

4.5.2 IPO Risks

The IPO was associated with two main risks, including less flexible incentive structuring and an increased degree of corporatization: “the listed environment is significantly more bureaucratic than the unlisted environment, and bureaucracy rarely correlates with entrepreneurship”, Fitzgerald remarked. To counter corporatization, the Vimian HQ assumed the role of a support function, as previously mentioned. Although from IPO ideation to Vimian's listing six months later, Fidelio had to set up multiple administrative functions – taking both time and effort, see Section 5.1.2. While six months is quite an aggressive timeline for an IPO process, the listing process typically steals management's focus from running the business. With that in mind, Fidelio deemed it best to minimize that time.

4.6 Vimian's Performance

This section presents the quantitative outcome of Fidelio's value creation initiatives for Vimian, which we will discuss in Section 5.1. We first comment on Vimian's operational performance (Section 4.6.1) through the lens of financial development, and, secondly, we present Vimian's development from an investor perspective (Section 4.6.2). Lastly, in Section 4.6.3, we provide a brief analysis of Vimian's share price development following the IPO.

4.6.1 Performance from an Operational Perspective

From a quantitative standpoint, all Vimian's business verticals demonstrated strong growth, both in terms of revenue and EBITDA, between Fidelio's respective entries and the Vimian IPO. The historical growth has been achieved mainly through acquisitions but also organically, both attributable to the operational engineering value creation lever. Appendix G presents the financial development of Vimian's business verticals from Fidelio's entry points to the Vimian IPO.

On a group level, Vimian's reported revenue grew by 190% and 143% in 2020 and 2021, respectively (48% and 17%, respectively, in terms of organic growth), as presented in Appendix H. Part of this growth is attributed to geographical expansion, a central component of Fidelio's strategy to create a global niche player within animal health. Between 2020 and 2021, revenue generated outside Europe increased by 241%. This is approximately the same growth as the 245% achieved in Europe, leaving the geographical revenue split picture unchanged (see Appendix J). Reported adjusted EBITDA increased from EUR 25m in 2020 to EUR 62m as of LTM March 2022, corresponding to a 243% increase. In that same period, reported revenue grew by 277%.

Since Vimian has grown significantly through add-on acquisitions, it also makes sense to look at pro forma adjusted financial performance. As opposed to reported financial figures, pro forma adjusted figures show the performance of Vimian as if all subsidiaries acquired within the last twelve months (LTM) had been owned over that full period. Between fiscal year 2020 and LTM March 2022, pro forma adjusted EBITDA increased by 51%, from EUR 49m to EUR 73m (see Appendix I). Vimian's financial performance must also be assessed in relation to its financial position in order to make a fair assessment of its development, especially since Vimian is highly acquisitive. On that note, Vimian's leverage ratio⁶ increased from 2.1x in 2020 to 3.6x as of March 2022 (Appendix I), explained by accelerated and partly debt-financed M&A activity following group foundation.

⁶ Leverage ratio is defined as net debt / pro forma adjusted EBITDA.

4.6.2 Performance from an Investor Perspective

In connection to the Vimian IPO, Fidelio made a partial exit leaving them with 54% of the share capital and 57% of the votes. Despite selling only a minority stake, Fidelio's realized a value of SEK 6.5bn, corresponding to 3.7 times invested capital (MOIC). Had Fidelio made a full exit at the IPO valuation, they would, *ceteris paribus*, have realized a value of SEK 23.2bn, corresponding to a MOIC of 13x. Worth noting, however, is that investors would likely value Vimian more prudently had Fidelio not continued as the majority shareholder after the IPO. See Appendix K for an illustration of equity value realized in connection to the IPO and Vimian's value from an investor perspective as per the IPO valuation.

Taking the investment returns analysis one step further, we attribute the equity value generated to several sources of value creation. More, specifically, Appendix L illustrates what fraction of value generated is associated with multiple expansion, revenue growth, margin improvement, and deleveraging, which is a commonly used allocation of investment proceeds. Seemingly, the multiple expansion component explains most (91%) of the value generated. Revenue growth, margin improvements, and deleveraging, which are all connected to value creation through engineering initiatives, account for 9% of the value generated. While value generated from revenue growth, margin improvement, and deleveraging is naturally derived from Vimian becoming a better company, the underlying drivers of the multiple expansion are more ambiguous and partly associated with external factors outside Fidelio's control (e.g., market fluctuations). Thus, in Section 5.3 we provide further analysis on the potential sources of Vimian's multiple expansion by allocating mentioned value to underlying drivers.

4.6.3 Vimian's Share Price Development

One year after the IPO, by 30/6/2022, Vimian's share price was SEK 49, a drop of 39% compared to the first day closing share price of SEK 81 and a 35% drop compared to the SEK 76 IPO share price. Notably, Vimian's closest listed peers, IDEXX and Zoetis, dropped 42% and 7%, respectively during the same period, while the Swedish market index (OMXSPI) dropped 19% (see Appendix M). While the exact reasons behind and their respective significance for Vimian's share price drop are difficult to identify and quantify, two factual observations hold true. Firstly, as illustrated in Appendix N and Appendix O Vimian was listed at a time when market valuations were high, both from a historical perspective and compared to market valuations a year after the IPO. Secondly, looking at Vimian's financial performance, we see that its pro forma revenue and pro forma adjusted EBITDA amounted to EUR 247bn and EUR 73m, respectively, by LTM March 2022, compared to EUR 137m and EUR 49m, respectively, in 2020. This corresponds to

an increase of 79% and 51%, respectively. In other words, Vimian's share price dropped significantly during a time of strong financial development, thus lowering Vimian's valuation multiple significantly, reaching an EV / pro forma adjusted EBITDA multiple of about 30x by 31/03/2022.⁷ These two factual observations combined suggest that Vimian's IPO valuation, and subsequently Fidelio's investment returns were boosted by favorable market timing. We will return to the magnitude of market timing effects in Section 5.3.

⁷ Enterprise value is derived from Capital IQ as per 31/03/2022 when Vimian's share prices was SEK 58 and LTM March 2022 pro forma adjusted EBITDA is retrieved from Vimian's Q1-2021 report.

5 Analysis

In Section 5.1 we detail what we identify as Fidelio’s key value creation initiatives pursued with Vimian. Using the terminology of Kaplan and Strömberg (2009), these initiatives relate to operational, governance, and financial engineering. In Section 5.2, we take a broader view by discussing Fidelio’s value creation across the stages of entry, engineering, and exit, representative of the entire PE investment lifecycle. Lastly, in Section 5.3, we build on the discussion in 5.2 by quantitatively attributing value creation to each stage of Fidelio’s involvement with Vimian, that is buying low (entry), improving the firm (engineering), and selling high (exit).

5.1 Key Engineering Initiatives

5.1.1 Accelerating M&A

During the fiscal year of 2021, total sales for Vimian grew by 143%, of which 126 percentage points relate to add-on acquisitions. To successfully apply a buy-and-build strategy, Fidelio looked for growing, fragmented, and non-professionalized markets consisting of entrepreneurially driven companies. Fidelio recognized that the animal health market met these criteria on both the end customer and supplier level and accordingly realized value at the former level with AniCura, sequentially executing on the latter level with Vimian – “Why stop just because you’ve done one part”, Fitzgerald remarked.

Some things must be true for [Vimian’s buy-and-build model] to work; the underlying market must be strong and characterized by some extent of fragmentation; each [acquired] entity must grow stand-alone without integration; and there must exist an industrial logic in doing it.

Dr. Fredrik Ullman, CEO at Vimian

Regarding execution, key in Fidelio’s investment philosophy was having each acquisition, including add-ons, meet performance criteria on a stand-alone basis. As a result, Fidelio established discipline on price by never buying a company on a synergy multiple, or from a pure multiple arbitrage perspective. That way, synergies became upside potential, rather than a requirement leading to forced (read, poor) integration. “My view is that many people fail on M&A as they pay a price too high and therefore must extract synergies. Then, they push, and it does not always end up so well”, Theodor Bonnier (Investment Director, Fidelio) explained. Despite not being dependent on synergies, Fidelio’s philosophy assumed synergies could emerge organically. Therefore, there had to be an industrial logic in adding new entities. As for Vimian, that logic was formalized into four

dimensions where add-ons were required to either extend the product portfolio, expand the geographical reach, provide new sales channels or customers, or add new technologies. That way, M&A in itself “was never [our] strategy, but more of a tool to realize our goals”, Magnus Kjellberg noted – as CEO of Nextmune, he oversaw Vimian’s most acquisitive business vertical. Moreover, since Fidelio preferred to have synergies emerge organically and let the entrepreneurs remain autonomous post acquisition, as we will return to in the following section, they also placed great emphasis on cultural compatibility: “To not have [a strategy] forced into a structure, but rather have it happen with responsibility and autonomy – that makes the relationships the soft glue within the group and therefore it is crucial to build the relationships already at the due diligence stage”, Fredrik Blomberg (Investment Manager, Fidelio) commented.

Having an outspoken M&A philosophy, Fidelio assumed essentially full responsibility for performing acquisitions across the four Vimian verticals. Making a total of 24 acquisitions up until listing Vimian, see Table 2, required significant involvement from Fidelio deal teams, enabled by their preference for doubling down on a market rather than looking for new platform investments. On that note, Fidelio carefully studied their targets to more broadly understand what capabilities existed, “... and whatever capabilities the businesses do not have, they jump in and fill themselves”, David Ammann (Head of Strategy, Movora) said, noting that entrepreneurs typically enjoyed partnering with Fidelio as the active support enabled them to concentrate on animal health. Correspondingly, most entrepreneurs remained committed to running their business after lock-up expiry. To provide such support in an entrepreneurial setting, Fidelio did not have a fixed blueprint. In fact, when asked about their approach, Fitzgerald pointed out that it was not possible to “institutionalize”. Fidelio listed their M&A involvement as being the one of the main value-adding contributions to Vimian.

Following the IPO, Vimian was able to accelerate M&A, making 1.3 acquisitions per month, compared to 0.3 acquisitions per month before the IPO (see Appendix F). As noted by Fidelio, the Vimian brand boost (achieved through the merger and the IPO) generated a surge in inbound M&A opportunities that were partly funded by the IPO proceeds. Similarly, having a larger platform enabled better deal flow and Vimian’s publicly traded shares were a more attractive means of compensation for selling entrepreneurs for liquidity reasons. While Fidelio was still instrumental in M&A execution, a Vimian-led M&A function was established alongside the listing process, which would assume growing responsibility going forward. Although, Fidelio still oversaw most of the acquisitions by taking three out of five seats in the M&A committee. Lastly, as a public entity, Vimian encountered an increased administrative burden in performing M&A because of reporting requirements. Similarly, operations were also affected by an increased administration

burden – “I see this as a risk”, Ammann exclaimed, noting that administration and entrepreneurship does not go well hand in hand. Also recognizing the increased M&A frictions brought by the IPO, Blomberg remarked that the net effect was beneficial, pointing to the aforementioned M&A acceleration, while also noting that they had not, to his knowledge, lost a deal because of it.

5.1.2 Employing a Decentralized Governance Model Supported by Active Ownership

In connection to the creation of Vimian, Fidelio decided to retain a decentralized organizational structure, leaving ownership and autonomy to each business’ management team, led by the CEOs of the respective business verticals. The decentralized model suited Vimian as it operates in a “market where there is a lot of growth, change, innovation, and internationalization”, as noted by Kjellberg. In such context, agile decision-making constituted a more powerful differential advantage.

Fidelio saw multiple benefits with employing a decentralized model. Firstly, the managing entrepreneurs would still be able to operate autonomously through agile and local decision-making. As such, their previous environment with a high degree of accountability would remain intact. Therefore, Fidelio enabled “faster decision-making, more ownership, [and] more empowerment of the people”, as pointed out by Ammann. Secondly, all four business verticals had demonstrated strong performance, both in terms of growth and profitability, while being managed by entrepreneurs specialized in their respective areas. Therefore, Fidelio believed it made little sense to strip them from their roles as leaders and decision-makers. As noted by Ullman, “those who know the market, should call the shots”, and further, as Blomberg affirmed, it made little sense to “change what was not broken”. Still, Fidelio engaged actively in strategic matters and functioned as a “sounding board” that continuously challenged Vimian’s management teams on visionary ideas, as a second main value-adding contribution. That way, Fidelio made sure that the entrepreneurs had the resources necessary to “create a world class company”, as phrased by Kjellberg. Thirdly, Fidelio understood that entrepreneurs typically detest bureaucracy and inert corporate structures. Soon after Mars Petcare acquired AniCura in 2018, management churn increased when the lock-up expired – as indicated by the LinkedIn profiles of the management team. Mars applied a different governance model on AniCura, reducing decentralization and increasing corporatization. Summarizing the benefits of a decentralized organization, Ullman explained:

If you are hiring the right people, invest in the right entrepreneurs, give them autonomy, hold them accountable, and make sure that they have skin in the game – then you can probably make faster and better decisions. [...] To grow rapidly you must make the right decisions quickly.

