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«ΤΕΧΝΟ-ΟΙΚΟΝΟΜΙΚΑ ΣΥΣΤΗΜΑΤΑ»

ΔΙΕΠΙΣΤΗΜΟΝΙΚΟ – ΔΙΑΠΑΝΕΠΙΣΤΗΜΙΑΚΟ ΠΡΟΓΡΑΜΜΑ
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Financial Performance Analysis of Acquisition-Driven Companies: The Dynamics of Specialization, Generalization, and Long-Term Growth Models

Ανάλυση Χρηματοοικονομικής Απόδοσης Εταιρειών που Βασίζονται σε Ανάπτυξη μέσω Εξαγορών: Η Δυναμική της Εξειδίκευσης, της Γενίκευσης και των Μακροπρόθεσμων Μοντέλων Ανάπτυξης

ΜΕΤΑΠΤΥΧΙΑΚΗ ΕΡΓΑΣΙΑ

Μιχαήλ Α. Δελής

Επιβλέπων: Νικόλαος Ηρειώτης, Καθηγητής, ΕΚΠΑ

Αθήνα, Φεβρουάριος 2025

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ΜΕΤΑΠΤΥΧΙΑΚΗ ΕΡΓΑΣΙΑ

Μιχαήλ Α. Δελής

Επιβλέπων: Νικόλαος Ηρειώτης, Καθηγητής ΕΚΠΑ

Επικουρική Επίβλεψη: Ευάγγελος Πούτος, Συνεργαζόμενο Εκπαιδευτικό Προσωπικό

Εγκρίθηκε από την τριμελή εξεταστική επιτροπή την 12η Φεβρουαρίου 2025.

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Νικόλαος Ηρειώτης	Δημήτριος Ασκούνης	Ιωάννης Ψαρράς
Καθηγητής ΕΚΠΑ	Καθηγητής ΕΜΠ	Καθηγητής ΕΜΠ

Αθήνα, Φεβρουάριος 2025

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Μιχαήλ Α. Δελής
Διπλωματούχος του μεταπτυχιακού προγράμματος Τεχνο-Οικονομικά Συστήματα της Σχολής Ηλεκτρολόγων Μηχανικών και Μηχανικών Υπολογιστών ΕΜΠ

Περίληψη:

Η παρούσα μελέτη εξετάζει το επιχειρηματικό μοντέλο και τις στρατηγικές προσεγγίσεις των εταιρειών που επιτυγχάνουν ανάπτυξη μέσω συχνών εξαγορών αντί για μόνο την οργανική επέκταση. Αναλύονται τα χαρακτηριστικά που διαφοροποιούν αυτές τις εταιρείες από τις παραδοσιακές και τις εταιρείες ιδιωτικών επενδύσεων, δίνοντας έμφαση στη μακροπρόθεσμη ιδιοκτησία, στη στόχευση οικογενειακών επιχειρήσεων και στην προτίμηση εσωτερικής χρηματοδότησης έναντι εξωτερικού δανεισμού. Η μελέτη διερευνά τους χρηματοοικονομικούς στόχους των διαδοχικών εξαγορών, όπως η αύξηση των εσόδων, η κερδοφορία και η κεφαλαιακή αποδοτικότητα, και πώς αυτοί οι παράγοντες συμβάλλουν στη βιώσιμη ανάπτυξη. Εξετάζονται επίσης η κλιμάκωση των στρατηγικών εξαγορών, οι διαδικασίες ενσωμάτωσης και η ισορροπία μεταξύ οργανωτικής πολυπλοκότητας και λειτουργικής αυτονομίας. Μέσω μελετών περιπτώσεων σημαντικών εταιρειών, αναδεικνύονται επιτυχημένα μοντέλα εξαγορών σε διάφορους κλάδους. Συνολικά, η μελέτη παρέχει μια ολοκληρωμένη κατανόηση του τρόπου με τον οποίο οι εταιρείες που βασίζονται στις εξαγορές δημιουργούν μακροπρόθεσμη αξία για τους μετόχους, αξιοποιώντας στρατηγικές κεφαλαιακής κατανομής και ακολουθώντας μια πειθαρχημένη προσέγγιση ανάπτυξης.

Λέξεις-κλειδιά:

Εταιρείες εξαγορών, ανάπτυξη μέσω εξαγορών, σειριακοί εξαγοραστές, στρατηγικές κατανομής κεφαλαίων, χρηματοοικονομικοί στόχοι

Abstract:

This study explores the business model and strategic approaches of acquisition-driven compounders—companies that achieve growth through frequent acquisitions rather than only organic expansion. It delves into the characteristics that set these firms apart from traditional companies and private equity firms, highlighting their long-term ownership strategies, focus on founder-led or family-owned businesses, and preference for internal financing over external debt. The analysis further examines the financial targets of serial acquirers, such as revenue growth, profitability, and capital efficiency, and how these factors contribute to sustainable expansion. Key insights include the scaling of acquisition strategies, integration processes, and the balance between organizational complexity and operational autonomy. Case studies of prominent companies illustrate successful acquisition models across industries. Ultimately, the study provides a comprehensive understanding of how acquisition-driven compounders create long-term shareholder value by leveraging strategic capital allocation and maintaining a disciplined approach to growth.

Keywords:

Acquisition-driven compounders, growth through acquisitions, serial acquirers, capital allocation strategies, financial targets

Περίληψη:
Η παρούσα μελέτη εξετάζει λεπτομερώς το επιχειρηματικό μοντέλο και τις στρατηγικές προσεγγίσεις των εταιρειών που καταφέρνουν να επιτύχουν ανάπτυξη μέσω συχνών εξαγορών, σε αντίθεση με την αποκλειστική εξάρτηση από την οργανική επέκταση. Σε αυτήν την ανάλυση, δίνεται ιδιαίτερη έμφαση στα χαρακτηριστικά που διαφοροποιούν τις εξαγορές ως βασικό μοχλό ανάπτυξης, παρουσιάζοντας τις διαφορές τους σε σύγκριση με τις παραδοσιακές επιχειρήσεις και τις εταιρείες ιδιωτικών επενδύσεων. Η μελέτη εστιάζει στο πώς οι εταιρείες αυτές επιδιώκουν τη μακροπρόθεσμη ιδιοκτησία, στοχεύοντας κυρίως οικογενειακές επιχειρήσεις και αξιοποιώντας την εσωτερική χρηματοδότηση αντί για εξωτερικό δανεισμό, με στόχο τη διατήρηση της χρηματοοικονομικής τους αυτονομίας και τη μείωση των κινδύνων που συνδέονται με την υπερβολική εξάρτηση από εξωτερικούς πόρους.

Παράλληλα, η έρευνα διερευνά τους χρηματοοικονομικούς στόχους που ορίζουν οι εταιρείες μέσω των διαδοχικών εξαγορών, όπως η αύξηση των εσόδων, η βελτίωση της κερδοφορίας και η ενίσχυση της κεφαλαιακής αποδοτικότητας. Μέσα από αυτή τη διάσταση, αναδεικνύεται ο τρόπος με τον οποίο οι στρατηγικές εξαγορές συμβάλλουν στη δημιουργία βιώσιμης ανάπτυξης, καθιστώντας δυνατή την επίτευξη μακροπρόθεσμων στόχων και την αύξηση της αξίας για τους μετόχους. Η αποτελεσματική κατανομή του κεφαλαίου, σε συνδυασμό με μια πειθαρχημένη προσέγγιση στη διαχείριση των πόρων, καθιστά εφικτή την επίτευξη θετικών χρηματοοικονομικών αποτελεσμάτων, ενώ παράλληλα μειώνονται οι κίνδυνοι που ενδεχομένως προκύπτουν από την υιοθέτηση μιας τόσο δυναμικής στρατηγικής.

Επιπρόσθετα, η μελέτη αναλύει τις διαδικασίες κλιμάκωσης των στρατηγικών εξαγορών, εστιάζοντας στον τρόπο με τον οποίο οι εταιρείες οργανώνουν τις διαδικασίες ενσωμάτωσης των νέων επιχειρηματικών μονάδων. Ιδιαίτερη προσοχή δίνεται στην ισορροπία που πρέπει να επιτευχθεί μεταξύ της οργανωτικής πολυπλοκότητας και της διατήρησης της λειτουργικής αυτονομίας των εξαγοραζόμενων εταιρειών. Μέσω της ανάλυσης περιπτώσεων από σημαντικές εταιρείες που έχουν επιτύχει με μοντέλα εξαγορών, η έρευνα αναδεικνύει κοινές πρακτικές και βέλτιστα παραδείγματα, τα οποία μπορούν να αποτελέσουν οδηγό για άλλες επιχειρήσεις που επιδιώκουν παρόμοιες στρατηγικές ανάπτυξης.

Τέλος, η μελέτη συνοψίζει ότι οι εταιρείες που βασίζονται στις εξαγορές καταφέρνουν να δημιουργήσουν μακροπρόθεσμη αξία για τους μετόχους τους μέσω μιας συνδυαστικής προσέγγισης που περιλαμβάνει στρατηγικές κεφαλαιακής κατανομής, αποδοτική διαχείριση πόρων και προσεκτικό σχεδιασμό των διαδικασιών ενσωμάτωσης. Αυτή η πειθαρχημένη προσέγγιση όχι μόνο ενισχύει τη σταθερότητα και την ανταγωνιστικότητα των εταιρειών, αλλά και τους επιτρέπει να αντιμετωπίζουν τις προκλήσεις της συνεχώς μεταβαλλόμενης αγοράς με ευελιξία και δημιουργικότητα.

Συνολικά, η παρούσα μελέτη προσφέρει μια ολοκληρωμένη και φυσική ματιά στον τρόπο με τον οποίο οι εταιρείες που επιδιώκουν ανάπτυξη μέσω εξαγορών επιτυγχάνουν να διαμορφώσουν ένα ανθεκτικό επιχειρηματικό μοντέλο, συμβάλλοντας στη βιώσιμη ανάπτυξη και στη δημιουργία μακροπρόθεσμης αξίας για όλους τους εμπλεκόμενους φορείς.

Background and Context

Overview of the Acquisition-Driven Compounders

Business Model Overview

Acquisition-driven companies are entities that follow a strategy of growth through frequent acquisitions, focusing on using their free cash flow (FCF) to finance these deals. This approach reduces reliance on external funding sources such as equity or debt [1]. A key element of these companies is their ability to generate strong incremental returns on capital (ROC). Each acquisition adds value over time, contributing to the company's long-term growth [1].

Unlike traditional companies and investment funds like private equity (PE) firms that expect operational synergies from the acquired companies, acquisition-driven companies do not depend on integrating acquired companies in order to realize cost savings or revenue growth. Instead, they focus on acquiring companies that already have been demonstrating successful operations and continuous profitability [4]. These companies often target founder-led or family-owned private firms with proven track records, avoiding riskier turnaround situations or distressed assets [8].

The focus of acquisition-driven companies is on long-term growth rather than short-term gains. They tend to adopt a permanent ownership model, meaning they acquire companies with the intention of holding them forever [3]. This allows them to operate without the pressure of meeting short-term market expectations or needing to quickly realize value through operational changes or selling assets like their counterparts in the private equity firms of the overall market.

Another defining characteristic of these companies is their preference for smaller, privately owned businesses. These companies usually avoid acquiring listed companies where the ownership structures and power plays are dominant [5]. By focusing on private firms, acquisition-driven compounders can establish strong relationships with the acquired companies and preserve the existing business culture. This preference for acquiring private companies also supports their strategy of making smaller, more frequent acquisitions. This approach allows them to gradually build a diverse portfolio of businesses that contribute incrementally to the parent company's growth [6].