Dr. Fredrik Ullman, Vimian CEO

Fidelio recognized that the success of the decentralized model was dependent on acquired group companies following a healthy growth trajectory, which could be compromised by poor, local decision-making. “In situations when [bad] things are happening, [...] or in situations when companies are moving in the wrong direction, then you must come up with a clear action plan, as opposed to letting things evolve organically”, Blomberg remarked. Although, “if you do it this way it will not be as fun and I also do not think it [telling people what to do] brings out the best in people”, Fitzgerald added.

In harmony with Fidelio’s understanding, Ammann confirmed that the decentralized structure made it “more fun to work”, while it avoided an inert corporate structure “that killed a lot of innovation and entrepreneurship and scared away talent.” Correspondingly, decentralization attracted talent: “If you are good, you will see it quickly. If you are bad, you will also see it quickly. Talented people like this as they know they will succeed”, Kjellberg commented. However, finding and hiring the “right” people was a hard yet crucial part in making the model succeed. As noted by Fitzgerald, “if you have a decentralized governance model, [...] you need to have great people, otherwise it will not work”. Fidelio looked for multifaceted people with both high EQ and IQ, and “a good sense of musicality related to decision-making, timing, and social contexts [...] which I find more important than experience on paper”, Fitzgerald said. As this view was hard to institutionalize in a recruitment process, Fidelio was highly involved in recruiting for Vimian. In fact, recruitment was by Fidelio listed as one of their key value-adding contributions. Just as with recruitment, the success of the decentralized model was also closely related to company culture. It was important that Fidelio’s values and philosophies were transmitted down the organization to cement a common denominator, so as to inspire innovation and entrepreneurial ideas.

We try, through an entrepreneurial mindset, not to be so dogmatic but instead be pragmatic and open-minded. [...] What I emphasize in entrepreneurial culture is that you dare to try making it right, instead of avoiding doing wrong. [...] If we start by trying to get our CEO to feel comfortable in that, this is how we see it, then it is easier for that CEO to run his or her company in the same way.

Gabriel Fitzgerald, CEO and Founding Partner at Fidelio

From the perspective of operating entrepreneurs, in harmony with Fitzgerald, it was evident that Fidelio's entrepreneurial philosophy had permeated Vimian's businesses.

“[Fidelio's entrepreneurial philosophy] is infused on the Vimian management which then trickles down [...]. You need to take own responsibility [...], and you can try whatever you want as long as it makes sense. It is not like top-down decision-making and enforcing [...]. They [Fidelio] are there to support you. You definitely feel that culture, that mindset of Fidelio everywhere.”

David Ammann, Head of Strategy at Movora

As previously highlighted, Fidelio started to build the Vimian HQ functions in early 2021 to support the decentralized model. While several critical group functions were set-up, the idea had always been to keep a rather thin HQ. More specifically, Fidelio established a financing and accounting function to ensure sure that Vimian complied with public market regulations. Likewise, Fidelio established investor relations (IR) and corporate communications functions and hired a Head of IR and Chief of Staff. As mentioned in Section 5.1.1, Fidelio also set-up an M&A function. Accordingly, the Vimian HQ increasingly assumed the responsibilities Fidelio carried in the few years prior. Naturally, as Vimian completed the listing process in about six months, while simultaneously merging, the IPO preparations constituted quite a hectic transformation period – requiring increased efforts from the HQ, Fidelio, and the business verticals.

5.1.3 Aligning Incentives Across Vimian's Business Verticals

As an investor in smaller companies, Fidelio's philosophy was to employ wide incentive programs. “In some cases, we welcome all employees to invest”, Blomberg explained. Such width aligned interests across the firm, promoted a strong culture, and attracted talent – all imperative in the decentralized model. Accordingly, Fidelio had issued wide incentive programs in each vertical before creating Vimian. Yet, a new set-up was designed to reflect Vimian's new group context. To begin with, incentives were naturally elevated onto the Vimian group level. “Since we are to begin collaborating and create synergies, [...] the program must be on [a] group level. Otherwise, you will have people arguing whether a [Swedish] krona belongs to the VetFamily or Nextmune income statement”, Michael Thunell (COO, VetFamily) highlighted. The group was still considered small enough to make individuals feel that their contribution could have an impact on group performance. However, Vimian still adopted local incentives in new add-on acquisitions through earn-out components. At that stage, it was crucial not to strip away all local incentives since no

cultural integration with the group had taken place. Further, Vimian resorted to using warrants, where stock price targets aimed to facilitate long term decision-making and reduce short-termism. However, as share prices are volatile in nature, the warrant-based incentive program had “less power than normally”, compared to using preferred shares and sweet equity in private settings, Fitzgerald noted. “Although that does not mean it will stay like that going forward”, he continued, arguing that the public incentives worked excellent. Lastly, the 2022 Annual General Meeting approved up to 115 participants to join the incentive program, corresponding to about 22% of the workforce. That is, Fidelio could not include as many employees in the incentive program as they would do in a private environment. In sum, the IPO put limitations on flexible incentive structuring and thereby added a “slight downside”, as put by Blomberg.

5.1.4 Facilitating Synergies to Emerge Organically

Before creation of Vimian, there was some dialogue between the four businesses, yet mainly on a case-by-case basis and often initiated by Fidelio. There were limited incentives for the businesses to collaborate as they operated stand-alone with separate incentive structures. While we in Section 4.4.1 saw that cross-vertical synergies existed, on a stand-alone basis other opportunities yielded greater value. As part of the merger, Fidelio was confident that these synergies would eventually be realized, although, in line with Fidelio’s philosophy, they did not actively force synergy realization. As each business still faced strong growth opportunities stand-alone, they saw no need to stress rapid establishment of cross-vertical collaborations. Instead, resources were focused on areas that would yield the best long-term value. That view ensured that synergies would be extracted only when their value surpassed their opportunity cost. It also meant that there was no forced integration between businesses – as we have previously shown, decentralization was intact.

Although, as anticipated, cross-vertical collaborations between Vimian’s verticals did accelerate following the merger. Fidelio nurtured relationships between managers of the respective businesses, making it easier for them to pick up the phone and discuss common issues or opportunities when relevant. Moreover, the businesses were operating under one umbrella with joint group functions, and joint incentives.

[With Vimian,] incentives align and synergies happen naturally [...and] I think it is good to have everyone in the same boat. That really fertilizes the cross-vertical collaboration. Not only concrete stuff [...], but also the ability to call someone and ask questions or share knowledge [...]. [With a] bigger group, you have more resources you can tap into, and you do not have to re-invent the wheel every time you want to do something, [...] which helps tremendously.

David Ammann, Head of Strategy at Movora

A little more than one year after the creation of Vimian, by the summer of 2022, several cross-vertical collaboration efforts had gained traction organically. Firstly, Nextmune and Movora, both product suppliers at their core, had started to leverage VetFamily's network of veterinary clinics. Secondly, Vimian was able to leverage cross-vertical collaborations in geographical expansion efforts. For example, VetFamily deployed a team to test their business model in China, which ended up not bearing fruit. However, the team then instead began helping Movora and Nextmune expand their product sales to China, corresponding to a year in time savings for Movora: "It was the right time for us to [enter China] [...]. If we would have done it ourselves it would have taken us a year longer", Ammann explained. In another case, Movora established presence in Australia and New Zealand by acquiring the New Zealand-based distributor Kahuvet. Apart from Movora products, Kahuvet soon started selling Nextmune products as well, helping Nextmune establish its presence in the region. Thirdly, Vimian also benefitted from more indirect, sometimes intangible, synergies. For example, VetFamily hosted educational events for member clinics to which, among others, Nextmune was invited as a strategic event partner to talk about allergy therapies, dermatology, or specialty nutrition. As such, these events functioned as a promotional channel for Vimian's product businesses. Inversely, Movora also organized events to which veterinary practitioners from VetFamily's network were invited to learn about Movora's equipment.

Although some cross-vertical initiatives had been established within the first year, there were still multiple identified efforts yet to be initiated, leaving Vimian with material untapped synergy potential. Among such identified areas, Vimian and Fidelio listed increased knowledge-sharing, further leveraging of customer bases, effective technology validation through collaboration with acquired veterinary clinics, and joint geographical expansion efforts.

5.1.5 Setting Up a New Debt Structure

Prior to the merger, each business vertical had their own debt agreements. Aggregated, the leverage level for the combined group was at 1.9x Net Debt / 2020 pro forma EBITDA, a level considered low for a PE-backed buy-and-build case. That said, Nextmune, the largest and most acquisitive business vertical, had a Net Debt / 2020 pro forma EBITDA ratio of 3.6x, leaving limited room for future debt-financed M&A before breaching covenants. Contrastingly, both Indical Bioscience and VetFamily, which were both cash generative and growing rapidly, had more prudent leverage ratios of 0.9x and 0.3x, respectively. Refer to Table 2 for an overview of the verticals' leverage profiles before the merger and the creation of Vimian.

In early 2021, Fidelio initiated dialogues with potential debt providers regarding re-financing of the Vimian businesses, replacing outstanding local debt agreements with one debt package connected to Vimian at a group level. As such, the new debt terms, including covenants, would instead be connected to the consolidated performance and financial position of the group. In May 2021, Fidelio reached an agreement with the banks Nordea and DNB regarding a new debt package, contingent on Vimian successfully completing the IPO. In the eyes of the creditors, Vimian was a less risky counterparty as a larger, more diversified company, motivating better debt terms. In the eyes of Fidelio, this was a positive side effect of the merger and the IPO, rather than a core part of the merger rationale. Similarly, in case of default, Vimian's publicly traded shares were better collateral as they could more easily be liquidated. Furthermore, by having to comply with public market regulations, Vimian would have a stronger and more professionalized operational backbone. Consequently, the banks would not have to get operationally involved should they have to seize control. Motivated by these factors, the new debt package came with a few main improvements. Firstly, the new debt package lowered interest rates on an aggregate level, subsequently, *ceteris paribus*, lowering the weighted average cost of capital (WACC) and increasing the theoretical value of the company. Secondly, the recapitalization allowed for greater flexibility in terms of allocating funds across Vimian's verticals. For instance, the most acquisitive business vertical, Nextmune, no longer faced the same M&A growth boundaries due to a relatively high leverage ratio, enabling a continued aggressive inorganic growth journey. Thirdly, further enhancing flexibility, the new debt structure included a EUR 135m revolving credit facility earmarked to funding acquisitions, which was a particularly powerful and cost-efficient debt setup for an acquisitive company like Vimian.

5.2 Systematic Analysis of Value Creation

As previously mentioned, PE firms can generate value across the stages of entry, engineering initiatives during ownership, and exit. Applying Kaplan & Strömberg's (2009) engineering framework, we see that Fidelio has employed all three engineering value creation levers associated with PE.⁸ However, as we will discuss, Fidelio differentiates itself primarily across operational and governance engineering, meaning that Fidelio's initiatives go beyond traditional, commoditized value levers such as plain leverage and governance improvements (Sensoy et al., 2014; Gompers et al., 2016; Braun et al., 2017). In the following paragraphs, we discuss Fidelio's means of value creation for Vimian across all stages.

⁸ The three value creation levers are operational engineering, governance engineering, and financial engineering.

5.2.1 Entry

In today's competitive PE market, unique strategies are increasingly important to create value and generate returns (Brown et al., 2020). On that note, Vimian surely is unique. By building the Vimian platform from scratch through the development of four stand-alone investments, as opposed to entering an existing platform, Fidelio avoided paying the substantial premium that larger platforms typically enjoy (Smit, 2001). Adding to the notion of price discipline, Fidelio does not acquire add-ons to its platform at valuations justified by synergy realization. In addition, Fidelio's track record with AniCura facilitated several acquisition opportunities with bilateral processes that avoided bidding wars. Derived from our quantitative analysis in Section 5.3 (see Figure 1) we argue that Fidelio created value of SEK 7.9bn, corresponding to 37% of total value generated,⁹ by buying low. These findings are aligned with Achleitner et al. (2010) who suggest that buying low is a result of GPs having pricing skills rather than luck.

Also, part of the entry phase, Fidelio looked to enter growing, fragmented, and non-professionalized markets consisting of entrepreneurially driven companies. While fragmentation is a proven condition associated with buy-and-build (Bansraj & Smit, 2017; Hammer et al., 2017), the other conditions add nuance to existing literature. While the lack of professionalization and entrepreneurialism may correlate with fragmentation, fragmentation, at the extreme, implies creating value solely through merging firms, whereas lack of professionalization calls for improvements and value creation within the firm. On that note, Fidelio mainly acquired smaller companies that met growth requirements stand-alone – nuancing previous findings which show how buy-and-build cases are associated with acquisitions of larger companies with low asset turnover (Bansraj & Smit, 2017).