These corporations avoid riskier turnaround scenarios or distressed assets by focusing on proven track record founder-led or family-owned private companies. Companies driven by acquisition prioritize long-term expansion above transient profits. Usually adopting a permanent ownership structure, they buy businesses with the purpose of keeping them always. This enables them to run free from the burden of having to rapidly realize value through operational adjustments or selling assets like their counterparts in the private equity companies of the whole market, therefore relieving short-term market expectations.

Another defining quality of these corporations is their inclination for smaller, privately owned businesses. Usually, these businesses refrain from purchasing public companies where the power dynamics and ownership structures are predominated. Focusing on private enterprises helps acquisition-driven compounders to maintain the current corporate culture and build close ties with the acquired companies. This inclination for acquiring private businesses also helps to explain their approach of making little but regular acquisitions. This strategy lets them progressively create a varied portfolio of companies that help the parent firm expand little by bit.

Many times, these businesses have internal teams for addressing mergers and acquisitions (M&A). Their internal knowledge enables them to make fast, wise decisions and carry out adequate attention. Following an acquisition, the acquired businesses typically have great degree of autonomy; they essentially operate as an individual company to keep running with least intervention [2]. This protects their operational integrity and culture, which can be quite important for the ongoing prosperity of these companies. Compounders driven by acquisition vary from private equity models in a number of important respects. Although private equity companies usually have a five to seven year investment horizon, acquisition-driven compounders seek for permanent ownership of their assets. More steady and sustainable development may follow from this longer-term view.

Additionally, private equity firms often implement significant changes in governance and operational involvement, whereas acquisition-driven compounders tend to leave the existing management and governance structures in place. This helps maintain continuity in the business's culture and operations.

Financing also distinguishes these companies from private equity firms. Instead of relying heavily on debt, acquisition-driven compounders use the free cash flow generated by their existing businesses to fund new acquisitions. This reduces the financial risk associated with taking on large amounts of debt and aligns the company's growth strategy with its operational success.

Targeting proven private enterprises and using a long-term, permanent ownership model, acquisition-driven compounders essentially concentrate on leveraging internally generated cash flow to fund acquisitions. Their dependence on internal resources and deliberate choice of acquisition targets helps them to attain small increases without requiring synergies or major operational modification. This approach stands out from the more short-term, debt-driven plans usually followed in private equity.

It is clear from our understanding of the segmentation of acquirers inside the field of acquisition-driven compounders that these businesses can be mostly categorized as either specialists or generalists. Often determined by the size, breadth, and intention behind their purchase decisions, this segmentation enables one to understand the different approaches used by these companies as they negotiate the acquisition terrain.

Focusing on particular industries or niches, experts concentrate on a limited number of verticals. Usually stressing client intimacy and operational integration, this focused approach helps them to acquire great knowledge in a given market. Usually, experts evaluate possible acquisitions based on the degree of fit the target company fits within the current vertical area. Their main factors of concern are scalability, market penetration, vertical size and growth drivers' scale. They also pay close attention to how cyclical the company might be, how group structures, and regulatory concerns might be integrated. Specialty guarantees efficiency and economies of scale by means of a highly developed knowledge base that enables exact execution inside a limited sector.

This strategy carries hazards, too, especially the possibility of over-concentration. Professionals growing quickly inside a limited vertical may find difficulties with operational integration or experience restrictions in market saturation, which would create slower development prospects. Furthermore, many specialized companies concentrate mostly on synergies and cost reductions, which, although in some situations helpful, could cause attempts to over-optimize the company upon purchase. Should development stagnate inside the selected vertical, experts have limited choices to diversify, which increases their vulnerability during recessionary times in their particular sector.

A few examples include:

Brown & Brown (USA, Financial Services)
Listed on the New York Stock Exchange under the ticker BRO, Brown & Brown is one of the largest insurance brokerage firms in the United States (Brown & Brown, 2023). Its growth strategy has involved acquiring smaller agencies to expand its geographic footprint and product capabilities. Despite this acquisitive approach, management preserves the local culture and relationships that define each newly acquired firm, thus allowing local office leaders to tailor services to regional client needs.

Kelly Partners (Australia, Financial Services)
Kelly Partners, trading on the Australian Securities Exchange (KPG), provides financial advisory and accounting solutions (Kelly Partners, 2023). Its growth has relied on identifying well-run local accounting practices and folding them into a collaborative yet decentralized structure. Kelly Partners' approach underscores trust in local leadership, which is a hallmark of its culture; acquired firms often maintain their existing management teams, brand identity, and employee compensation arrangements, helping minimize post-merger disruption.

Boyd Group (USA, Automotive)
Operating under the ticker BYD on the Toronto Stock Exchange, Boyd Group manages collision repair centers, notably Gerber Collision & Glass, across North America (Boyd Group, 2023). The company's acquisition strategy features a systematic evaluation of regional players, emphasizing synergy in operational standards without eroding the service-level autonomy that collision centers require to address local market conditions. This dual strategy—centralizing cost efficiencies such as bulk procurement while allowing site-level leadership flexibility—has helped Boyd achieve scalable success.

Ferguson (UK, Distribution)
Ferguson plc, listed on the London Stock Exchange (FERG), specializes in distributing plumbing and heating supplies (Ferguson, 2023). Historically known as Wolseley, the company has engaged in cross-border acquisitions to deepen its product portfolio. By devolving authority over sales strategies to regional managers, Ferguson upholds a decentralized operational structure that supports agile responses to local construction and trade trends.

Thermo Fisher (USA, Life Sciences)
Thermo Fisher Scientific (NYSE: TMO) is a prominent life sciences and laboratory equipment provider (Thermo Fisher, 2023). Its portfolio has grown significantly through acquisitions in medical diagnostics, research instrumentation, and biopharmaceutical production. When integrating acquired businesses, Thermo Fisher often retains critical R&D and sales units in their original locations, a practice aimed at protecting specialized knowledge and established client relationships. Shared services—for instance, corporate finance and logistics—are consolidated to maintain strategic coherence.

Teledyne Technologies (USA, Industrial & Aerospace)
Teledyne (NYSE: TDY) focuses on instrumentation, aerospace, and defense electronics (Teledyne, 2023). Its acquisition blueprint emphasizes stable relationships with the management teams of newly added firms, mirroring the approach described by Larry Mendelson at Heico. Subsidiaries under Teledyne's umbrella receive autonomy over daily operations, particularly in product engineering and client servicing. Overarching company guidelines shape areas such as compliance and strategic R&D, ensuring alignment with corporate long-range objectives.

On the other hand, generalists take a more expansive approach. They do not limit themselves to a single vertical but instead look across various industries for growth opportunities. These companies rely on a broad view of market possibilities and often diversify into unrelated sectors (Johnson, 2018). In terms of investment analysis, generalists consider the internal capacity of their M&A team, group structure, the roles of divisional CEOs, and the flexibility to spin off or consolidate divisions as needed (Grant, 2021). Market penetration and regulatory risks are usually less of a focus for generalists compared to specialists, as they spread their risk across different sectors.

Generalists benefit from the flexibility to pivot across markets, reducing their exposure to the risks associated with any single industry. By diversifying their acquisitions, they build a more resilient portfolio that can absorb sectoral downturns and seize growth opportunities in different fields (Kaplan & Norton, 2006). However, with this broad approach comes a risk of overextension, where the company may lack the necessary depth of expertise in any single industry. This can lead to inefficiencies in management or misaligned strategic goals across various divisions, which can dilute overall performance.

Financing also distinguishes these companies from private equity firms. Instead of relying heavily on debt, acquisition-driven compounders use the free cash flow generated by their existing businesses to fund new acquisitions [11]. This reduces the financial risk associated with taking on large amounts of debt and aligns the company's growth strategy with its operational success.

A few examples include:

Indutrade AB (Sweden, Industrials)
Indutrade AB (OMX Stockholm: INDUT) acquires small to mid-sized industrial companies (Indutrade, 2023). The hallmark of its model is a decentralized governance structure that permits each subsidiary to retain its brand, culture, and management. By localizing decision-making at the subsidiary level, Indutrade effectively fosters entrepreneurialism and quick responsiveness to shifts in customer demand. The parent company coordinates strategic guidance on capital allocation and sets long-term performance targets.

Constellation Software (Canada, Technology)
Trading on the Toronto Stock Exchange under CSU, Constellation Software acquires and holds vertical market software companies (Constellation Software, 2023). It is known for a perpetually decentralized operating framework: newly acquired firms typically remain intact and operationally independent, retaining their original leadership and product focus. Constellation's centralized oversight centers on capital management, resource allocation, and knowledge sharing—particularly across technology platforms—while day-to-day execution is delegated.

Halma (UK, Safety & Environmental Solutions)
Halma plc, listed on the London Stock Exchange (HLMA), is an international group with companies that provide safety, health, and environmental technologies (Halma, 2023). The leadership model underscores preserving local identity post-acquisition to sustain innovative momentum. Subsidiaries benefit from joint R&D initiatives and cross-company collaboration on product design, but Halma avoids heavy-handed integration that might stifle subsidiary-specific expertise.

Heico Corp. (USA, Aerospace & Electronics)
Heico, traded on the NYSE (HEI), invests in aerospace and electronics firms, among others (Heico, 2023). Industry observers frequently cite Larry Mendelson's management philosophy of empowering business unit leaders and forging strong relationships with subsidiary managers. Each acquired company keeps its engineering teams, brand presence, and customer relationships intact, while benefiting from Heico's overarching resource pool and operational best practices.

Lifco (Sweden, Diversified Manufacturing & Services)
Lifco (OMX Stockholm: LIFCO B) manages subsidiaries within dental, demolition, and systems solutions segments (Lifco, 2023). Like many Swedish industrial holding companies—such as Xano and Lagercrantz—Lifco maintains a "light-touch" integration. It centralizes aspects like capital investment priorities but leaves each subsidiary to handle its

local culture, strategic marketing, and product development. This structural arrangement preserves entrepreneurial agility even under a larger corporate umbrella.

The decision between specialization and generalization is often dictated by the firm's capacity for risk and its long-term growth ambitions. Companies that choose the specialist route often do so with the belief that deep industry expertise will allow them to outmaneuver competitors in niche markets, while generalists embrace diversification as a hedge against market volatility.

In recent years, there has been a notable shift among some acquisition-driven companies to adopt hybrid strategies that blend the focused approach of specialists with the flexibility of generalists. These firms operate with a core focus in a particular vertical while opportunistically expanding into adjacent or unrelated markets when the right opportunities arise. This hybrid model seeks to capture the best of both worlds, leveraging deep expertise where it counts while also maintaining flexibility for long-term growth.

As the acquisition landscape evolves, the interplay between specialization and generalization will continue to shape the strategies of acquisition-driven compounders. Each approach offers distinct advantages and trade-offs, and the success of any firm depends on its ability to balance these forces in alignment with its overarching business goals and market conditions.