5.2.2 Operational Engineering

Looking at Fidelio's operational engineering initiatives, the most crucial component for Vimian seemingly is M&A (not least evidenced by 88% of revenue growth being inorganic in 2021, see Appendix H). Fidelio's M&A approach can be summarized as having all acquisitions meet growth requirements on a stand-alone basis, which means that there is less reliance on synergies. Hence, Fidelio avoid paying synergy multiples, which facilitates value generation via buying low, as discussed in Section 5.2.1. Further, by avoiding the pressure to realize synergies, Fidelio does not have to force any integration efforts.¹⁰ While the conclusion that M&A is a crucial value lever is rather expected since Vimian is a buy-and-build case, Fidelio's independence of synergy realization

⁹ Value generated is defined as Fidelio's hypothetical investment proceeds computed using Vimian's IPO valuation.

¹⁰ When discussing integration, we refer to integrating core daily operations. Obviously, Fidelio has integrated central functions. While this also is a form of integration, it is less prone to disrupt operations.

is less so. Synergies are commonly listed as an M&A motive (Banerjee & Eckard, 1998) and an M&A success factor (Bauer & Matzler, 2014). On the flip side, integration problems predict poor M&A performance (Kengelbach et al., 2012), and firms commonly fail with integration (Buono, 2003) as it is either neglected or not human-centered. Accordingly, the literature suggests that synergies are characterized by a typical risk-reward dynamic. Fidelio argues that the such risk-reward relationship is improved by avoiding forced integration – synergies will, if appropriately incentivized, emerge organically. Hence, the upside of synergy realization remains while the risk of poor integration is diminished. This is an interesting hypothesis, which we unfortunately cannot assess further due to the synergies identified in Section 5.1.4 being insignificant at the time of writing this paper. That said, Fidelio’s “industrial logic” for selecting add-ons is well aligned with business complementarity parameters set out in literature (Makri et al., 1997; Wang & Zajac, 2007; Kim & Finkelstein, 2009), which facilitates synergy emergence (Pehrsson, 2006; Bauer & Matzler, 2014).

Fidelio’s approach to not force integration is supported by Puranam et al. (2006), who find an negative relationship between the degree of integration and innovation. Arguably, this is particularly important in dynamic and rapidly growing niche industries like Vimian’s. Further, refraining from forcing strategies, Fidelio’s approach is aligned with Buono’s (2003) finding that a post-merger integration process that addresses people-related issues helps building a stronger group foundation and, subsequently, facilitates operational synergies. As a result, we believe that Fidelio’s M&A motives are rational (a predictor of M&A success according to Epstein (2005)) and the approach is suitable in an entrepreneurial environment. Entrepreneurs seem to agree given the strong reputation Fidelio enjoys among entrepreneurs, along with the fact that entrepreneurs typically stay with Vimian post-acquisition after their lock-up expires. That said, we would not expect the Fidelio integration approach to work as well in a mature environment. As there is less room to realize value via growth in such an environment, synergies will be more heavily pursued (holding other value drivers such as operational improvements constant).

Looking closer at the decision to create Vimian, we find merger rationales both from an operational and an investor perspective. Relating to the former, creating Vimian primarily enabled growth acceleration, while there were also knowledge-sharing and cross-selling benefits to be attained. Accordingly, the motives are in line with what academia lists as promising M&A motives, that is, market power (Kim & Singal, 1993; Lin & Chou, 2016) and improving operating performance (Trautwein, 1990). Thus, creating Vimian enabled achieving strategic goals more quickly than would the entities have done separately, see Haspeslagh and Jemison (1991). From an investor perspective, Fidelio was able to replace their four investment teams with one, and the

joint group enabled more attractive exit outlooks. As a result, one can argue that the merger was partly motivated by personal benefits (compensation), which is associated with poor performance (El-Khatib et al., 2015), since the IPO yielded a great investment return for Fidelio and shareholding employees. This raises the question whether Fidelio created Vimian solely to facilitate a high-value exit? Given the short period between the two major events, one may suspect so. However, our interviews display that there are clear operational benefits related to both the merger and the IPO. The short timeline for IPO preparations was deliberately chosen to minimize the time management cannot fully focus on operations, while it also reflects Fidelio's opportunistic approach. Moreover, we would expect Fidelio to exit Vimian completely if they were looking to maximize short-term personal compensation. Therefore, we find that the decisions to merge and to go public are separate, and with that conclude that the decision to create Vimian aligns with healthy M&A motives.

Another operational engineering initiative taken by Fidelio is recruitment – a very frequent action taken by PE firms (Gompers et al., 2016). To get the right people onboard, Fidelio places more emphasis on personal fit and well-rounded abilities, the “musicality”, than a candidate's prior experience on paper. Hiring firstly on musicality should arguably yield greater upside at the cost of slightly higher risk. However, the need for a specific set of experiences may be reduced by how Fidelio assumes responsibility to cover up for missing capacity. Moreover, we find that chasing upside rather than limiting downside is key to enhance motivation and promote innovation within the entrepreneurial culture Fidelio has orchestrated upon Vimian.

5.2.3 Governance Engineering

Moving on to governance engineering, the most crucial component is the decentralized governance model, along with the entrepreneurial culture it enables. While existing literature suggests that buy-and-build cases face challenges in conflicting investment objectives or cultures, and slower decision-making post investment due to shared management (Rousseau, 2010), we find the opposite in this study. To begin with, there is no apparent conflict between Vimian and Fidelio's investment objectives. Further, we find no evidence of culture clashes. Contrastingly, the Vimian-employed interviewees note that Fidelio's entrepreneurial mindset permeates Vimian. Lastly, due to the decentralized governance model, we find faster, rather than slower, decision-making processes. While the notion that decentralization enables flexibility and faster decision-making is rather familiar in organizational theory (Haustein et al., 2014; Lee & Edmondson, 2017; O'Grady, 2019), this study confirms that such benefits could hold true in a buy-and-build setting as well.

We have identified three key elements that have contributed to the success of Vimian's decentralized model from a buy-and-build perspective. Firstly, recruitment is key and is one of Fidelio's main value-adding contributions. As logically outlined in existing literature, decentralization exposes the organization to the risk of local managers making inconsistent or arbitrary decisions (Hempel et al., 2012), which may subsequently lead to inefficient use of resources (Foss et al., 2015). Thus, recruiting good managers is an obvious requirement. However, we also find that Vimian's entrepreneurs are more motivated when being able to run their businesses autonomously – it is more “fun to work”, as noted by Ammann. Thus, decentralization seemingly also becomes a success factor for attracting talent or persuading individual entrepreneurs to accept acquisition proposals.

Secondly, effective incentive structures are needed to ensure a common direction across a group of decentralized businesses. This study suggests that local incentives such as earn-outs are particularly important in connection to making add-ons, as there is no cultural integration at that point. Once the culture has been infused, group incentives become increasingly important. Incentive structuring is a common governance engineering tool (Gompers et al., 2016). In a private environment, Fidelio allowed essentially all Vimian employees, not just key individuals, to co-invest – which is rather unique and rare for traditional PE firms. Such width has achieved more than financially motivating employees – it yields cultural benefits as everyone is in the same boat. In connection to the creation of Vimian and its subsequent listing, Fidelio implemented an incentive structure tied to group performance. Interviewed Vimian employees indicate how this have facilitated cross-vertical collaboration as an additional operational value lever. However, as Vimian became a listed company, Fidelio could no longer employ the same sweet equity program, and, to adhere to market standards, Vimian's new option-based incentive program could no longer include all employees. Unfortunately, we cannot yet assess the potential effects this may have.

Thirdly, the decentralized model is dependent on support and guidance from central functions. For one thing, the central support functions should offload local business leaders with administrative tasks so that they can instead focus on developing their businesses. For another, the support mechanism should resemble a “sounding board” that challenges local decision-makers on strategic opportunities, while also supporting in deriving them. Therefore, a support function enforces the effects of good recruitment and effective incentive structures. As a sounding board, Fidelio has been able to combat the risks of managers making uneducated decisions, as documented by Mintzberg (1979), and ensure that there is a common direction across the group. This is an interesting contribution to PE literature in general, and buy-and-build literature in particular, as it emphasizes supporting over forcing. It stands in contrast to existing literature that

finds that PE firms redefine target companies' business models 40% of the time (Gompers et al., 2016).

Our case study indicates that the decentralized governance model is particularly powerful in a dynamic market environment. As previously alluded to, decentralization might be less appropriate in a mature market environment. Because larger companies are typically less nimble than smaller ones, there may simply be less room for failure, why firms may look to minimize risk rather than chase upside. Mars Petcare's governance model after acquiring AniCura nicely illustrates these differences. AniCura had been run with decentralization, which was then partly replaced with more corporate structures, causing management churn. This governance model may have been more appropriate in Mars Petcare's setting. Although, by looking at the LinkedIn profiles of the AniCura management team, it seems to have pushed away the people who built the company. Unfortunately, there are few academic studies addressing performance in connection to different governance models, but Baker and Wruck (1989) qualitatively identify decentralization as contributing factor for improving performance. Our case study reaches a similar conclusion; the decentralized governance model has contributed to value creation for Vimian.

5.2.4 Financial Engineering

Financial engineering is another traditional value lever, which essentially entails using debt and re-negotiating debt contracts to leverage equity returns (Jensen, 1989; Davis et al., 1994; Kaplan & Strömberg, 2009). Since Fidelio's first investment in 2015, debt financing has been used across all business verticals, first separately and then for Vimian as a group. While the mere use of leverage is a rather generic tool to gear equity returns, Fidelio also re-negotiated debt facilities in connection to the creation and listing of Vimian, resulting in greater financial flexibility (being able to distribute resources more effectively across the business verticals) and lower cost of debt. Fidelio has effectively managed to realize leveraged returns in connection to the IPO and lowered cost of debt, and thus, *ceteris paribus*, increased Vimian's theoretical valuation. Moreover, listing Vimian opened for Fidelio to continue the growth journey as a majority shareholder, now better able to fund the continued buy-and-build journey. As such, we argue that Fidelio has created value through financial engineering beyond simply using leverage.

5.2.5 Exit

As this section covers value creation at exit, we should highlight that Fidelio did retain a majority ownership post-listing, as described in Section 4.5. That said, taking Vimian public at an EV / EBITDA multiple of 58x, Fidelio realized high investment returns (see Section 4.6.2). We must

recognize that there is a significant element of market timing underpinning these returns, namely SEK 7.0bn as per our quantitative analysis in Section 5.3. While market fluctuations are exogenous, Fidelio's flexible investment mandate enables a superior ability to opportunistically seize opportunities, including timing the market, as they appear. Moreover, it is part of Fidelio's buy-and-build strategy to build global platforms from scratch, whereby we indeed expect multiple expansion to explain a significant share of returns. On that note, we find SEK 4.5bn attributable to multiple engineering (Section 5.3). Therefore, in periods of market valuation multiple contractions, such contractions are mitigated by the multiple expansion Fidelio is likely to enjoy from building larger and better companies. In conclusion, Fidelio's strategy to buy-and-build from scratch is exposed to limited downside risk (in the case of poor market timing) yet exposed to significant upside potential (in the case of good market timing).

5.2.6 The Fidelio Investment Model Facilitating Value Creation

In a buy-and-build context, we believe that Fidelio's investment model is less suitable in a mature market environment as it jeopardizes both the M&A philosophy as well as the decentralized governance model. For that reason, in combination with traditionally less flexible LP mandates, we believe a typical buyout fund would face difficulties applying Fidelio's investment model or executing growth journeys like that of Vimian's. On the other side of the investor spectrum, typical growth funds may also face difficulties in applying the Fidelio model as they may still have internal restrictions that, for instance, limit them from deploying more than half of a fund into one industry. As such, we would categorize Fidelio as a hybrid between a growth fund and a traditional buyout fund, as they acquire smaller, high-growth companies, yet typically do so as a majority shareholder with high involvement. Correspondingly, we argue that the Fidelio model requires a specific set of market conditions, namely high growth, fragmentation, limited professionalization, and entrepreneurialism, as well as practically no LP restrictions. While we recognize that few investors enjoy such flexibility, our findings suggest that more investors should try to establish a similar position. Adding merit to our suggestion, we point to Vimian's 4.8x revenue increase and 6.6x EBITDA increase since Fidelio's entry¹¹ and the associated 13x MOIC as per the IPO valuation. Further, we argue that Vimian is no anomaly as Fidelio applied the same model, in the other end of the same market, with AniCura, leading to a 46% revenue CAGR, a 4.9% to 11.6% EBITDA margin increase, and a rumored 10x investment return. Looking beyond these cases, Fidelio's fund I and II have returned an aggregated gross MOIC in the range of 7.5x-10x.