Table 1

Sample of Companies

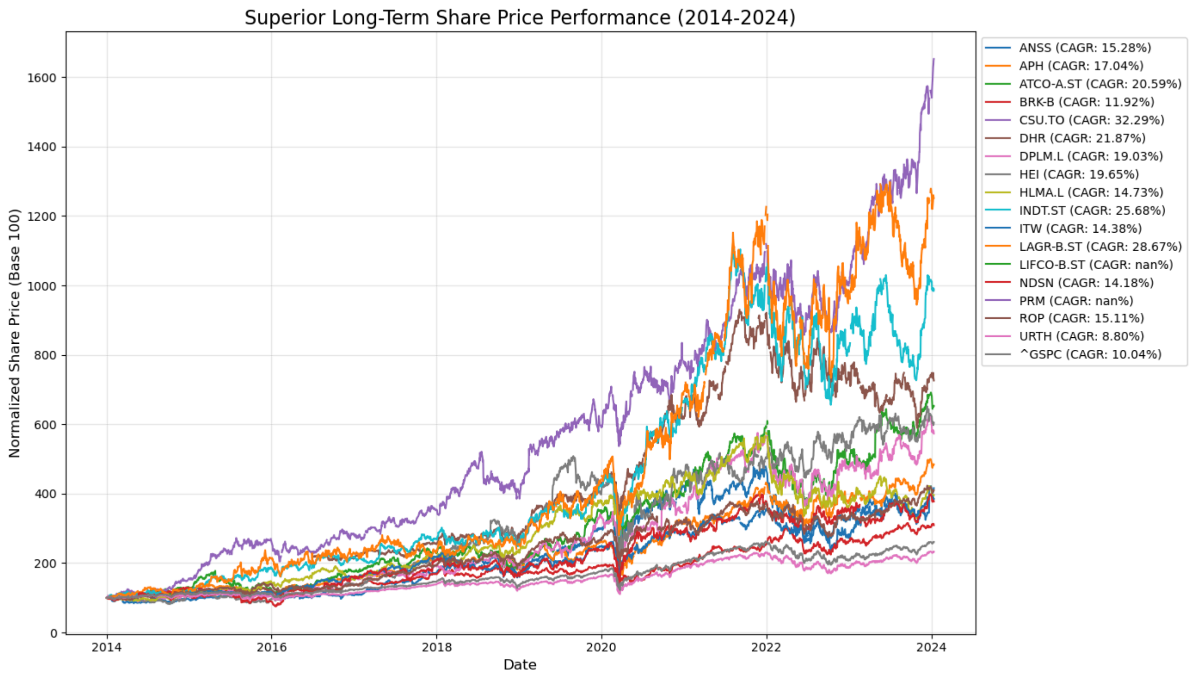
Specialists

Company	**Country of Origin**	**Sector**		
Brown & Brown	USA	Financial Services	BRO	NYSE
Kelly Partners	Australia	Financial Services	KPG	ASX
Boyd Group	USA	Automotive	BYD	TSX
Ferguson	UK	Distribution	FERG	LSE
Ashtead	UK	Rentals	AHT	LSE
Termo Fisher	USA	Life Sciences	TMO	NYSE
LVMH	France	Luxury Goods	MC	Euronext Paris
Dassault Systems	France	Aerospace & Defence	DSY	Euronext Paris
Teledyne Technologies	USA	Industrial & Aerospace Technology	TDY	NYSE
Transdigm	USA	Aerospace Components	TDG	NYSE
Amphenol	USA	Electronic Connectors & Cables	APH	NYSE
Assa Abloy	SW	Security Solutions (Locks & Access)	ASSA B	Nasdaq Stockholm
Beijer Ref	SW	HVAC (Refrigeration)	BEIJ B	Nasdaq Stockholm
Xano		Industrial Products Manufacturing	XANO B	Nasdaq Stockholm
Judges Scientific		Scientific Instruments	JDG	AIM
Ametek		Electronic Instruments & Automation	AME	NYSE

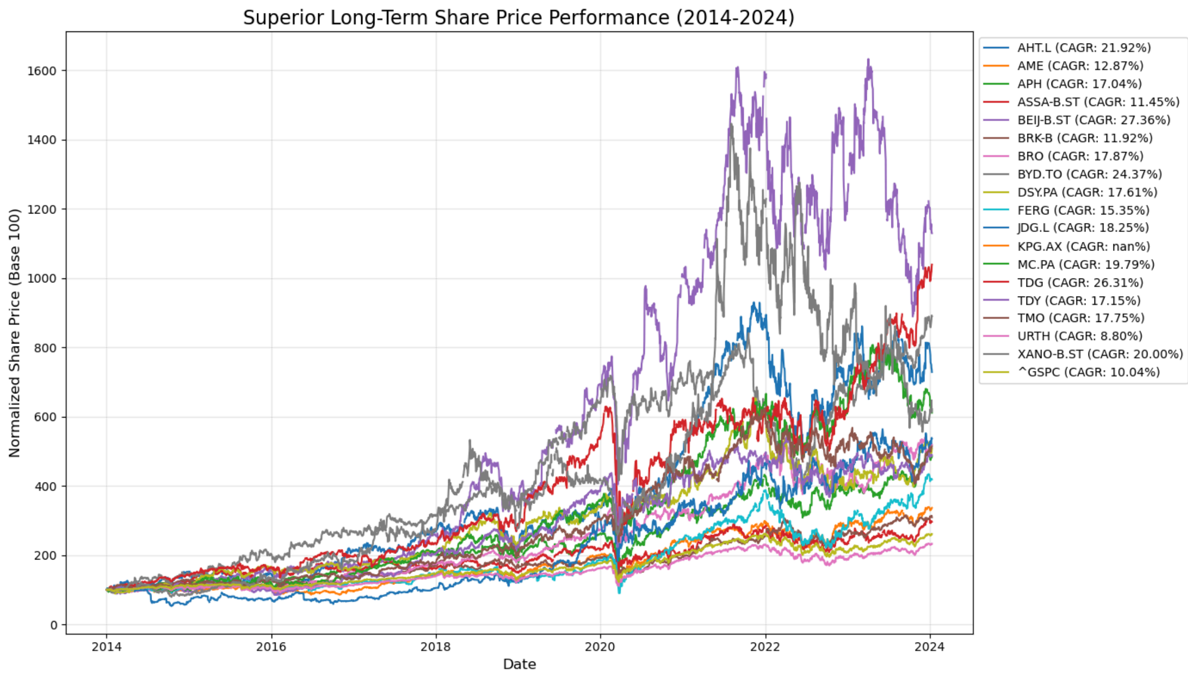
Table 2

Generalists

Company	Country of Origin	Sector		
Diploma	UK		DPLM	LSE (London)
Halma	UK		HLMA	LSE (London)
Ansys	USA		ANSS	NASDAQ
Heico Corp.	USA		HEI	NYSE
Indutrade AB	Sweden		INDT	OMX Stockholm
Constellation Software	Canada		CSU	TSX (Toronto)
Lagercrantz	Sweden		LAGR B	OMX Stockholm
Bergman & Beving	Sweden		BERG B	OMX Stockholm
Lifco	Sweden		LIFCO B	OMX Stockholm
Nordson	USA		NDSN	NASDAQ
Amphenol	USA		APH	NYSE
Perimeter Solutions	USA		PRM	NYSE
Danaher	USA		DHR	NYSE
Roper Tech.	USA		ROP	NYSE
Beijer Alma			BEIA B	OMX Stockholm
Hexagon			HEXA B	OMX Stockholm
Atlas Copco,			ATCO A	OMX Stockholm
Illinois Tool Works			ITW	NYSE



10-Y Share Price Performance - Generalists



10-Y Share Price Performance - Specialists

Methodology

Research Approach

This study employs a mixed-methods research approach, integrating both qualitative and quantitative methodologies to provide a comprehensive analysis of acquisition-driven compounders. The research design incorporates secondary data analysis, case study evaluations, and financial performance assessments to offer a holistic perspective on the subject. This methodological framework facilitates an in-depth exploration of both theoretical constructs and practical applications associated with acquisition-driven growth strategies.

Data Collection

<u>Secondary Data Sources</u>

The study primarily utilizes secondary data sources to analyze acquisition-driven compounders. These sources include:

- Financial Reports: Annual reports, quarterly earnings releases, and investor presentations of publicly traded acquisition-driven companies.
- Industry Publications: White papers, research reports, and articles from reputable financial and business analysis platforms.

- Academic Literature: Peer-reviewed journal articles and books focusing on acquisition strategies, corporate finance, and strategic management.
- Market Databases: Financial market intelligence platforms such as S&P Capital IQ, and FinChat for historical and current financial data.

The utilization of secondary data ensures a robust foundation for understanding the financial and strategic behaviors of acquisition-driven compounders across various industries.

Case Study Selection

A case study methodology was employed to gain deeper insights into the operational and financial performance of select acquisition-driven compounders. The case selection criteria were based on the following parameters:

1. Geographical Diversification: Companies operating in multiple regions to assess global expansion strategies.
2. Industry Variety: Inclusion of firms from diverse sectors such as financial services, healthcare, and industrial manufacturing.
3. Historical Performance: Companies with a track record of sustained growth through acquisitions over a minimum of ten years.
4. Availability of Data: Accessibility to comprehensive financial and strategic data to ensure thorough analysis.

The selected case studies provide empirical evidence to validate the theoretical constructs and strategic frameworks discussed in the study.

Data Analysis

Financial Metrics Analysis

To evaluate the performance of acquisition-driven compounders, key financial metrics were analyzed, including:

- Revenue Growth Rate: Assessment of the overall effectiveness of acquisitions in driving top-line expansion.
- Earnings Per Share (EPS): Evaluation of the impact of acquisitions on shareholder value.
- Return on Capital Employed (ROCE): Measurement of capital efficiency and the effectiveness of capital allocation strategies.
- Net Debt/EBITDA Ratio: Evaluation of financial leverage and debt management practices.

Statistical tools such as trend analysis and ratio comparisons were employed to identify patterns and correlations between acquisition strategies and financial performance.

Thematic Analysis

Qualitative thematic analysis was conducted to analyze the strategic approaches adopted by acquisition-driven compounders. This involved a systematic review of management commentary, investor presentations, and corporate strategy documents to identify recurring themes such as:

- Strategic focus on founder-led businesses.
- Preference for decentralized management structures.
- Long-term value creation through capital efficiency.

Comparative Analysis

A comparative analysis was performed to benchmark the performance of acquisition-driven compounders against traditional companies and private equity firms. This involved:

- Comparison of key financial ratios and performance indicators.
- Evaluation of operational integration strategies.
- Assessment of risk management practices.

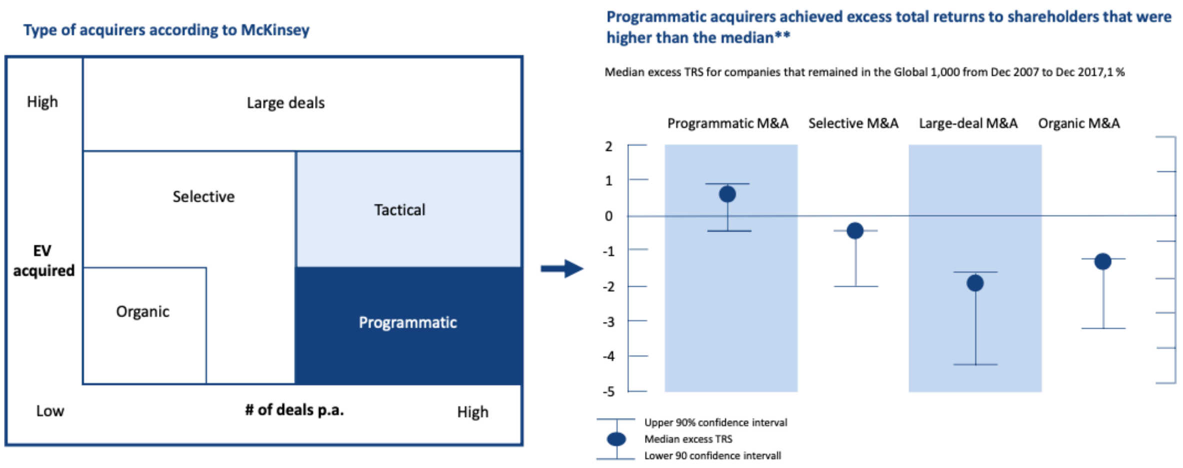
Limitations

Despite the robustness of the chosen methodology, certain limitations must be acknowledged:

- Dependence on Secondary Data: The study relies on publicly available data, which may not capture internal strategic considerations.
- Subjectivity in Qualitative Analysis: Interpretations of thematic analysis may introduce researcher bias.
- Timeframe Constraints: The study focuses on historical data within a defined timeframe, which may not fully reflect future strategic shifts.

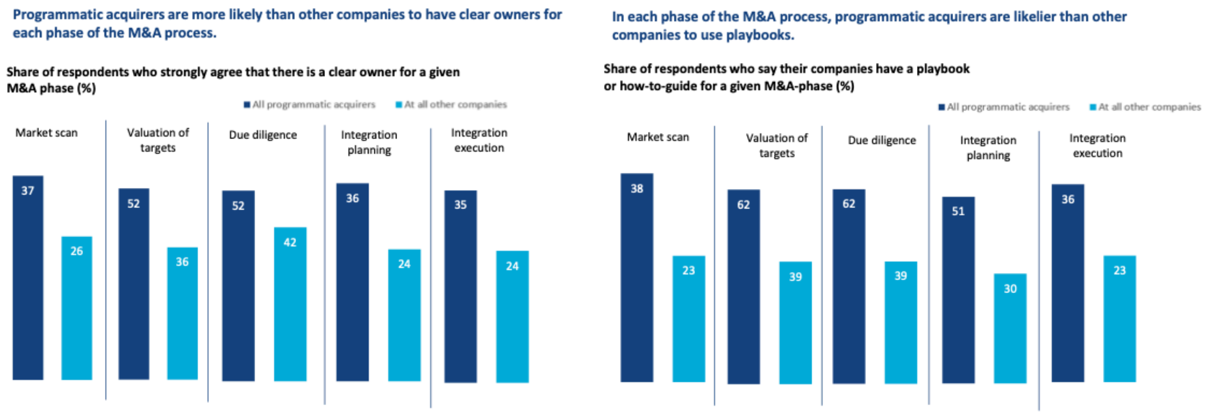
Characteristics and Strategic Advantages of Programmatic Acquirers

Organizations classified as programmatic acquirers methodically pursue regular, small-to-medium acquisitions as a pillar of their expansion plan. With regard to financial returns and strategic flexibility, this strategy offers special advantages over major, transforming mergers and acquisitions (M&A). Programmatic buyers get better Total Return to Shareholders (TRS) than other acquisition techniques like selective, tactical, or large-deal M&A, per McKinsey's methodology (2019). Companies using a programming strategy specifically produced excess median TRS that routinely beat those depending on other strategies. A systematic approach and alignment between M&A activities and corporate strategy help to explain this achievement.



McKinsey - How lots of small M&A deals add up to big value – Definition of programmatic is when a company makes two or more small or mid-sized deals p.a.

Programmatic acquirers stand out for their organizational capabilities. These companies frequently establish clear ownership for each phase of the M&A process, including market scanning, valuation of targets, due diligence, integration planning, and execution. For instance, survey data reveal that 52% of programmatic acquirers strongly agree on having dedicated owners for the valuation phase, compared to 36% of their peers [21]. Additionally, programmatic acquirers are more likely to rely on structured playbooks that provide guidance for each M&A stage, fostering consistency and efficiency in deal execution. For example, 62% of programmatic acquirers reported having playbooks for the valuation phase, compared to only 39% of other companies [21]..

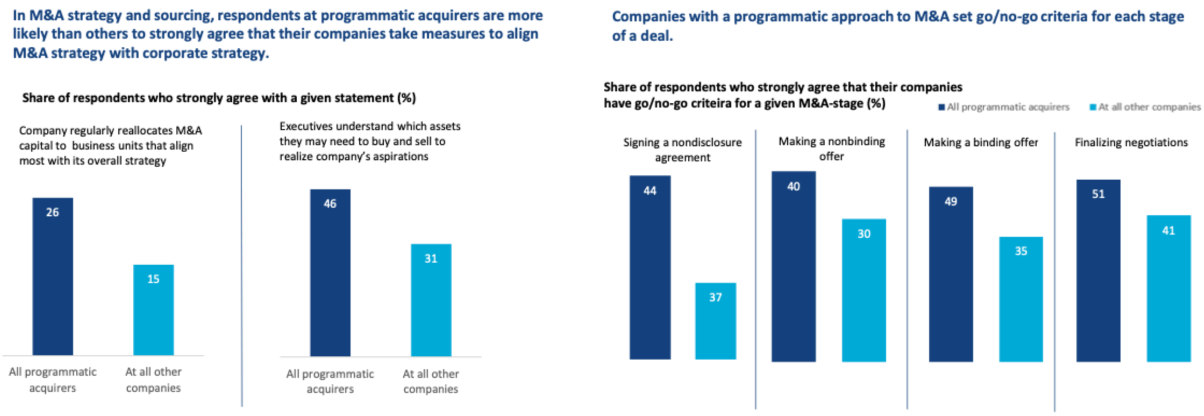


McKinsey study - Practice makes perfect: What sets programmatic acquirers apart.

What differentiates programmatic acquirers is their strategic focus and process rigor. These firms prioritize frequent, incremental growth through acquisitions that complement their existing operations. By consistently reallocating capital to business units aligned with overarching corporate goals, they avoid the pitfalls of overreliance on synergies and empire-building often associated with large-scale acquisitions. For example, 46% of programmatic acquirers report a strong understanding of asset-buying strategies to meet aspirations, significantly higher than other companies. Moreover, 26% of programmatic acquirers affirm that their companies regularly reallocate M&A capital strategically, compared to only 15% of other firms.

This approach to M&A also emphasizes clarity and repeatability in decision-making. Programmatic acquirers excel at setting go/no-go criteria at every stage of the deal. They are more likely than their peers to enforce such criteria in stages like signing non-disclosure agreements (44% vs. 37%) and finalizing negotiations (51% vs. 41%). These systematic methods reduce uncertainty and increase the probability of successful deal closures.

Additionally, programmatic acquirers often focus on acquiring smaller, private companies rather than large public firms. This strategy typically involves lower transaction costs and greater pricing favorability. Smaller acquisitions not only minimize risk but also enable acquirers to build long-term capabilities in deal-making. These firms integrate acquisitions as a foundation for knowledge development and organizational competence, fostering a continuous value creation process. As noted by Niklas Enmark, CFO of Momentum Group, acquisitions are viewed not just as transactions but as opportunities to deeply understand and integrate target companies into broader strategic goals [12].

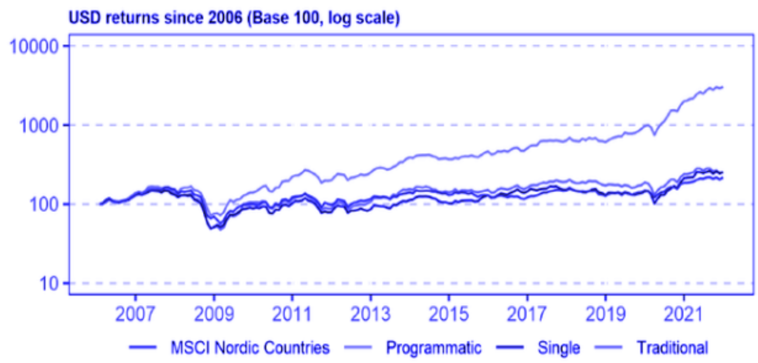


McKinsey study - Practice makes perfect: What sets programmatic acquirers apart.

Various statements and interviews from prominent business executives of this ecosystem further validates this approach, emphasizing the importance of programmatic acquisitions in achieving sustained shareholder value. Mark Leonard, CEO of Constellation Software, highlights the value of owning a diversified portfolio of small businesses through a holding company structure, ensuring lower risk and better returns compared to large transformative deals [13]. This iterative process of smaller acquisitions equips programmatic acquirers to deliver consistent results, demonstrating why they outperform traditional acquisition strategies.

A 2022 study by Lie and Martinsen of 993 programmatic acquirers further highlights the financial outperformance of programmatic strategies. It showed that $100 invested in programmatic acquirers in 2006 would grow to $3,037 by 2021, far surpassing traditional

($254) and single-deal acquirers ($252). The study confirmed that portfolios with programmatic acquirers achieved monthly excess returns of 0.88 to 1.32 percentage points, depending on the regression model used, including CAPM and the Fama-French three-factor model. In contrast, traditional and single acquirers showed insignificant excess returns, emphasizing programmatic M&A as a structured and repeatable value creation strategy.



100 USD invested 01.01.2006	31.12.2021
MSCI Nordic Countries	217
Programmatic	3 037
Traditional	254
Single	252

The Performance of Acquiring Firms in the Nordic Market - Return Characteristics of Single, Traditional, and Programmatic Acquirers Thomas Lie and Markus Martinsen, Norwegian School of Economics, 2022

Programmatic acquirers also demonstrated superior financial metrics, with an annual revenue growth approximately 9.5 percentage points higher than peers and a median ROIC close to 10%, double that of traditional acquirers. Higher insider ownership of these companies indicates great faith in their approach. Comparatively to 5.05% and 5.14% for single and traditional acquirers respectively, insider ownership for programmatic buyers averaged 9.94% [11]. This alignment of incentives helps to maintain steady long-term expansion and strong performance results.

The Financial Targets of Serial Acquirers

Financial targets represent a foundational mechanism by which companies convey strategic objectives, define performance thresholds, and align operational activities. In reviewing the table of the dataset firms—ranging from established industrial roll-ups to newer market entrants—a diverse array of quantitative targets emerges. These include growth-oriented goals (sales and profit targets), return-focused metrics (Return on Equity, Return on Working Capital), and capital-structure guidelines (Net Debt/EBITDA).

Ticker	Sales target	Sales growth	Profit target	Profit growth	Margins	Return on WC	Equity ratio	RoE	ROCE	NIBD/EBITDA	NIBD/Equity	Cash flow	Dividend	Reference
LIFCO B					17-18%			20%	>50%	2-3x			30-50% (net profit)	
APH		5–10%			~20%		~40–45%	~25%		~1.5×			~40%	
DPLM		~9% CAGR	~18%		~18–19%		~60%	Mid-20%	20–25%	~1.0×			~30–40%	
HLMA					20-22%		40-50%	Mid- 20%	~16–20%	~ 1.3x			30-40%	
ANSS							~80%	~12–15%		<1×		~30%		
HEI					20%		60%	15%		<1×	<0.5×		5–10%	
INDT	Average annual growth of ~10%, combining organic expansion and acquisitions	Historically ~8–10% annual growth rate (including acquisitions)	Maintain EBITA margin above ~12%	Historically has achieved double-digit EBITA growth	EBITA margin ~12–13% in past reports		~40% historically	~18% in previous annual reports	~15–16% in earlier publications	~2.0×	~0.6×		30–50% of net profit	
CSU							30–40%	Often exceeding 30%	in the mid-20% range	Typically <2×	Typically <1×			
LAGR B	No fixed numeric target; focuses on incremental acquisitions and steady organic expansion	Historically ~10% annual growth (combining organic initiatives and acquisitions)	Targeting an EBITA margin ≥12%	Aims for double-digit EBITA growth in line with sales growth	EBITA margin has often hovered around 12–13%		~40% historically	~20% historically	~20% historically	~2.0×	~0.5×	Typically >80% conversion rate from net profit, reinvested in expansion	~30–40% of net profit	
BERG B					Operating margin ~7–8% in past reports		~40% historically	~12% in previous annual reports	~15% historically	~2.0×	~0.5×		~40–50% of net profit	
NDSN					Operating margin typically ~20–24%		~50–55% historically	~15–20% historically		<1×			Steadily increasing; ~30% payout	
PRM					~15–17%		~40–45%	~18–20%	~17–18%	~1.5×	~0.5×		~20–30% of net profit	
DHR					~20%		~50%	10–15%		<2×	~0.8×		~10–15%	
ROP					~25%		~40%	~10–15%		<3×	~1×		~20–25%	
BBIA B					~10–12%		~50%			~1×–2×	~0.5×–1×		~40–50%	
ATCO A		Historically mid-single-digit organic growth, plus bolt-on acquisitions	Operating margin ~20% or more	Aims for double-digit EPS growth over the long term	~20%		~40% historically	~25% historically	~15–20% in earlier publications	~1.0×	~0.5×		Typically ~50–70% of net profit	
ITW			~25%		~20–25%		~40%	40–50%	~20%+	~1.5×	~0.5×–0.7×	Consistently strong FCF;	~50% payout of net earnings	
HEXA B		~5–10% annual growth			~20–25%		~50%	~20%	Mid-teen to high-teen range	~1.5×	~0.7×		~25–35% of net profit	

Financial Targets Data (also in Exhibit)

Sales Growth and Profit Targets

Among the sampled companies, annual sales growth targets typically reside in the mid-to-high single digits (5–10%). APH aims, for instance, between 5–10% income growth, while Indutrade (INDT) has a past record of success between 8–10%. Others, such CSU, often exceed 20% growth in some years because to continuous acquisitions, reporting even more. This difference emphasizes how some companies give M&A-driven expansion great importance while others concentrate on natural performance.