¹¹ Pro forma revenue and EBITDA increase from Fidelio's first investment in each business vertical to the fiscal year 2020.

5.3 Quantitative Attribution of Value Creation

5.3.1 Framework Introduction

Complementary to the qualitative discussion about how Fidelio has created value for Vimian, we have developed a quantitative framework to allocate Fidelio's investment returns to entry, engineering, and exit. While traditional investment returns bridge analyses typically stop after identifying value attributable to multiple expansion, changes in EBITDA, and capital structure (see Appendix L for such returns bridge applied to Vimian), we further dissect the multiple expansion component (corresponding to 91% of value created) to identify its underlying sources.

Not specifying the source of multiple expansion may skew interpretations as it, in addition to selling in a favorable market, is likely also explained by Fidelio making Vimian a larger and more profitable company, improving growth prospects, and creating a company attractive to new types of investors. That said, some researchers argue that multiple expansion is mainly a result of value transfer,¹² rather than value creation. In Phalippou and Morris's (2019) words, buying low and selling high merely transfers value from the buyer to the seller and is thus welfare neutral for society. However, we argue that perspective is unfair. As discussed in Section 5.2.1, Fidelio managed to buy low as they created Vimian themselves from scratch, and thereby avoided paying a premium upon entry (Smit, 2001). Similarly, proprietary sourcing and not paying for synergies facilitated buying low – hence, we argue that the value of SEK 7.9bn pertained to entry (as displayed in Figure 1) cannot solely be regarded as value transfer. Continuing with the value related to exit, we must recognize that there is a significant element of market timing boosting Vimian's IPO valuation, as high public valuations was a key reason for listing Vimian. Therefore, we expect there to be some degree of value transfer from the buyers (mainly institutional investors) to the sellers (Fidelio and co-investors). Although, Fidelio retaining a majority equity stake subject to a three-year long lock-up component suggests that Fidelio did not view the IPO as a value transfer. Regardless, while there may exist some value transfer between buyers and sellers in connection to the IPO, we cannot identify any net value transfer from Vimian to Fidelio. This distinction is important to highlight as critics argue that PE firms extract value from their portfolio companies (Service Employees International Union, 2008; Rasmussen, 2008). Contrastingly, value transfer between buyers and sellers is an embedded phenomenon in financial markets – while markets are not exclusively zero-sum games, they, at times, display such characteristics.

Identifying the underlying sources of multiple expansion is required to fairly evaluate value creation. As previously mentioned, we argue that Vimian's multiple expansion is attributable to Fidelio's pricing skills at entry (see Section 5.2.1), creating and scaling a platform from scratch

¹² Value transfer occurs in transactions where one party gains value at its counterparties' expense.

(described in Section 5.1 and discussed in Sections 5.2.2 through 5.2.4), and Fidelio's flexible investment mandate that allows Fidelio to better time the market – entry, engineering and exit. As such, our alternative returns bridge (see Figure 1) provides a more nuanced assessment of Fidelio's value creation, as it enables us to better highlight what value share is attributable to endogenous factors that are under Fidelio's control, and what is connected to exogenous factors such as market fluctuations.

5.3.2 Framework Methodology

When assessing value created at entry and exit, we use a valuation multiples benchmark based on valuation multiples of selected listed peers, IDEXX and Zoetis, which were used by investment banks in connection to Vimian's IPO valuation. Interested in deriving a benchmark multiple independent of market timing, we compute the average of quarterly EV / LTM EBITDA multiples over a seven-year period, starting in Q1-2015 and ending in Q1-2022¹³ (see Appendix Q(a)). With this "timing-neutral" market benchmark, we isolate value generated at entry by finding the difference between the benchmark multiple (28.6x) and Fidelio's average entry multiple (8.0x), and then multiplying it with Vimian's EBITDA at exit.¹⁴ One could argue that the 28.6x "timing-neutral" peer benchmark multiple is not entirely comparable to Fidelio's average entry multiple of 8.0x as both peers are listed and much larger than the companies Fidelio have acquired. Therefore, one could potentially attach a discount to the peer multiple to adjust for size and liquidity. However, as we have not found an objective way to derive such discount, we have decided to exclude it from this analysis.

To calculate the value created through engineering initiatives, we sum the value generated from i) EBITDA improvement based on revenue growth (assuming constant margin since entry), ii) EBITDA improvement based on margin uplift, and iii) deleveraging. That is, we accept the values from the original returns bridge presented in Appendix L.

In terms of value generated at exit, we isolate what value is explained by pure market timing (outside Fidelio's control) and, residually, what value is achieved through multiple engineering (creating a company that is better than it was at inception). To do so, we follow a mathematical framework presented by Jenkinson et al. (2022). Firstly, we derive the timing neutral multiples benchmark as described above, yet this time we exclude the data from Q2-2021 – Vimian's IPO quarter. Secondly, we divide the market timing neutral benchmark by the Q2-2021 benchmark multiple. As such, we arrive at an indication of how inflated or deflated valuation multiples are in

¹³ Approximately corresponding to the length of a business cycle and the period during which Vimian has been developed.

¹⁴ Vimian's EBITDA at exit corresponds to the pro forma adjusted EBITDA in 2020 of SEK 497m.

that quarter. Thirdly, by multiplying this figure with Vimian's valuation multiple of 58x we derive a lower, timing neutral, valuation multiple for Vimian (at 44x). Finally, by subtracting the equity value implied by this multiple from Vimian's actual valuation, we derive how much of Vimian's multiple expansion is attributable to pure, uncontrollable market timing effects at exit. As per Figure 1, this value amounts to SEK 7.0bn. See Appendix P and Appendix Q(b) for underlying calculations.

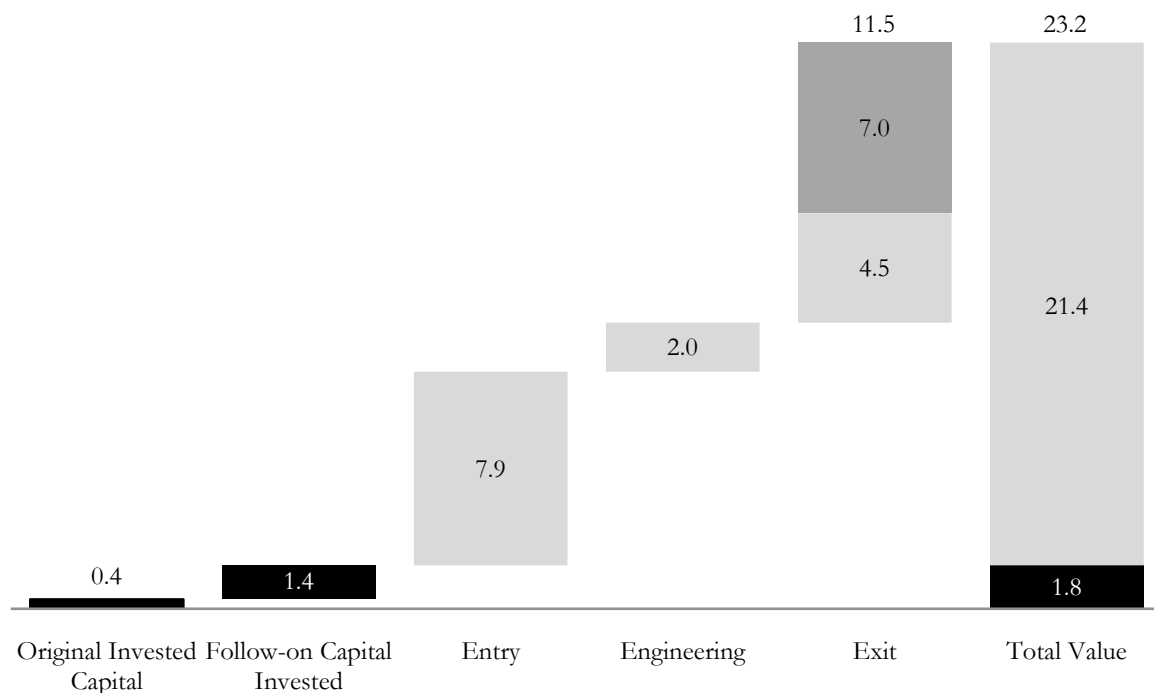
While using peer multiples is one of the traditional valuation methodologies, we acknowledge its disadvantages, for example including simplifying complex information, and comparing companies that are similar in some regards, yet vastly different in others. In our case, it is important to note that the peers are listed and much larger, meaning that, *ceteris paribus*, we expect them to trade at a premium compared to the smaller and private firms Fidelio have acquired. On the other hand, Vimian is growing much faster than both peers, motivating, a higher valuation multiple, *ceteris paribus*.

5.3.3 Framework Results

We find that Fidelio's ability to buy low generated a value increase of SEK 7.9bn, corresponding to 37% of total investment returns as per the IPO valuation. Moreover, we find returns of SEK 11.5bn, corresponding to 54% of returns, attributable to the exit bracket. As described above, we split the exit component into two categories. Using terms by van Swaay et al. (2015), these two categories are i) multiple surfing (achieved through selling at a higher point in a business cycle) and ii) multiple engineering (achieved through company improvements). As per Figure 1, we conclude that SEK 4.5bn of returns pertained to exit is explained by multiple engineering and is therefore attributed to Fidelio having made Vimian a better company. Perhaps, it is also reflective of the market having strong faith in Fidelio as majority owner. We attribute the remaining SEK 7.0bn to market fluctuations which are beyond Fidelio's control. See Appendix Q for underlying calculations to the exit value distribution.

Figure 1

Alternative Investor Value Creation Bridge Based on the Three Sources of Value Creation
(SEKbn)



Note: This figure shows an alternative investment returns bridge based on Kaplan and Strömberg's (2009) three stages of value creation in PE – entry, engineering, and exit. The value of SEK 21.4bn constitutes Vimian's value appreciation from an investor perspective as per Vimian's IPO valuation. The data is retrieved from Fidelio.

Conceptually, one can argue that the multiple engineering component in fact should be categorized as engineering, rather than exit. We would also like to highlight that a share of the value we attribute to entry could also be categorized as engineering as it relates to the value created from building a global company from scratch. Perfect isolation in this instance is difficult to achieve, although we do believe our analysis provide indicative insight, not least in the view that about two thirds of the value generated is driven by actions directly controlled by Fidelio.

6 Conclusion

Building upon research on value creation in the PE industry, we employ a qualitative case study to investigate how Fidelio has created value in their buy-and-build journey with Vimian, a now global and publicly listed animal health-focused company group that Fidelio built from scratch. We do so by analyzing sources of value creation in relation to entry, engineering strategies pursued during ownership, and exit. While the nature of our study limits us from drawing general conclusions, it provides several interesting observations subject to further research.

We find that Fidelio employs an opportunistic M&A strategy characterized by price discipline and taking majority ownership in small firms that meet performance requirements, particularly growth requirements, on a stand-alone basis. There are limited formal integration requirements between merging entities and therefore no dependence on synergies, in contrast to much of existing M&A literature. However, add-on acquisitions are still made based on business complementarity parameters presented in existing literature, which enable synergies to emerge organically. Accordingly, there are limited formal integration requirements between merging entities, which in turn translates into the decentralized governance model post acquisition.

We find Vimian's decentralized governance model to be a key facilitator for its successful buy-and-build execution and post-acquisition performance, and we, in turn, identify three key observations related to this success. Firstly, as more responsibility is given to local decision-makers, attracting talent becomes increasingly important. Secondly, group-wide incentive programs are needed to ensure that a common direction is pursued, while local incentives are crucial for add-on acquisitions initially. Thirdly, a support function (first provided by Fidelio, later by the Vimian HQ) has enabled Vimian entrepreneurs to focus more on business development and seizing market opportunities, with assistance from the support function. While there is extensive literature addressing the effectiveness of different governance models, we contribute to academia by examining the decentralized model in a global buy-and-build context.

While Vimian has seen its operating performance improve substantially, translating to attractive investor returns, we conclude that certain criteria should be met to successfully apply this buy-and-build model. Such criteria include external factors such as markets that are growing, fragmented, non-professionalized, and consisting of entrepreneurially driven companies, as well as internal factors such as the investor having a flexible investment horizon with limited industrial and geographical restrictions. While we find academic support for different isolated aspects of Fidelio's investment model, our study contributes to the literature on buy-and-build strategies, which lacks adequate research on execution.

We find that Vimian's significant value appreciation is mathematically mainly explained by multiple expansion, which is in line with the literature highlighting multiple arbitrage as a driver of recent buy-and-build popularity. While some fraction of Vimian's multiple expansion is explained by favorable market conditions, we argue that most is derived from sources within Fidelio's control – including not paying premium entry valuations, improving operations and subsequently financial performance, and timing the exit to optimal market conditions. While part of the value creation is derived from traditional PE strategies, Fidelio differentiates itself primarily on the operational and governance engineering strategies, enabled by Fidelio's flexible investment mandate. As such, we contribute to existing literature by outlining underlying factors that drives multiple expansion.

In this case study, we have identified several components that point to Fidelio's rather unique value creation strategy. Since competition in PE continues to intensify and as traditional value creation strategies are becoming increasingly commoditized, we encourage further research on other alternative PE value creation strategies.

While we have presented a quantitative method to better understand the underlying drivers of multiple expansion, further research is needed on this topic, both from a qualitative and quantitative perspective. Moreover, in connection to this, further research is needed to better understand what is considered value transfer and what is considered value creation. This would shed light on potential PE value creation strategies to pursue, thus adding valuable insights to the PE industry.

We have briefly commented on the implications of becoming a listed company on Vimian's entrepreneurial culture. However, further research is needed to shed light on how going public influences corporate culture, and what type of culture is more at risk in such a transformation. This would provide valuable insights for decision-makers contemplating an IPO exit. For example, as identified through this case study, a company that enjoys an entrepreneurial culture facilitated by pragmatic and decentralized structures are, when entering a public environment, exposed to the risk of entrepreneurs being discouraged in a more strictly regulated environment. Moreover, understanding the risks of taking a company public could then be followed by appropriate risk-mitigating initiatives. On that same topic, in connection with Vimian becoming a listed company, Fidelio, due to public market norms, abandoned the existing management incentive program¹⁵ to instead implement a warrant-based incentive program. It would be interesting to better understand how going public effects the choice of incentive program, and, subsequently, how changing incentive programs affects corporate culture, employee motivation, and recruitment.

¹⁵ Allowing employees to co-invest alongside Fidelio and/or being exposed to greater potential upside through "sweet equity".

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Appendix

Appendix A

Interviewee Biographies

Gabriel Fitzgerald is the Founding Partner and CEO of Fidelio. He is currently the Chairman of Vimian and serves as a board member in several Fidelio-owned companies. Fitzgerald is the ultimate beneficial owner of Fidelio Vet Holding AB, which is the owner of Vimian. Before founding Fidelio, Fitzgerald worked at Nordic Capital (2006-2010) and Carnegie Investment Bank (2004-2006). In terms of educational background, he holds a MSc in Finance degree from Stockholm School of Economics and has studied Medicine at Linköping University.

Theodor Bonnier, Director at Fidelio, is part of the serves as a board member for Vimian and multiple Fidelio portfolio companies. Before the creation of Vimian, Theodor served as board member at Movora, Nextmune, and VetFamily. He holds a BSc degree from Stockholm School of Economics.

Anders Johansson, Director at Fidelio, is currently on the board for Fidelio-owned iBinder and has previously been on the board of Nextmune. He has a financial background with experiences from Areim, Bank of America Merrill Lynch, and Carnegie Investment Bank. He holds a MSc degree from Copenhagen Business School.

Fredrik Blomberg, Investment Manager at Fidelio, has a financial background working at Rothchild & Co and Carnegie Investment Bank. He holds a BSc degree in International Business from Copenhagen Business School.

Dr. Fredrik Ullman is the CEO of Vimian since 2021 and was previously the CEO for Indical Bioscience. He holds a BSc degree in Mechanical Engineering from ETH Zürich, a MEng in Product Development from KTH Royal Institute of Technology, a MEng in Industrial Engineering and Production, Supply Chain management and Integrated Product Development, and a PhD in Innovation and Technology from ETH Zürich.

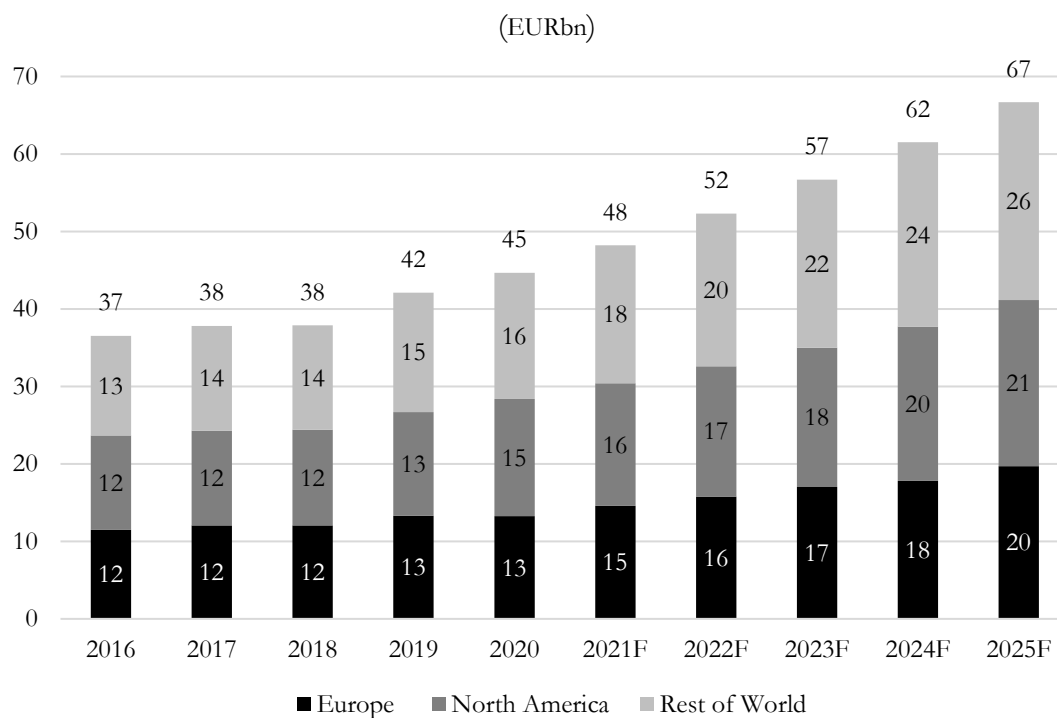
Magnus Kjellberg has been the CEO of Nextmune since 2017 and has played an important role in Nextmune's M&A activities. He is also the Chairman of the board in several Vimian subsidiaries. He holds a BSc degree from Stockholm School of Economics.

David Ammann is Head of Strategy at Movora and the former CFO/COO of KYON, which he joined in 2019. Ammann has a consulting background from McKinsey and has completed an MBA at INSEAD. He holds both a BSc degree and a MSc degree in Mechanical Engineering from ETH Zürich.

Michael Thunell joined VetFamily in 2018 and is currently VetFamily's COO. Before joining VetFamily, Thunell worked at AniCura as Group Retail Manager after having left the CEO position at Garantbil Sverige. He has consulting experience from McKinsey and finance experience from Nomura. He has an MBA from Duke University and holds a MSc degree from Stockholm School of Economics.

Appendix B

Development of the Global Animal Health Market

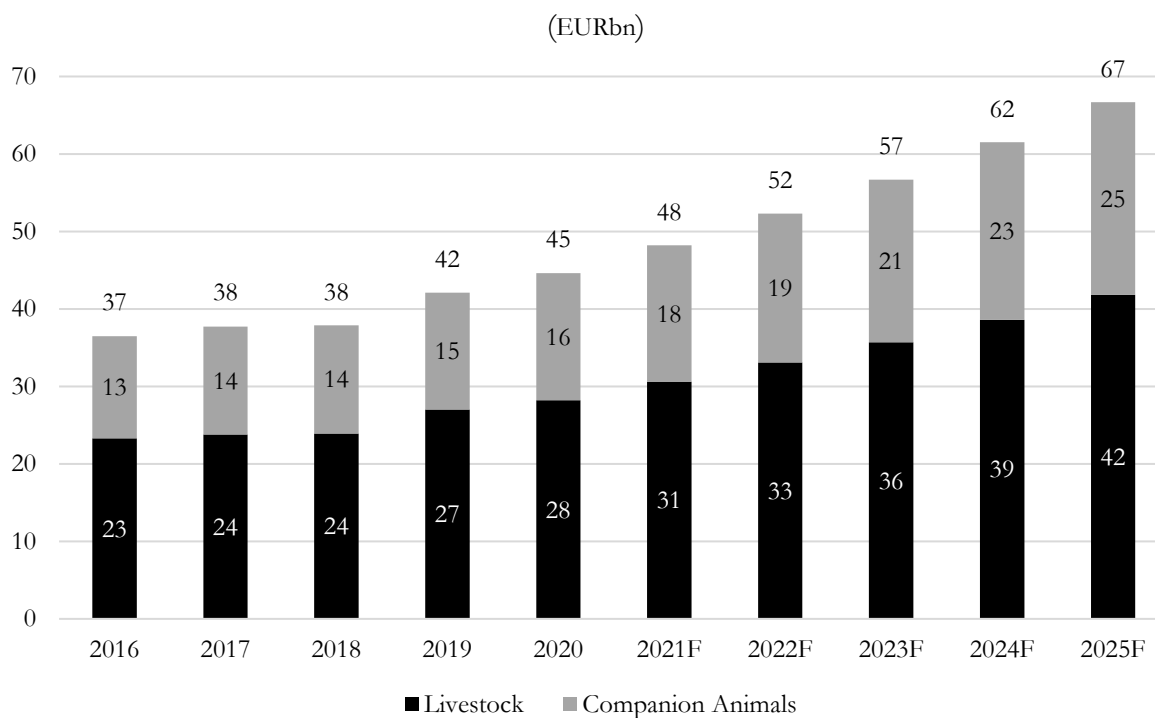


Region	CAGRs	
	2016–2020	2020–2025
Europe	3.6%	8.3%
North America	5.7%	7.2%
Rest of World	6.0%	9.4%
Total	5.1%	8.4%

Note: This figure and its corresponding table show the historical and forecasted development of the global animal health market from 2016 to 2025, in total and by geography. The data includes both companion animals and livestock and is retrieved from Vimian's IPO prospectus and is based on reports from Kearney.

Appendix C

Development of the Companion Animals and Livestock Market Segments

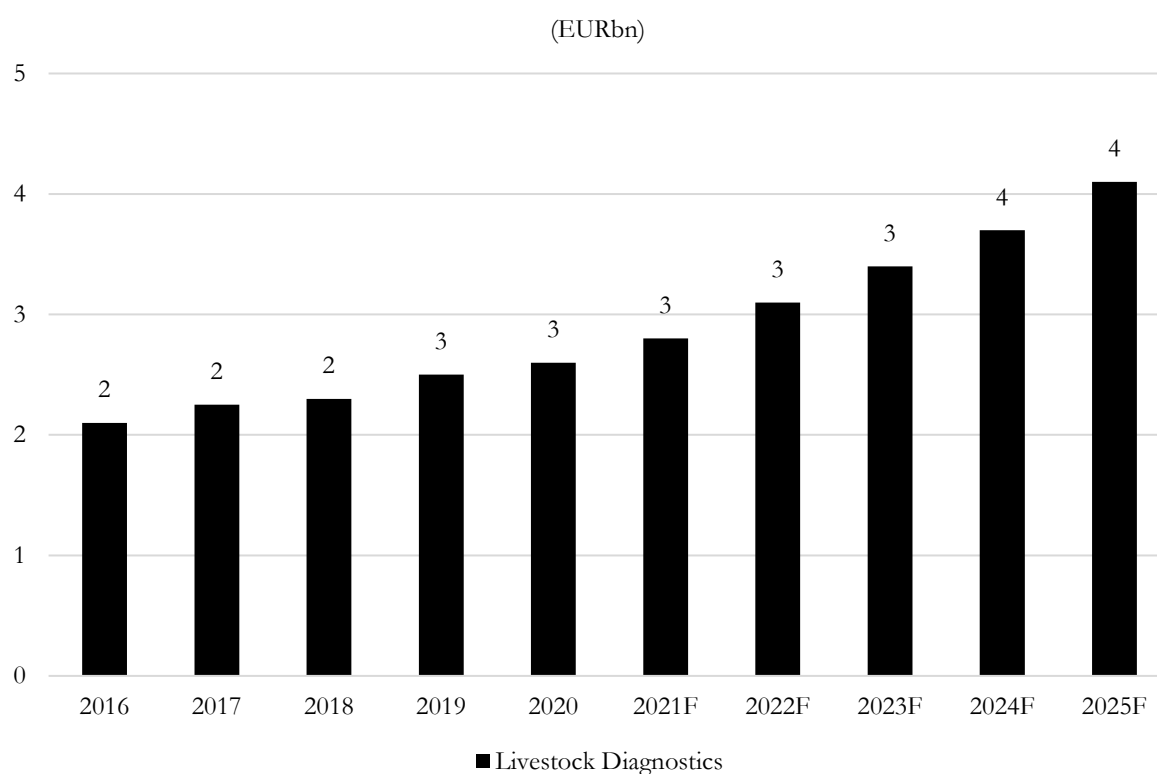


Segment	CAGRs	
	2016-'20	2020-'25
Companion Animals	5.6%	8.7%
Livestock Animals	4.9%	8.2%
Total	5.1%	8.4%

Note: This figure and its corresponding table show the historical and forecasted development of the global animal health market from 2016 to 2025, by animal type. The data is retrieved from Vimian's IPO prospectus and is based on reports from Kearney.