Profit targets likewise vary widely. A number of entities specify EBITA or EBIT margin thresholds—commonly around 10–20%. For instance, DPLM seeks an ~18% adjusted operating margin, while Atlas Copco (ATCO A) operates near the ~20% margin mark. In contrast, companies like Bergman & Beving (BERG B) do not announce a strict numeric profit target but aim for year-over-year EBIT growth consistent with top-line progress. Notably, only a handful of newer listed roll-ups (e.g., Addvise, Norva 24) frame their financial targets in absolute numbers rather than percentages, potentially reflecting a desire to emphasize their intended scale rather than incremental performance.

Return Metrics and Capital Efficiency

Return on equity (RoE) among the surveyed companies often clusters in the mid-to-high teens, with some reaching into the 20–25% range (e.g., ITW, which has reported RoE around 40–50% in prior years). Companies include Addtech, Lagercrantz, Lifco, Indutrade, and Bergman & Beving highlight return on working capital (RoWC), which is not always disclosed but is included into all tiers of managerial decision-making. This concentration on working-capital efficiency points to an organizational culture based on orderly capital allocation.

Capital Structure and Leverage

Usually stated as Net Debt/EBITDA, leverage falls for most companies in the sample between 1.0× and 3.0×. While some want conservatively low debt ratios of ~1.0× (e.g., Indutrade, Nordson), others allow more levels reaching 2.0× or even 3.0×. This fits a widespread wish to balance keeping a stable financial situation versus growth—often through acquisitions. Reflecting a reluctance to overextend leverage while yet permitting acquisition-driven expansion, a subset of companies—e.g., Constellation Software, CSU—operates with "typically <2.0×.

Dividend Policies

Dividend payouts in the group range from modest (~10–15% of net earnings for companies like Danaher, DHR) to more substantial (above 50% for certain Scandinavian industrial groups, such as Atlas Copco). Established businesses with lengthy stock market histories (e.g., Lifco, Bergman & Beving) often appear to have a dividend payout of 30–50% of net profit. In contrast, recently listed or high-growth enterprises sometimes reinvest larger proportions of cash flow, resulting in smaller or no dividend commitments.

Implications and Observations

The observations and consequences of corporate goal-setting expose important new angles on organizational behavior and strategic priorities. Often a reflection of strategy orientation is the existence or lack of stated numerical targets. Companies that give acquisitions top priority usually stress the need of strong free cash flow combined with moderate leverage, which reflects their concentration on financial flexibility and growth consistent dividend payments and stable returns, so indicating a commitment to long-term shareholder value and financial stability. Fascinatingly, just a few companies—like Lifco and Indutrade— expressly set "per share" performance targets, suggesting that most businesses pay out between 30 and 50 percent of net profit. On the other hand, lately listed or high-growth companies made foreign capital. More experienced businesses, on the other hand, often stress on ongoing priorities of financial performance.

This suggests a prevailing focus on overall financial outcomes rather than individualized metrics that might directly resonate with shareholders.

A company's approach to performance metrics also appears to align with its stage in the corporate life cycle. Newly listed entities tend to emphasize absolute sales figures and profit growth, driven by a need to communicate a compelling growth narrative to the market. More established companies, on the other hand, show their financial resilience and operational discipline by using more complex ratio-based benchmarks such equity ratios and return on equity (RoE). Still another important finding is the focus on capital efficiency. Companies that give metrics like Return on Working Capital top priority—as shown by the Bergman & Beving group—showcase how closely financial indicators may be combined all over the company. At both strategic and operational levels, these indicators guide the distribution of resources, therefore promoting a culture of responsibility and effectiveness. It is crucial, therefore, to recognize the dangers involved in establishing too high goals. Companies that set ambitious targets—especially when combined with more leverage—may be under more market scrutiny and run possible internal conflicts. Should staff members believe these goals are unachievable or impractical, it might lower morale and compromise organizational cohesiveness.

In sum, the formulation and communication of performance goals not only reflect a company's strategic intent but also reveal its underlying approach to growth, capital management, and risk. By carefully balancing ambition with realism, firms can align their internal efforts with external expectations, thereby reinforcing both market confidence and sustainable development.

Closing this chapter we come to the point that the numeric data extracted from our findings give as a picture that financial target-setting is far from homogeneous. While several criteria—especially leverage ratio and dividend policy—remain constant across the sample, each company's life cycle stage, business model, and capital allocation priorities guide the particular targets they choose to disclose. This diversity shows that although essential, financial goals have to fit the strategic aims, organizational culture, and market reality of any company.

The Scaling of the Acquisition Strategies and the Long-Term Integration Processes

Scaling acquisitions inside programmatic frameworks calls for a mix between operational capability, strategic vision, and cultural flexibility. Maintaining efficacy as they scale across geographies and sectors and guaranteeing congruence with overall business goals presents a major obstacle for acquisition-driven compounders. We keep researching the approaches businesses use to scale their acquisition plans and include acquired companies into their operational systems.

The Dynamics of Long-Term Acquisition Scalability

The former CEO of Addtech, emphasized the importance of capacity when expanding through acquisitions. In an analyst call, she talked extensively about the " 7^3 approach" , a company setting designed to facilitate growth by organizing management into structured levels. The model operates on the principle that each management tier should oversee no more than seven subordinates to maintain efficiency. Based on this structure, she calculated that her company, which managed 70 companies in 2010, could potentially expand to supervise up to 343 companies while maintaining effective management. This approach underscores the necessity of having adequate human and financial resources to sustain a strategy focused on acquisitions.

At Lifco, CEO Per Waldemarsson (2021) highlighted the importance of a steady and methodical approach to enhancing acquisition capacity. He highlighted that scaling involves more than just increasing the number of acquisitions; it also requires strengthening internal resources and building the expertise needed to manage them effectively. Combining natural development with acquisitions has helped Lifco strike a balance between broad portfolio expansion and preservation of integration stability. Waldemarsson underlined even more the crucial need of having qualified staff to help and mentor the growth of recently acquired businesses, therefore enabling constant success.

Using the Danaher Business System (DBS), Danaher Corporation shows a methodical technique to scale acquisitions and combine several companies. This structure gives operational excellence, leadership development, and ongoing development a priority, therefore aligning Danaher's more general corporate objectives with recently acquired businesses. Four fundamental ideas underlie the DBS: people, plan, process, and performance.

Danaher does thorough talent analyses following an acquisition to establish cultural fit and correct any alignment with corporate principles. Then, for every company, a strategy plan is created with an eye toward important questions as "What is our objective?" and "How do we achieve success?" This technique enables managers to create a clear vision for long-term success and spot areas needing work.

Intensive DBS training for managers consists in a one-week course and participation in a Kaizen event, therefore immersing them in approaches such as single-piece flow and visual mapping. Danaher uses policy deployment technologies that monitor development and match objectives throughout all organizational levels to guarantee the successful implementation of plans.

With yearly increases apparently topping 30%, this systematic method has achieved amazing expansion. The DBS has allowed smooth integration of acquired companies by encouraging a culture of ongoing improvement and operational excellence, hence improving their general performance inside the Danaher portfolio.

Targeting companies complementing its current activities and fit for integration, Teledyne Technologies Incorporated uses a methodical acquisition approach. Maintaining a distributed organizational structure is top priority for the company since it helps acquired companies to have some operational autonomy while complementing Teledyne's key strategic objectives. This strategy encourages creativity and adaptability inside the larger corporate structure by helping to retain the unique skills of acquired enterprises.

Organizational Complexity and the Management of Growth

As Constellation Software expands, managing complexity has become a key challenge. CEO Mark Leonard [13] noted in various interviews and the company's shareholder letters the risks of operational inefficiency as the number of business units grows. With around 125 business units spanning 50 verticals, Leonard advocates for a decentralized management structure. He observed that smaller, more agile units, typically with fewer than 100 employees, tend to perform better because they remain focused and responsive. This strategy deliberately avoids centralizing complexity, instead promoting a distributed model of leadership and accountability.

Constellation Software also emphasizes the continuous assessment of its operational framework. By reviewing the historical development of its business units, the company identifies strategies to sustain growth while maintaining high performance. This iterative approach helps balance the advantages of scaling with the potential drawbacks of inefficiency.

Constellation Software Inc. Structure
Source: Outsider's Corner

Geographical Expansion and Sector Diversification

The issue of how to maintain progress as the pool of acquisition candidates reduces in their home markets presents one of the constant difficulties for acquisition-driven compounders. Bigger Swedish compounds, like Lifco,, have turned more and more toward reaching outside the Nordics [14][15]. As these types of businesses investigate prospects in more larger European countries, data from recent years suggest a slow decline in the share of acquisitions inside Sweden. By means of regional diversification, these companies can access a larger spectrum of acquisition targets and reduce the risks related to navigate cultural, legal, and operational issues quite different from their home markets. Critical actions in guaranteeing the success of cross-border expansion plans include establishing local teams and developing close ties with possible acquisition targets. Likewise, acquisition-driven compounders in the United States and other European countries have welcomed sector diversification and global expansion to maintain development [15]. Particularly American companies have embraced mergers and acquisitions (M&A) as pillar of plans for global growth. To support U.S. operations and simultaneously global expansion, manufacturers and distributors, for example, sometimes buy related companies or vertically integrate entities within their supply chains (MarketScreener, 2024). This strategy not only opens new client bases but also lessens reliance on any one home market. Another layer of diversification is shown by biotech and pharmaceutical companies who acquire smaller research accelerators and increase their worldwide presence. U.S. enterprises in the business services sector look for less-competitive, high-growth regions to increase profit margins and diversify their offers.

Conversely, European businesses have seen cross-border transactions define market saturation. These businesses must so establish entities in international marketplaces as they grow into new areas. This helps them to use local research capability and almost 40% of total M&A activity over the past two decades, therefore underscoring their growing dependence on foreign purchases. Access to new markets, diversification of operational risk, and preservation of strong growth trajectories have been forces behind this movement. Cross-border transactions do, however, offer unique difficulties. With over 70% of executives citing it as a major barrier, Mckinsey argues that the proper integration and mix of culture still remains one of the key causes of transaction failure [21]. Significant challenges also arise from operational integration—that is, from the alignment of systems, processes, and technologies—often resulting in higher costs and postponed realization of synergies.

Effective acquisition-driven compounders underline the need of extensive market research and the building of local teams in order to overcome this complexity. To guarantee seamless integration, corporations entering new areas, for instance, generally give compliance with local regulatory systems first priority along with cultural sensitivity. Navigating these new terrain also depends on solid ties to acquisition prospects. These steps help companies to reconcile portfolio expansion with integration stability by means of a methodical approach to scale acquisition capacity. Companies reduce the dangers related to fast expansion by encouraging both natural development and controlled acquisitions, therefore preserving a clear road toward long-term success.

Both American and European compounders alike show that the combined strategy of sector diversification and regional expansion presents a convincing growth story. While European companies use cross-border transactions to diversify portfolios and reduce regional risks, U.S. businesses often use M&A to penetrate overseas markets and support innovation pipelines. Both strategies underline the need of strong frameworks for cultural integration and operational alignment to negotiate the obstacles of development properly.

Finally, for acquisition-driven compounders experiencing saturation in home markets, global expansion and industry diversification are absolutely vital tactics. These strategies demand careful preparation, strategic insight, and flexibility to negotiate the difficult obstacles of cross-border integration even if they provide paths for continuous development. For companies that excel in these areas, the benefits are improved resistance to market volatility, varied income sources, and a better market position.

Leveraging Small and Medium-Sized Enterprises (SMEs) for Growth

In Europe, SMEs represent a vast pool of potential acquisition targets, with approximately 25.8 million companies classified as small or medium-sized enterprises [35]. These businesses, which form the backbone of the European economy, are often family-owned and independent, making them attractive to acquisition-driven compounders. The decentralized model adopted by many programmatic acquirers aligns well with the operational structure of SMEs, allowing them to preserve their entrepreneurial culture while benefiting from the resources and expertise of their new parent companies.

Several European countries offer unique opportunities for acquiring SMEs. In Italy, for instance, family businesses established during the economic boom of the 1950s and 1960s are now transitioning to the next generation of owners, creating acquisition opportunities. Lifco's acquisition of Trevi Benne, a manufacturer of demolition and forestry tools, exemplifies the strategic value of targeting niche, high-potential companies in this region [31]. Similarly, in Germany, where more than 78% of SMEs are family-owned [39], the strong influence of family structures presents both opportunities and challenges for potential acquirers. While these businesses are typically stable and highly specialized, they often require careful attention to cultural and operational integration, particularly in cases where family involvement in the business persists post-acquisition.

The U.S. landscape for SMEs mirrors these dynamics but presents a distinct set of opportunities and challenges. SMEs constitute a significant portion of the U.S. economy, with over 90% being family-owned or having the potential to evolve into family businesses over time [38]. However, generational succession poses a significant challenge, with only 30% of these type of businesses survive into the next generation, 12% into the following, and just 3% into the most recent [39]. This attrition creates a substantial opportunity for acquisition-driven compounders to integrate these businesses into their portfolios, especially as many lack formalized succession planning.

In the U.S., the decentralized operational models employed by acquirers align seamlessly with the entrepreneurial spirit of family-owned SMEs. These models facilitate smoother integration processes, allowing acquired entities to retain their independent culture while leveraging the parent company's resources and strategic expertise.

Though there is much promise, acquiring family-owned SMEs in the United States calls for careful navigation of cultural integration and operational trust. While 78% of U.S. family businesses see customer trust as vital, only 52% feel they have attained full customer trust, and just 44% feel the same about their employees according to a survey [40]. If not properly resolved, these trust gaps can complicate the merger process and reduce the inherent value of these companies.

Many family-owned SMEs in the United States also run without established succession plans, which leaves them exposed during ownership changes. By implementing programs for leadership development and organized governance systems, acquiring companies can help to reduce these risks.

Such initiatives stabilize the acquired entity and enhance its growth potential under the parent company's umbrella.

Both European and U.S. markets demonstrate the value of SMEs as acquisition targets. In Europe, Lifco and Addtech exemplify the successful integration of family-owned enterprises by leveraging decentralized structures and focusing on cultural alignment. Acquisition-driven compounders in the United States have come to understand the value of family-owned companies as scalable prospects. U.S. acquirers may release great development potential in these companies by closing trust gaps, guaranteeing seamless leadership changes, and maintaining entrepreneurial characteristics. These techniques taken together show the worldwide relevance of SMEs in acquisition-driven growth models and emphasize the subtleties of implementing these tactics successfully over several areas.

Expanding the Acquisition Model: Key Insights and Evolving Strategies

Grounded in strategy alignment, rigorous resource allocation, and the deployment of distributed structures, the acquisition-driven compounding model shows remarkable durability and scalability. These basic elements help companies to keep constant expansion, control risk, and preserve the entrepreneurial energy that first set them for development. Diversification among geographies, sectors, and client segments is fundamental to this approach. A portfolio spanning over 200 companies in 30 countries shows that corporations like Lifco reduce individual market downturns and preserve their cash flows by distributing operational exposure [31]. The organizational structures of companies like Lifco and Constellation Software show how recently acquired companies can maintain their operational autonomy while nevertheless keeping line with more general company goals. Like a large root system strengthening the company against outside shocks, this distributed approach serves as a protection against over-reliance on a single market or subsidiary.

Parent businesses trying to strike a balance between local autonomy and more general strategic coherence do, however, create tensions. If purchased companies lose the defining qualities that drew in buyers, cultural discontinuities could compromise performance. Responding by granting acquired companies latitude in daily administration, insurance brokerage networks like Brown & Brown or integrated groupings like Kelly Partners help to preserve employee morale and maintain strong client connections.

At the same time, foundational guidelines relating to compliance, branding, and financial reporting remain in place to ensure coherence across the corporate portfolio. Many acquirers, among them Thermo Fisher, Constellation Software, and Indutrade, pursue a policy of selective centralization. Finance, procurement, and research are often unified, but marketing and regional partnerships maintain local independence. Without compromising the particular skills that first set the subsidiary distinct, this measured integration generates economies of scale.

One additional defining tendency is a concentration on long-term wealth development. Using patient capital, companies as Teledyne Technologies, Halma, and Indutrade approach acquisitions, choosing slow integration and letting local management handle profit and loss. They help each acquired company to be more continuous and provide strong growth paths by avoiding early consolidation pressures. Concurrently, cross-pollination of information is still necessary. Even in distributed systems, forums and seminars help engineers at Heico or unify several research teams at Halma to cooperate. These exchanges foster the particular abilities of every subsidiary and serve to create closer ties inside the larger group.

Also improving access to financial resources and worldwide marketplaces is belonging to a diversified conglomerate. Boyd Group uses its scale to negotiate good rates with suppliers; Constellation Software's subsidiaries can use central investment pools to hone their products or enter new geographical areas. This financial advantage creates a solid basis for future expansion and helps to moderate market turmoil. Examining these models reveals that acquisition-driven companies thrive by giving local businesses enough freedom to take use of their natural capabilities while following common financial and administrative guidelines.

Examples range from Brown & Brown’s network of insurance brokerages to Constellation Software’s worldwide presence in vertical market software. Leaders, including Larry Mendelson of Heico and Johan Steene of Teqnion, acknowledge the risks posed by excessive centralization and the missed synergies that arise from too little coordination. Consequently, a well-calibrated balance between subsidiary autonomy and overarching governance becomes a guiding principle.

Ultimately, these varied companies illustrate the necessity of ongoing dialogue, iterative adaptation, and a clear commitment to preserving corporate culture while pursuing financial performance. The equilibrium between autonomy and integration undergirds the acquisition-driven compounding model’s durability, reflecting an organizational design that pairs entrepreneurial initiative with structured oversight. Businesses keep innovating, growing, and maintaining paths less susceptible to sector-specific disturbances within this equilibrium, therefore enhancing the long-term viability of the parent company as well as the acquired subsidiaries.

Building Trust and Legacy: The Path to Becoming the Acquirer of Choice

Acquisition-driven strategies frequently revolve not only around financial resources but also on an organization's capacity to establish itself as the most suitable buyer for prospective sellers. When leaders of family-owned or founder-led enterprises negotiate a sale, they frequently assess qualitative aspects such as cultural alignment, reputational standing, and the assurance of stability for their employees. Organizations that successfully cultivate a reputation corresponding to these interests tend to maintain a solid pipeline of appealing opportunities. Constellation Software exemplifies this profile through its practice of preserving the individuality of acquired firms, allowing each newly integrated business to retain its leadership and cultural framework [29]. Enterprises in various sectors, including technology and financial services, often undertake deliberate efforts to portray themselves as acquirers that respect the legacy of the companies they purchase, uphold operational autonomy, and promote shared advancement.

Such emphasis on legacy preservation reveals how founders' cultural values and commitments significantly influence their choice of buyers. Legacy transcends physical assets, encompassing the principles and aspirations that founders inject into their businesses. A notable anxiety among sellers is the potential erosion of their organizational culture when subjected to standardized corporate mandates. Responding to such issues, different buyers try to uphold local leadership and honor the fundamental principles maintained by the purchased companies. Constellation Software regularly uses this strategy by letting vertical market software companies carry on under their current brand identities and management systems. Negotiating a sale, family-owned or founder-led company executives provide opportunity. Constellation Software, 2023 shows this profile in action by means of following a similar trend, Kelly Partners in Australia helps recently acquired offices to retain their local identity and customer relationships. Respect of the intangible qualities that distinguishes any company helps acquirers minimize cultural displacement and lower the possibility of turnover among important employees.

Equally significant is the protection of the workforce, since many of these entities are tightly knit and view workforce stability as a critical indicator of the acquirer's trustworthiness. Brown & Brown, an insurance brokerage in the United States, exemplifies this practice by integrating best practices while retaining local leadership teams and staff, thereby alleviating fears of extensive layoffs and positioning the firm favorably in the eyes of business owners considering an exit [40].

Establishing an image as a consistent acquirer also depends fundamentally on the practice of openness and fairness all through the negotiating process. Usually, sellers want a buyer who avoids hidden contractual terms adding uncertainty, offers earn-out mechanisms rewarding continuous performance, and delivers fair valuation. Just as crucial is the guarantee that founders or top executives will remain essential for strategic decision-making, especially in cases where they have been instrumental in forming the company. Constellation Software has built a reputation for seamless transitions allowing founders to keep major influence by following open valuation techniques and communication channels [30]. Heico, an acquirer operating in the aerospace and electronics industries, also frequently includes performance-based incentives for founding owners, thereby ensuring their continued motivation for product development [41]. Through these mechanisms, sellers perceive that their innovative input and operational insights will be upheld rather than marginalized.

Collaboration extends beyond the pre-acquisition phase, with many organizations demonstrating explicit interest in preserving seller involvement after the transaction closes. A standard consolidation approach often requires the immediate integration of acquired firms, yet a more nuanced strategy entails inviting former owners to contribute to future growth plans. Indutrade AB, a Swedish industrial group specializing in the purchase of smaller technology and manufacturing firms, typically includes the founders of these businesses in ongoing expansion discussions [50]. Such measures serve to maintain a mutually supportive relationship in which local expertise and leadership are harnessed in the collective effort toward achieving shared objectives.

An additional priority for prospective sellers is the extent to which they will be granted operational independence. Substantial autonomy typically raises concerns over the continuity of specialized offerings and unique competencies within the newly acquired subsidiary. While acquirers might recognize the benefits of centralized procurement or financial functions, they also recognize that a rigid approach can eliminate the innovative core of the acquired company. With an eye on collision repair, Boyd Group uses a gradual approach, centralizing some back-office activities while maintaining local government for specific repair facilities [52]. This balanced approach helps the parent firm to maximize economies of scale and protect the regional and technical knowledge necessary for a smooth running. The distinct advantage of ensuring a steady flow of capital in the long run is equally critical to the seller’s perception of the acquirer. Firms like Halma plc, which invests extensively in research and development for safety technologies, provide newly integrated subsidiaries with the resources required to sustain and grow, even when such projects necessitate multiple years of development [42]. Entrepreneurs who see continuous investment as a sign of stability and dedication to development will find this posture appealing.