Appendix D

Global Livestock Diagnostics Market

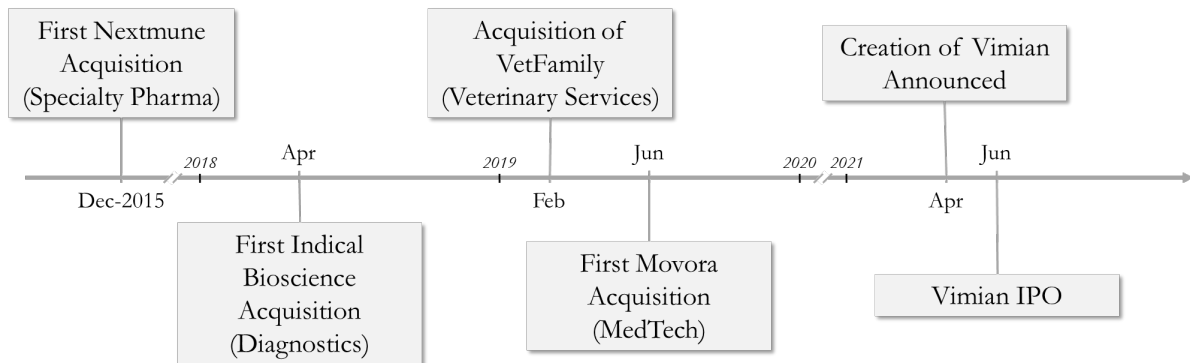


Segment	CAGRs	
	2016-'20	2020-'25
Livestock Diagnostics	5.5%	9.5%

Note: This figure and its corresponding table show the historical and forecasted development of the global livestock diagnostics market from 2016 to 2025. The data is retrieved from Vimian's IPO prospectus and is based on reports from Kearney.

Appendix E

Overview of Vimian's Timeline, from First Acquisition to IPO



Note: This figure shows a brief overview of Fidelio's investment journey with Vimian. The information obtained from Fidelio.

Appendix F

Fidelio's M&A Activity Since Inception

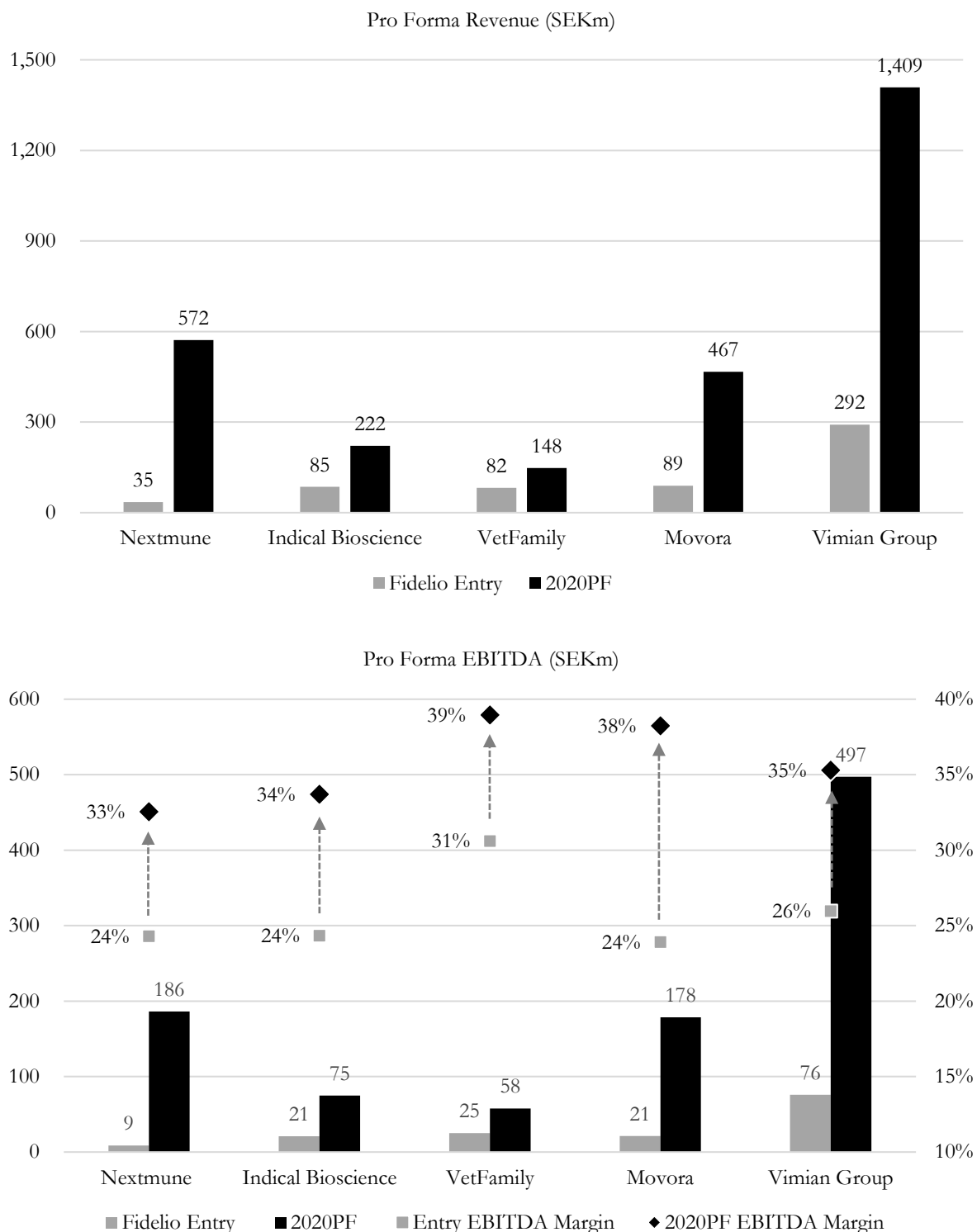
Target	Description	Date	Segment
Artuvet	European veterinary business of ALK-Abello	Dec-15	Specialty Pharma
Oystershell laboratories	Portfolio of proprietary over-the-counter nutraceuticals and topicals	Jun-16	Specialty Pharma
Alergovet	Provider of proprietary allergy testing technology	Dec-16	Specialty Pharma
Spectrum Labs	U.S.-based provider of allergy testing and treatment technology	Jun-17	Specialty Pharma
Dr Baddaky	Norwegian-based provider of dermatology and specialized nutrition products	Mar-18	Specialty Pharma
Indical Bioscience	Germany-based provider of diagnostic products for veterinary-specific applications	Apr-18	Diagnostics
VetFamily	Denmark-based provider of a membership-based platform for independent veterinary clinics	Feb-19	Veterinary Services
Aristavet	Germany-based provider of gastrointestinal products	Apr-19	Specialty Pharma
Kyon	Switzerland-based provider of veterinary orthopedic implants and instruments	Jun-19	MedTech
ACTT	U.S. veterinary business of ALK-Abello	Oct-19	Specialty Pharma
Bourgelat	France-based providers of a membership platform for purchasing organizations	Nov-19	Veterinary Services
Pick & Go	France-based providers of a membership platform for purchasing organizations	Dec-19	Veterinary Services
BioMedtrix	U.S.-based provider of veterinary orthopedic implants and instruments	Mar-20	MedTech
Veterinary Orthopedic Implants (VOI)	U.S.-based provider of veterinary orthopedic implants and instruments	Jun-20	MedTech
Elia Digital	France-based provider of purchasing statistics for veterinary purchasing groups	Jul-20	Veterinary Services
ICF & De Rerum Natura (DRN)	Italy-based providers of veterinary products and pet food	Sep-20	Specialty Pharma
Strawfield Pets	Sweden-based provider of over-the-counter items via Amazon	Sep-20	Specialty Pharma
Afosa	Germany-based provider of ELISA diagnostics products to the companion animal sector	Nov-20	Diagnostics
Diavet	Spain-based provider of allergy diagnostics and treatment services	Mar-21	Specialty Pharma
Svanova	Sweden-based provider of livestock diagnostics services	Apr-21	Diagnostics
BestPaw	Canada-based retailer of specialized pet supplements and specialty care products	May-21	Specialty Pharma
AdVetis Medical	France-based distributor of veterinary surgical products	May-21	MedTech

Independent Vets of Australia	Australia-based veterinary clinic	Jun-21	Veterinary Services
Skovshoved Dyreklinik	Denmark-based veterinary clinic	Jun-21	Veterinary Services
Check-Points	Netherlands-based provider of molecular diagnostics products	Sep-21	Diagnostics
Laboratoire de Dermo-Cosmétique Animale	France-based distributor of veterinary surgical products	Oct-21	Specialty Pharma
Avedore Dyreklinik	Denmark-based veterinary clinic	Nov-21	Veterinary Services
Brunder Dyreshospital	Denmark-based veterinary clinic	Nov-21	Veterinary Services
Freelance Surgical	UK-based provider of veterinary surgical products	Dec-21	MedTech
GlobalOne Pet Products	U.S.-based specialty nutrition company	Dec-21	Specialty Pharma
IMEX	U.S.-based supplier of veterinary orthopedic implants	Dec-21	MedTech
VetAllergy	Denmark-based provider of veterinary allergy products and services	Jan-22	Specialty Pharma
Bova	UK-based provider of companion animal specialty pharmaceuticals	Jan-22	Specialty Pharma
Kahuvet	Australia-based supplier of veterinary surgical products	Feb-22	MedTech
Unnamed Veterinary Clinic I	Nordic-based veterinary clinic	Feb-22	Veterinary Services
Unnamed Veterinary Clinic II	Nordic-based veterinary clinic	Feb-22	Veterinary Services
Unnamed Veterinary Clinic III	Nordic-based veterinary clinic	Feb-22	Veterinary Services
Avacta Animal Health	UK-based provider of veterinary allergy diagnostics and treatments solutions	Mar-22	Specialty Pharma
Vertical Vet	U.S.-based provider of procurement and support services to veterinary clinics	Apr-22	Veterinary Services
Unnamed Product Portfolio	U.S.-based providers of veterinary surgical instruments and orthopedic implants	Apr-22	MedTech
Heiland	Germany-based provider of a veterinary pharmaceuticals online ordering platform	Aug-22	Veterinary Services
New Generation Devices	U.S.-based provider of veterinary orthopedic implants	Aug-22	MedTech
Total number of acquisitions pre-IPO			24
Number of acquisitions per month pre-IPO			0.3
Total number of acquisitions post-IPO			18
Number of acquisitions per month post-IPO			1.3

Note: The table above lists all acquisitions that have been made as part of Vimian's buy-and-build journey up until August 2022. The information is based on press releases.

Appendix G

Pro Forma Revenue and EBITDA Development, by Business Vertical



Note: These figures show the financial development, in terms of pro forma revenue and pro forma adjusted EBITDA, for Vimian's business verticals from Fidelio's respective entries to fiscal year 2020. The data is retrieved from Fidelio.

Appendix H

Key Reported Financial Figures for Vimian

Income Statement Reported (EURm)	Dec-2020	Dec-2021	LTM Mar-2022
Revenue	71.2	173.4	197.6
<i>growth, %</i>	<i>190%</i>	<i>143%</i>	<i>14%</i>
<i>organic growth, %</i>	<i>48%</i>	<i>17%</i>	<i>n.a.</i>
Adj. EBITDA	25.3	58.1	61.5
<i>margin, %</i>	<i>36%</i>	<i>34%</i>	<i>31%</i>
EBITDA	12.9	38.3	40.5
<i>margin, %</i>	<i>18%</i>	<i>22%</i>	<i>21%</i>
EBIT	5.9	21.6	21.3
<i>margin, %</i>	<i>8%</i>	<i>12%</i>	<i>11%</i>
Net Profit/Loss	52.3	7.8	4.2
<i>margin, %</i>	<i>73%</i>	<i>4%</i>	<i>2%</i>
Balance Sheet	Dec-2020	Dec-2021	LTM Mar-2022
Total Assets	447.5	640.7	804.7
Net Debt	102.3	168.1	266.5
Net Debt / Total Assets, %	23%	26%	33%

Note: This table shows the historical performance and financial position, in terms of reported figures, for Vimian. The data is retrieved from Vimian's annual and quarterly financial reports.