Within a larger company, chances for organizational learning add even more value to a programmatic buyer. Avenues for cross-firm cooperation, common training programs, and market development into neighboring markets are often highly appreciated by sellers. Thermo Fisher Scientific embodies this approach by supporting multidisciplinary collaboration and setting up collaborative training programs to improve the integration of recently acquired companies [52]. Within Constellation Software's network, similar procedures take place whereby managers and founders exchange ideas for handling operational difficulties in several vertical sectors [30]. Usually, this eagerness to promote knowledge-sharing and use of shared services reaches administrative sectors such procurement, human resources, or finance. Companies like Ferguson, a distributor from the

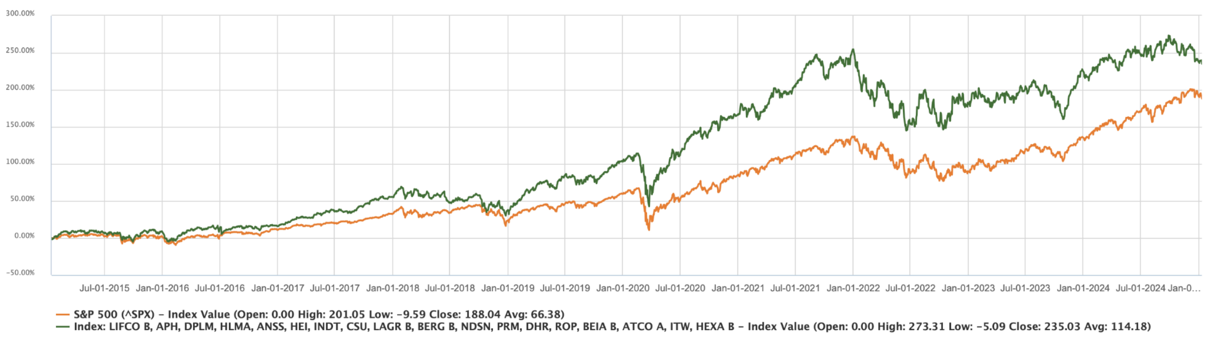
United Kingdom, keep consistent control in some important administrative areas while letting local branches change their product line to meet local market needs [54].

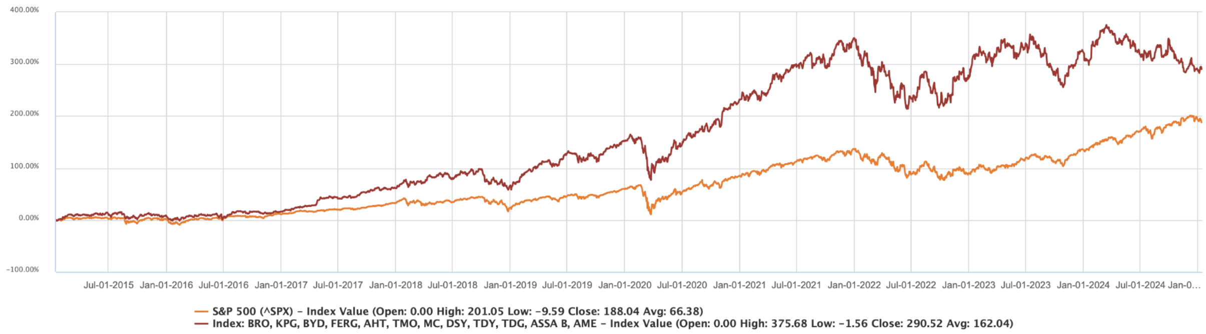
Such equilibrium between shared efficiencies and local autonomy convinces sellers that their specialized insights will remain influential, rather than suppressed in favor of uniformity. A self-perpetuating cycle can emerge when acquisitions go smoothly and sellers disseminate their positive experiences within their professional circles or industries. Personal referrals and trust-based networks often play a significant role in introducing new acquisition targets to a particular buyer. Favorable accounts of stable transitions, transparent communication, and intact workplace cultures can bolster the acquirer's reputation. Constellation Software's expansion has benefited from the referrals of prior sellers who attest to a respectful transition and minimal cultural disruption [30]. Should an acquirer become associated with widespread layoffs or abrupt restructuring, however, it risks dissuading potential sellers, irrespective of its financial capabilities. Reinforcing an acquirer's corporate values through public communication channels such as annual reports and industry conferences consolidates the firm's image as a buyer that acknowledges the importance of founder heritage. Kelly Partners, for example, stresses case studies showing local identity, brand, and service offerings still intact following acquisitions. Organizations enable target companies to see themselves as members of a greater, supporting network rather than as assets to be absorbed by stressing continuity and fit with the history of the original founders. Still, there could be difficulties especially when buyers have to reconcile the liberty given to acquired subsidiaries with the general need for consistent performance and oversight. While too strong central authority reduces the traits that attracted vendors, inconsistent standards might result in fragmented branding or operational misalignment. Teledyne Technologies manages this by keeping constant contact between corporate leadership and subordinate-level managers, therefore guaranteeing responsibility without suppressing local decision-making by means of these interactions [54]. Another potential obstacle is the suitability of onboarding resources in terms of financial capacity and specialists to advise recently acquired companies, so fostering a disciplined transition that still sensitive to local standards [42]. Early in the onboarding skilled professionals who can enable integration should give knowledge transfer, methodical goal alignment top priority as well as transparent compliance standards top importance. Halma assigns teams of integration phase and helps to minimize the often resulting issues following acquisition. Such meticulous procedures tell sellers that the acquirer actually prioritizes a smooth transition, therefore enhancing the acquirer's credibility and long-term reputation as a preferred purchase.

Durable Growth and Share Price Performance in Acquisition-Driven Compounders

Companies led by acquisition have shown remarkable capacity for providing steady long-term shareholder returns and sustainable development. Operating in many different sectors, these businesses depend on strategic acquisitions, dispersed management, and effective capital allocation to keep expanding. Their ability to outperform more general indices both internationally and regionally clearly shows their durability in different market scenarios. The major causes of durable growth, the function of earnings per share (EPS) in long-term shareholder returns, the relative performance of generalist and specialist acquisition-driven compounders, and particular case studies that best highlight these tendencies are investigated in this chapter.

Because they rely on niche market tactics and reinvestment of free cash flows into high-return prospects, acquisition-driven compounders differ greatly from other companies. The data on the indexed share price increase and compound annual growth rates (CAGR) shows that this strategy lays a basis for continuous performance over decades. These elements taken together help these companies to be a preferred choice for long-term investors looking for steady returns.

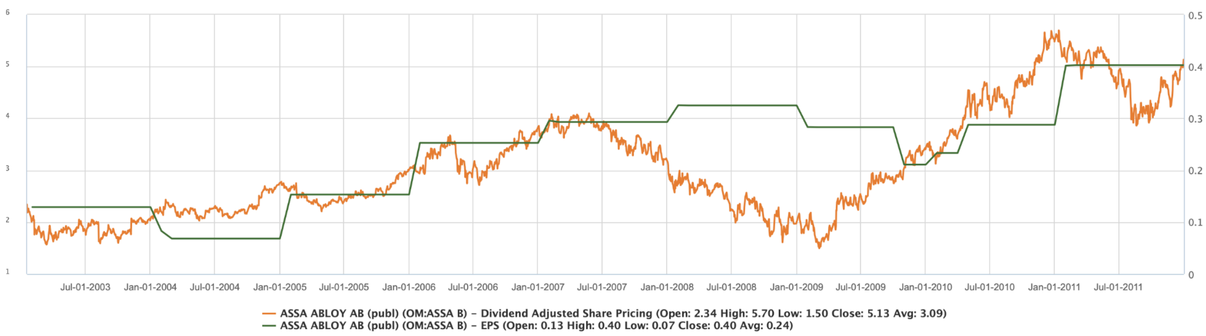




Earnings Per Share (EPS) and Total Shareholder Return (TSR)

Financial analysts have long emphasized the importance of Earnings Per Share (EPS) growth in driving long-term share price appreciation. From a shareholder’s perspective, EPS serves as a barometer of a company’s underlying profitability and operational efficiency, thereby influencing investor confidence and market valuation. Although various performance indicators exist—ranging from free cash flow to return on equity—EPS offers a direct measure of how effectively a company converts its revenues and margins into net income on a per-share basis. This feature makes EPS a concise proxy for overall corporate health and the potential for value creation over time.

Assa Abloy in the late 1990s and early 2000s is a striking example of the importance of EPS expansion. Assa Abloy showed steady increases in profitability throughout a nine-year period following the business's first public offering (IPO), as shown by EPS (S&P Capital HQ)[42]. Its total annual EPS growth rate finally started to follow closely in line with its Total Shareholder Return (TSR). Stated differently, those who saw significant rise in the EPS of the company tended to gain proportionately from dividends and capital gains. Particularly when seen over a multi-year timeframe, this convergence supports the commonly accepted belief that strong EPS growth drives share price appreciation.

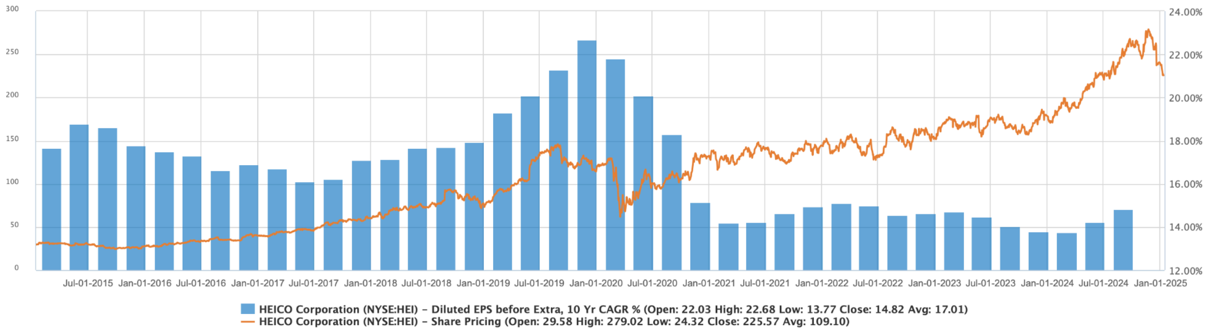


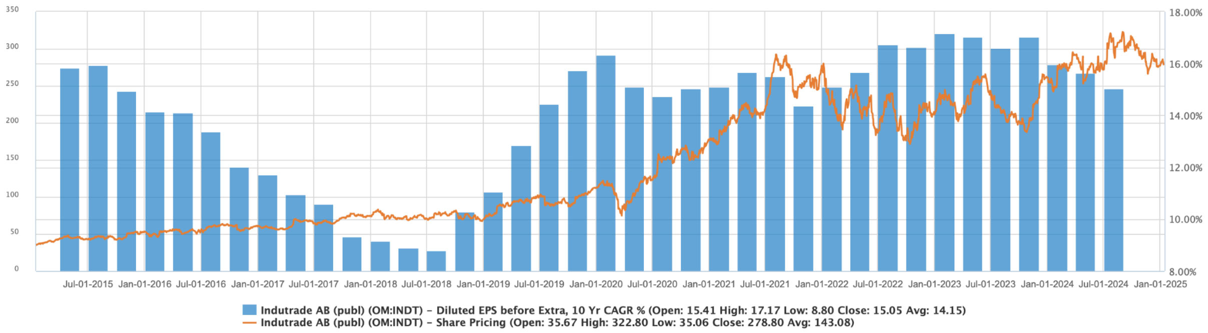
Former Halma CEO David Barber has often emphasized why EPS stays key in a company's financial justification. Barber underlined that "EPS remains a robust indicator of a company's long-term performance," even while opponents occasionally point to possible distortions (such as share buybacks artificially raising EPS, or non-recurring costs skewing reported results). Data from S&P Capital HQ shows that this perspective fits more general industry trends since solid EPS growth substantially connects with parallel gains in TSR.