Appendix I

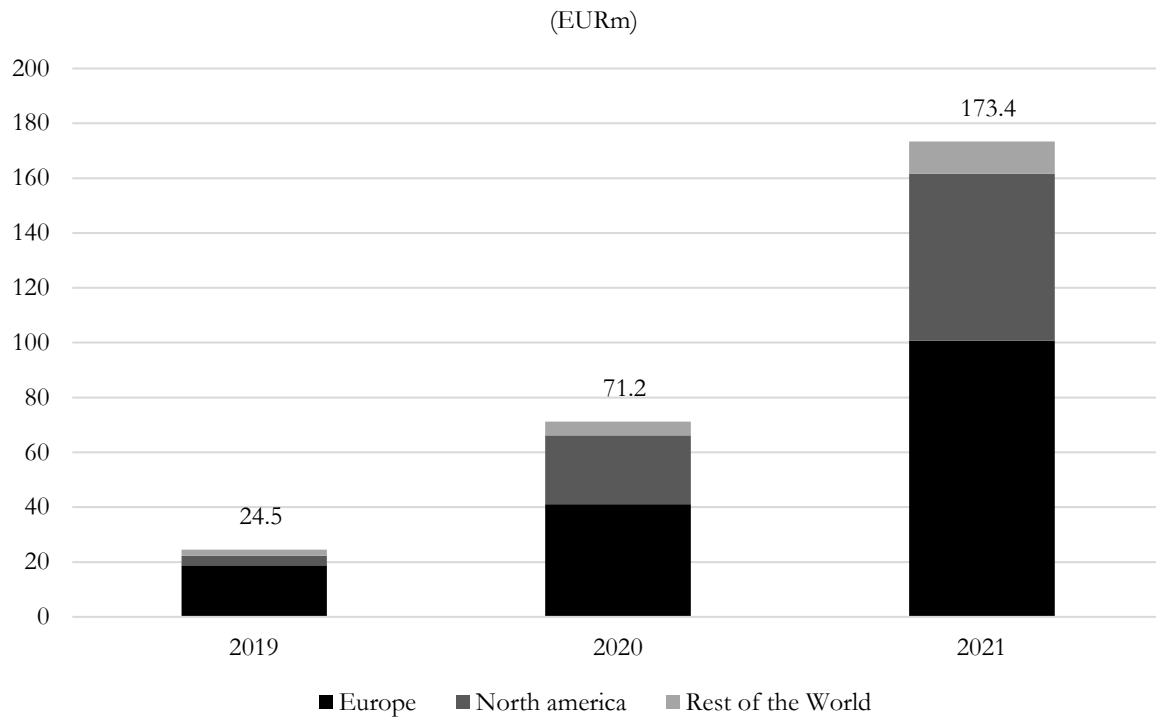
Key Pro Forma Financial Figures for Vimian

(EURm)	Dec-2020	Dec-2021	LTM Mar-2022
PF Revenue	137.8	209.6	246.6
<i>growth, %</i>	<i>n.a.</i>	<i>52%</i>	<i>18%</i>
PF Adj. EBITDA	48.6	66.8	73.4
<i>margin, %</i>	<i>35%</i>	<i>32%</i>	<i>30%</i>
Net Debt / PF Adj. EBITDA	<i>2.1x</i>	<i>2.5x</i>	<i>3.6x</i>

Note: This table shows the historical performance, in terms of pro forma adjusted figures, as well as a leverage metric. The data is retrieved from Vimian's annual and quarterly financial reports.

Appendix J

Geographical Revenue Split for Vimian Based on Reported Revenue



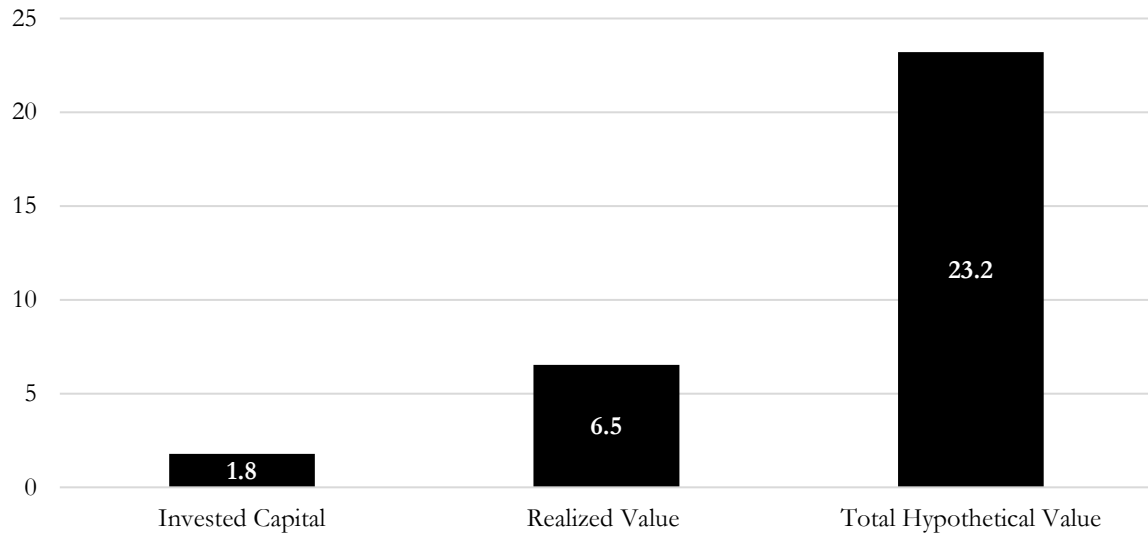
Geographic Region / Year	2019	2020	2021
Europe	77%	58%	58%
North America	14%	35%	35%
Rest of the World	9%	7%	7%
Total	100%	100%	100%

Note: This figure and its complementary table show Vimian's revenue split by geography based on reported revenue. The data is retrieved from Vimian's annual and quarterly financial reports.

Appendix K

Fidelio's Realized Value and Hypothetical Total Value in the Vimian IPO

(SEKbn)



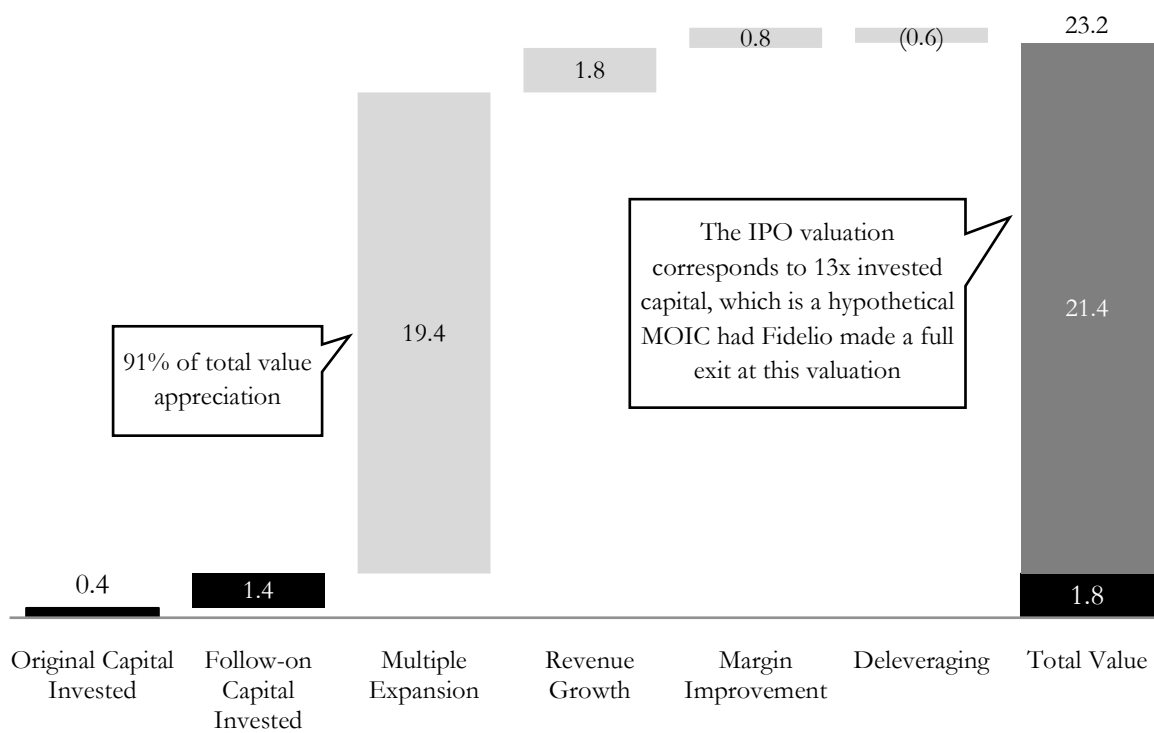
	Invested Capital	Realized Value	MOIC		Total Hypothetical Value	MOIC
Vimian	1.8	6.5	3.7x		23.2	13.0x

Note: This figure and its complementary table show Fidelio's investment returns (MOIC) for Vimian. Both realized IPO returns, and hypothetical returns assuming Fidelio would have made a full IPO exit are presented.

Appendix L

Investment Returns Bridge from an Investor Perspective as per Vimian's IPO Valuation

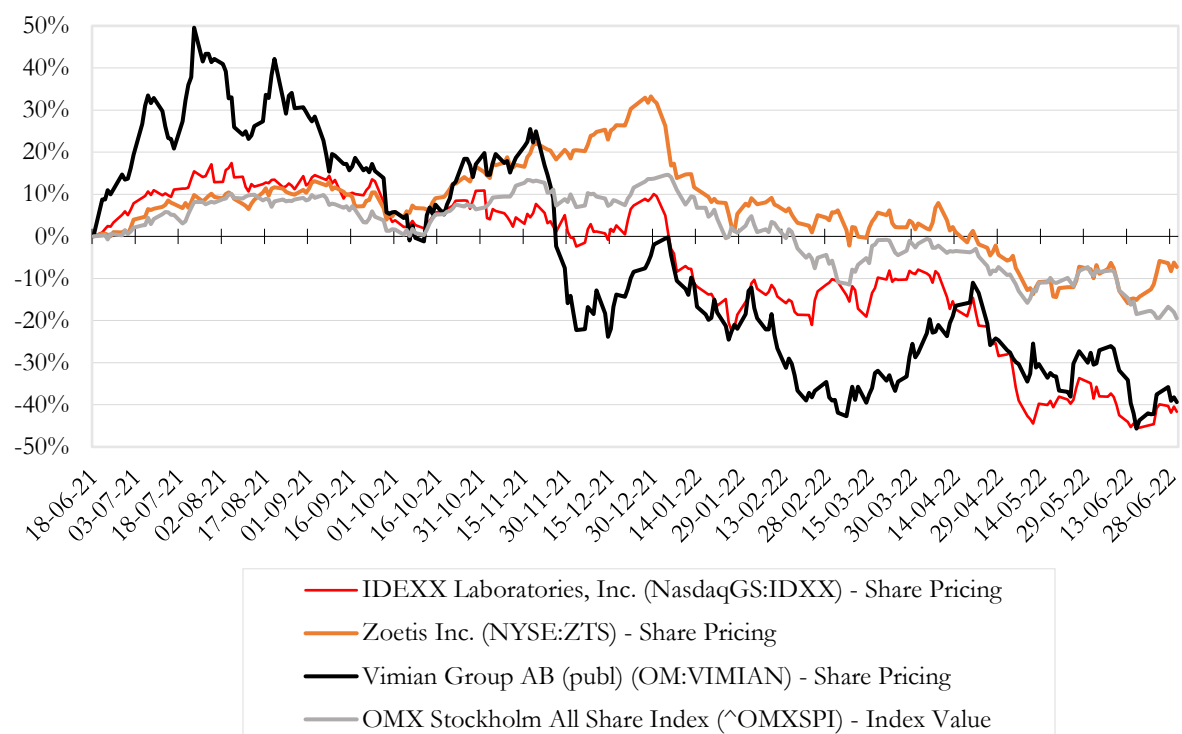
(SEKbn)



Note: This figure shows a traditional investment returns bridge based on Vimian's IPO valuation. The total value appreciation of SEK 21.4bn is mathematically allocated to buckets explaining where this value appreciation comes from. At the time of the IPO, Fidelio had made capital investments amounting to SEK 1.8bn, which should be compared to Vimian's IPO valuation (from an equity investor perspective) of SEK 23.2bn.

Appendix M

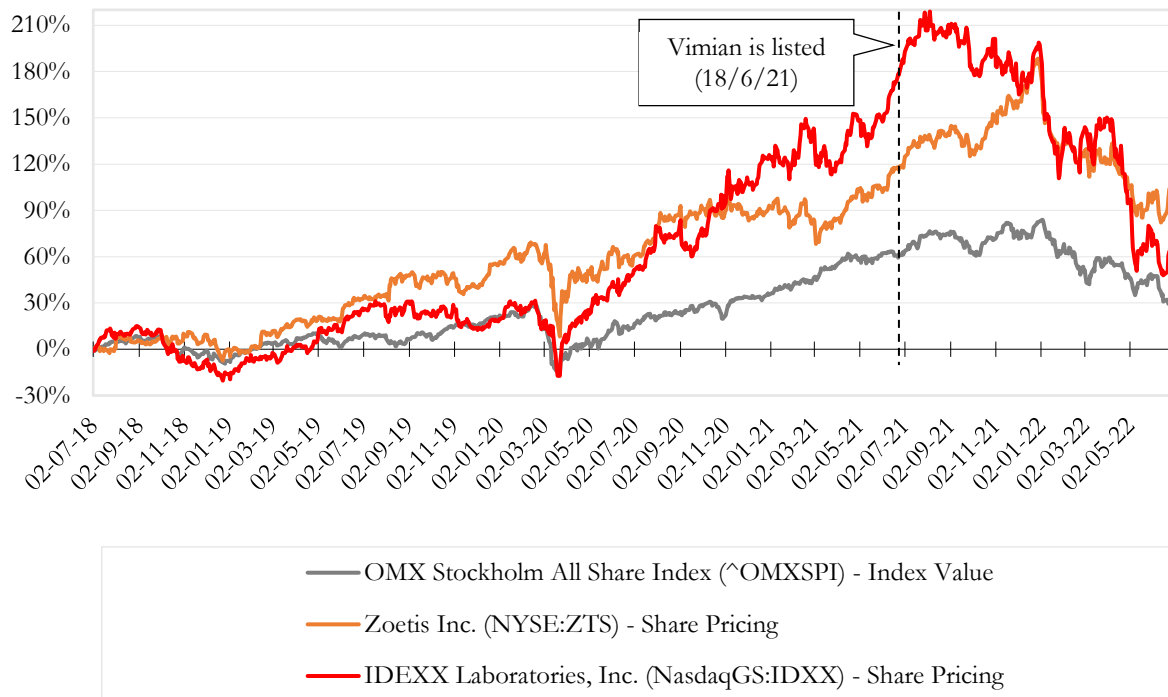
Share Price Development for Vimian, Listed Peers, and Market Index Post the Vimian IPO



Note: This figure illustrates the share price development indexed to 18/6/2021 for Vimian, its closest peers (Zoetis and IDEXX), and the Swedish all-share market index (OMXSPI) from 18/6/2021 to 30/6/2022. The data is retrieved from Capital IQ.

Appendix N

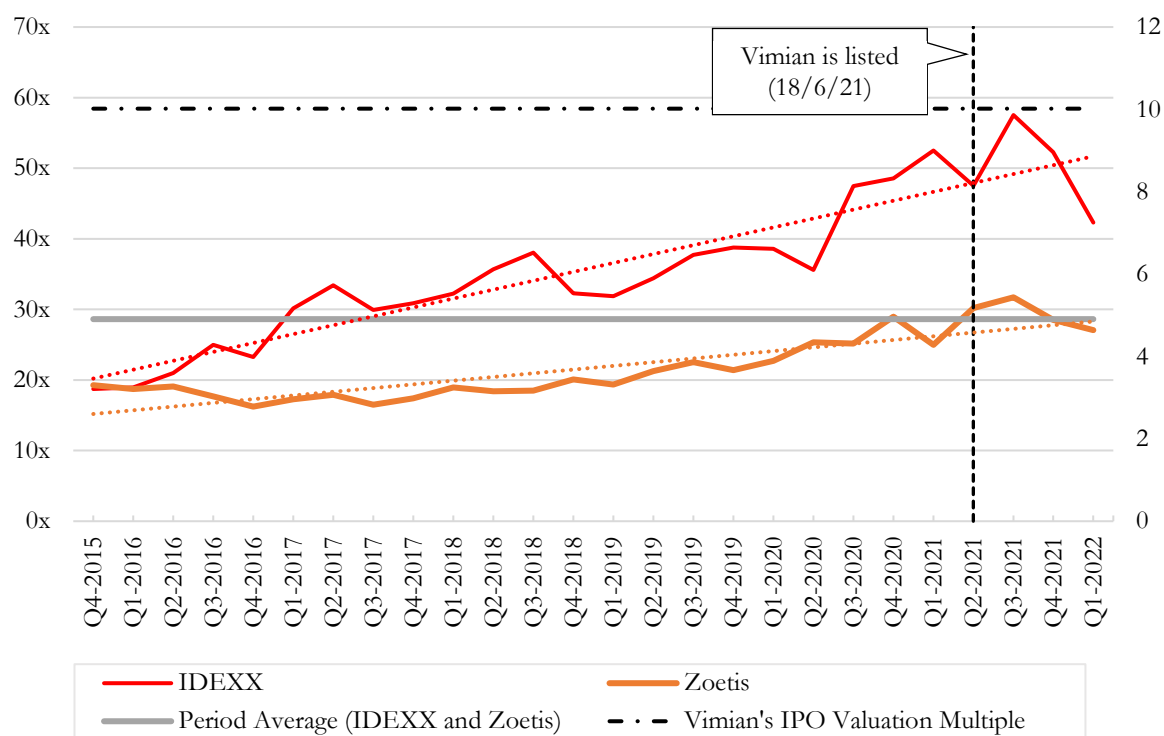
Market Valuations Indexed to 30/6/2018



Note: This graph illustrates the share price development in percentages indexed to 18/6/2021 for Vimian's closest listed peers, IDEXX and Zoetis, as well as the Swedish all share index (OMXSPI). The data is retrieved from Capital IQ.

Appendix O

EV / EBITDA Multiples Development for IDEXX and Zoetis



Note: This graph illustrates the development in EV / EBITDA valuation multiples for Vimian's closest listed peers, IDEXX and Zoetis, from Q1-2015 to Q1-2022. The graph also shows the average valuation multiple across the period as well as Vimian's valuation multiple as per the IPO valuation. The data is retrieved from Capital IQ and Fidelio.

Appendix P

Quantitative Framework – Net Investor Value Distribution as per Vimian’s IPO Valuation

Invested Capital	SEKbn	%
Original Invested Capital	0.4	22%
Add-on Acquisitions	1.4	78%
Total Invested Capital (I)	1.8	100%
Additional Value Generated	SEKbn	%
Entry	7.9	37%
Total Engineering	2.0	9%
Δ Revenue growth	1.8	8%
Δ Margin uplift	0.8	4%
Δ Deleveraging	-0.6	-3%
Exit	11.5	54%
Related to Multiple Surfing (Market Timing)	7.0	61%
Related to Multiple Engineering	4.5	39%
Total Value Generated (II)	21.4	100%
Total Value for Investor Distribution (I+II)	23.2	

Note: This table provides an overview of the investor value that the Vimian investment has generated. Total value generated is derived by subtracting total invested capital (I) from Vimian’s implied equity value as per its IPO valuation (I + II). For instance, we attribute 37% of total investor value generated to entry, i.e., Fidelio being able to acquire companies at attractive valuations.

Appendix Q (a)

Quarterly EV / LTM EBITDA Peer Multiples

IDEXX Laboratories				Zoetis				Peer average	
Quarter	EV (USDm)	LTM EBITDA (USDm)	EV / LTM EBITDA	Quarter	EV (USDm)	LTM EBITDA (USDm)	EV / LTM EBITDA	Quarter	EV / LTM EBITDA
Q1-2015	7,930	334	23.7x	Q1-2015	25,875	1,342	19.3x	Q1-2015	21.5x
Q2-2015	6,979	341	20.4x	Q2-2015	25,891	1,384	18.7x	Q2-2015	19.6x
Q3-2015	7,317	347	21.1x	Q3-2015	27,218	1,426	19.1x	Q3-2015	20.1x
Q4-2015	7,062	377	18.7x	Q4-2015	25,708	1,455	17.7x	Q4-2015	18.2x
Q1-2016	7,239	382	19.0x	Q1-2016	24,801	1,528	16.2x	Q1-2016	17.6x
Q2-2016	8,424	401	21.0x	Q2-2016	27,305	1,581	17.3x	Q2-2016	19.1x
Q3-2016	10,266	411	25.0x	Q3-2016	29,122	1,628	17.9x	Q3-2016	21.4x
Q4-2016	10,018	431	23.3x	Q4-2016	28,006	1,696	16.5x	Q4-2016	19.9x
Q1-2017	13,564	450	30.2x	Q1-2017	29,702	1,708	17.4x	Q1-2017	23.8x
Q2-2017	15,647	468	33.4x	Q2-2017	32,741	1,726	19.0x	Q2-2017	26.2x
Q3-2017	14,382	481	29.9x	Q3-2017	33,228	1,806	18.4x	Q3-2017	24.2x
Q4-2017	15,330	496	30.9x	Q4-2017	36,550	1,975	18.5x	Q4-2017	24.7x
Q1-2018	16,688	517	32.2x	Q1-2018	41,497	2,065	20.1x	Q1-2018	26.2x
Q2-2018	19,290	541	35.7x	Q2-2018	41,976	2,169	19.4x	Q2-2018	27.5x
Q3-2018	21,314	561	38.0x	Q3-2018	47,462	2,230	21.3x	Q3-2018	29.7x
Q4-2018	18,553	575	32.3x	Q4-2018	50,329	2,235	22.5x	Q4-2018	27.4x
Q1-2019	18,961	595	31.9x	Q1-2019	49,398	2,308	21.4x	Q1-2019	26.6x
Q2-2019	21,153	615	34.4x	Q2-2019	54,184	2,386	22.7x	Q2-2019	28.6x
Q3-2019	24,001	636	37.7x	Q3-2019	62,768	2,475	25.4x	Q3-2019	31.6x
Q4-2019	25,353	654	38.8x	Q4-2019	62,462	2,482	25.2x	Q4-2019	32.0x
Q1-2020	25,753	667	38.6x	Q1-2020	73,551	2,538	29.0x	Q1-2020	33.8x
Q2-2020	24,843	698	35.6x	Q2-2020	64,427	2,580	25.0x	Q2-2020	30.3x
Q3-2020	34,784	732	47.5x	Q3-2020	81,185	2,687	30.2x	Q3-2020	38.9x
Q4-2020	38,393	791	48.6x	Q4-2020	85,468	2,695	31.7x	Q4-2020	40.1x
Q1-2021	47,030	896	52.5x	Q1-2021	82,868	2,907	28.5x	Q1-2021	40.5x
Q2-2021	45,766	963	48x	Q2-2021	83,267	3,076	27.1x	Q2-2021	37.3x
Q3-2021	58,647	1,019	57.5x	Q3-2021	100,284	3,133	32.0x	Q3-2021	44.8x
Q4-2021	54,191	1,037	52.3x	Q4-2021	106,493	3,204	33.2x	Q4-2021	42.8x
Q1-2022	43,963	1,039	42.3x	Q1-2022	96,633	3,243	29.8x	Q1-2022	36.1x
Average	22,857	602	34.5x	Average	52,772	2,195	22.8x	Average	28.6x
Median	18,961	561	33.4x	Median	47,462	2,230	21.3x	Median	27.4x
Min	6,979	334	18.7x	Min	24,801	1,342	16.2x	Min	17.6x
Max	58,647	1,039	57.5x	Max	106,493	3,243	33.2x	Max	44.8x

Note: This table presents the peer multiple data used to derive a timing neutral EV / EBITDA multiple benchmark. The data is retrieved from Capital IQ.

Appendix Q (b)

Allocation of Value Appreciation Pertained to Exit – Multiple Surfing and Multiple Engineering

Deriving the Value Split within the Exit Value Creation Bracket	
Avg. Peer EBITDA Multiple (A)	28.6x
Avg. Peer EBITDA Multiple Excl. Q2-2021 (B)	28.3x
Peer EBITDA Multiple in Q2-2021 (C)	37.3x
$D = B / C$	0.76
Valuation Increase from Market Timing $((1 / D) - 1)$	32%
Vimian EBITDA, SEKbn (E)	0.497
Vimian's Actual EBITDA Multiple as per IPO Valuation (F)	58.4x
Vimian's Implied Timing Neutral EBITDA Multiple $(G = D * F)$	44.4x
Value Attributable to Multiple Surfing (Pure Market Timing), SEKbn $(H = E * (F - G))$	7.0
Value Attributable to Multiple Engineering, SEKbn $(I - H)$	4.5
Value Attributable to Exit, as per IPO Valuation, SEKbn (I)	11.5

Note: This table presents the calculations used to isolate what fraction of Vimian's multiple expansion related to exit (as per Vimian's IPO valuation) that is achieved through multiple surfing and multiple engineering, respectively.

Data retrieved from Capital IQ and Fidelio.