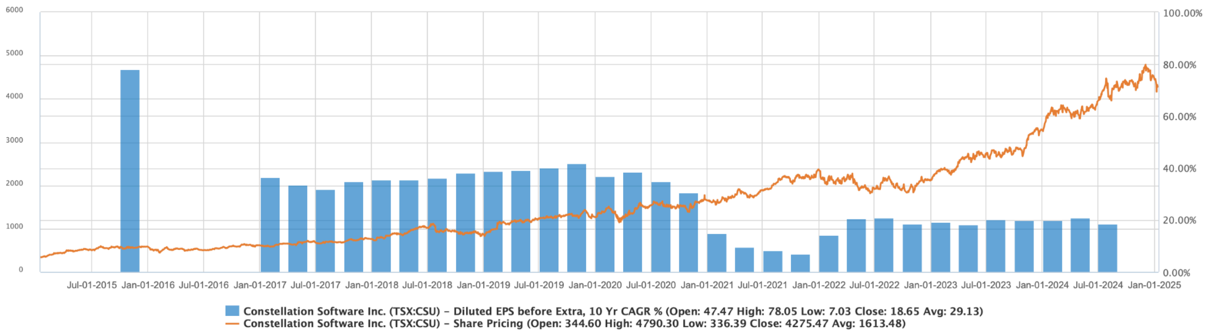
A review of the S&P Capital Hq data (excerpts shown in the appendix) for a range of companies reveals a recurring pattern: those with higher 10-year EPS compound annual growth rates (CAGRs) also exhibit notable TSR figures. Although there are outliers—companies that report moderate EPS growth yet relatively higher TSR or vice versa—the general trajectory suggests a positive correlation between earnings expansion and shareholder returns over time.

For instance, select entries from the dataset show:

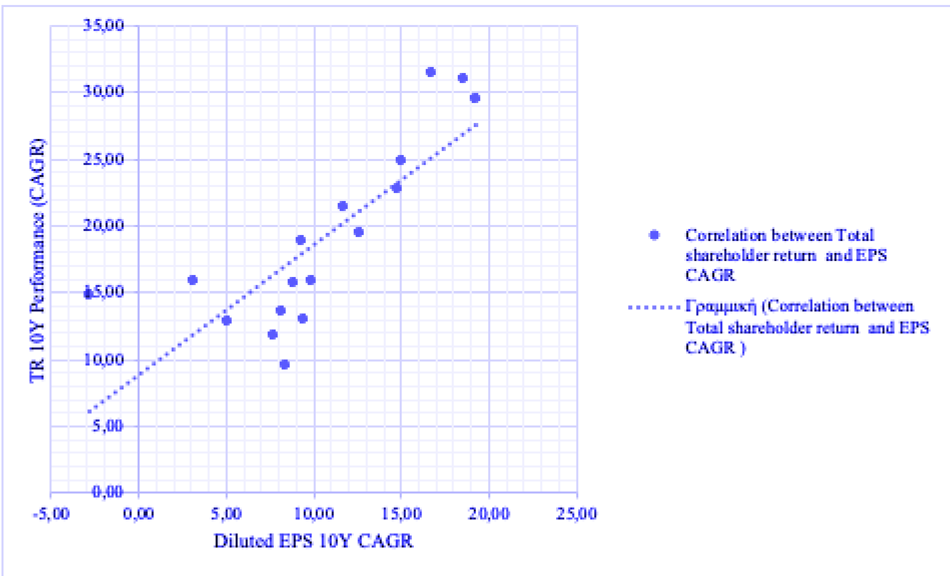
- HEICO: EPS CAGR: ~14.24% with a TSR of ~21.47%
- INDUTRADE: EPS CAGR: ~15.05% with a TSR of ~22.81%
- CSU: EPS CAGR: ~18.65% with a TSR of ~36.55%



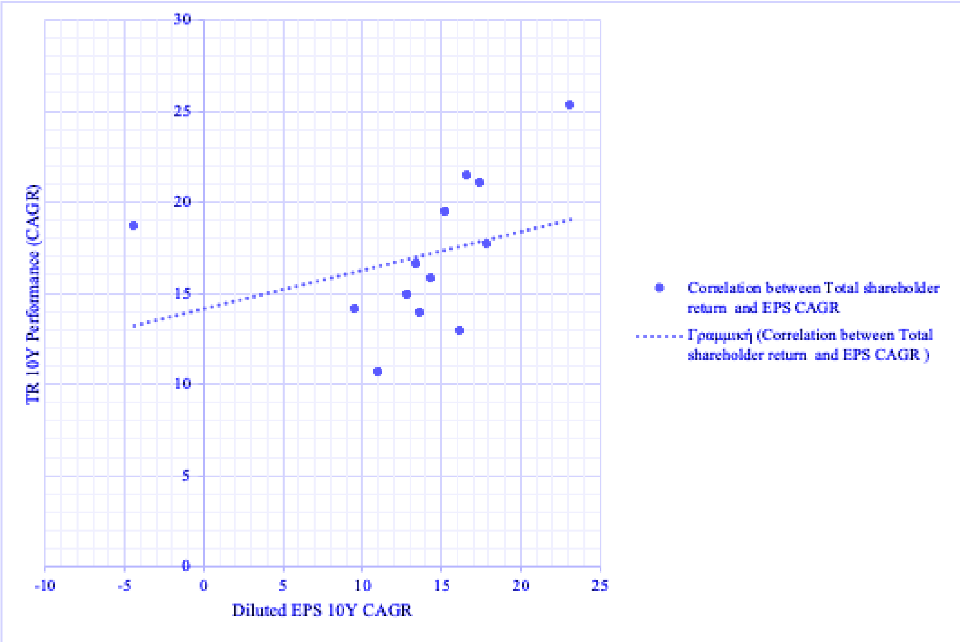




In each of these examples, double-digit EPS growth over the examined period coincides with double-digit annualized total returns. Although TSR's scale exceeds EPS CAGR, especially in cases where smart acquisitions or market mood boost share price gains, the general consistency supports the long-held belief that EPS growth is essentially the main driver of shareholder value. Fascinatingly, a few numbers show situations when EPS CAGR and TSR differ more significantly. In one case, a company shows a -2.82% EPS CAGR yet still has a 12.54% TSR, maybe suggesting that unusual business events, dividend policy, or changes in market view offset short-term profits difficulties. On the other hand, another company has an EPS CAGR almost equal to 19.31% together with a TSR of 30.45%, implying that fast earnings expansion driven both investor enthusiasm and share price momentum.



Generalists Dataset



Specialists Dataset

The Significance of Earnings per Share (EPS) in Sustaining Long-Term Corporate Performance

Earnings per Share (EPS) constitutes one of the most widely observed metrics in both academic research and practical assessments of corporate performance. Because it compresses a company's net income into a figure that is then allocated on a per-share basis, EPS provides a way to interpret a firm's capacity to generate profit relative to the equity that shareholders hold. In other words, EPS does not only quantify a raw net income figure; rather, it projects that income in a manner that directly speaks to each shareholder's stake in the company. Such a perspective offers an analytically convenient tool for evaluating the underlying efficiency with which a firm's resources are managed over both the short and the long term [16].

Moreover, EPS assumes particular importance when investors and analysts seek to understand the effectiveness of management in allocating capital and exercising cost control [19]. Through fluctuations in EPS—whether upward or downward—companies reveal trends tied to strategic decision-making, competitive positioning, and the interplay between revenue generation and expense management. These outcomes, especially when viewed over an extended horizon, can serve as a fundamental signal of a firm's long-term viability and prospects for sustainable growth.

EPS offers a distilled representation of a company's profitability that extends beyond the raw sum of net income. EPS lets one compare organizations with different sizes and capital structures by dividing net income by the total outstanding share count [16]. When EPS shows a constant increasing trend, it usually indicates that the company is either integrating acquisitions with a degree of success sufficient to raise the per-share earnings number or attaining organic sales growth, thereby enhancing daily operations. Every one of these underlying forces—revenue growth, operational excellence, or synergistic mergers and acquisitions—tends to suggest increased market competitiveness. An increase in EPS indicates that the company has discovered a technique to realize efficiency in several spheres of operations.

Similarly, the very computation of EPS forces management to have controlled expenditure and stay aware of the way resources are used . Not only in terms of absolute returns, but also in terms of how they affect the profitability of every share, thus justification of capital allocation decisions is justified. As such, the metric forces management teams to examine investments and projects that might be dilutive or detrimental to shareholder value, therefore acting as an internal driver of caution and restraint. The consistent showing of increasing EPS over time helps to underline the fact that the strategic goals of a company coincide with providing real advantages for its owners.

A continually rising EPS might inspire the confidence of current owners and draw in fresh possible investors. This confidence mostly results from a steady increasing trend in EPS, which supports the idea that the company is efficiently implementing its strategic goals [20]. Investors may interpret this consistency as the firm's ability to identify profitable ventures, manage operational challenges, and remain resilient under shifting market conditions. When coupled with clarity on long-term vision and sustainable planning, rising EPS becomes more than just a numerical increase; it becomes an emblem of solid corporate stewardship.

Investor sentiment, once positively influenced by the appearance of stable and growing EPS, can lead to favorable shifts in valuation multiples. For instance, when investors grow confident in a firm's earnings potential, they may be willing to pay a higher price-to-earnings (P/E) ratio [17]. This dynamic, in turn, raises share prices. Such share price appreciation directly impacts Total Shareholder Return (TSR)—an encompassing metric that includes both capital gains and dividends. Within this framework, rising EPS catalyzes a virtuous cycle: higher earnings fuel higher stock prices, which can increase overall market interest and further support share valuation.

EPS acts as a conduit for numerous fundamental corporate performance drivers, intertwining revenue growth, margins, and cost controls into a single, concise measure. By observing EPS trends over a series of reporting periods, analysts can assess how well these different areas of the business are synchronizing. Rather than examining margins, sales figures, or costs in isolation, EPS underscores the combined effect of these factors on a per-share basis. This aggregate view offers a longer-term perspective that can filter out the noise of short-term anomalies, including seasonal fluctuations, one-off restructuring charges, or other transitory events.

Because the EPS metric reflects so many interconnected variables, it offers a standardized point of reference for understanding the structural profitability of a firm. Management teams that can achieve progress across multiple dimensions of performance—such as enhancing production efficiency, solidifying distribution channels, and scaling operations—are more likely to record consistent gains in EPS. This reveals more than just fleeting moments of success; rather, it showcases a pattern of organizational solidity, prudent financial governance, and strategic foresight that underpin the capacity for ongoing growth.

Another significant dimension of EPS is its implicit call for holistic efficiency. Rising EPS suggests that a company's leadership is continuously monitoring both topline sales and various cost components with an eye toward improvement. Whether this improvement arises from harnessing new markets, automating certain processes, or engaging in strategic partnerships, the net result is an evolution of corporate practices to keep the company on a steady path of progress. When management is keenly aware that stagnant or declining EPS could undermine investor trust, they remain motivated to refine their strategic blueprint and operational methods.

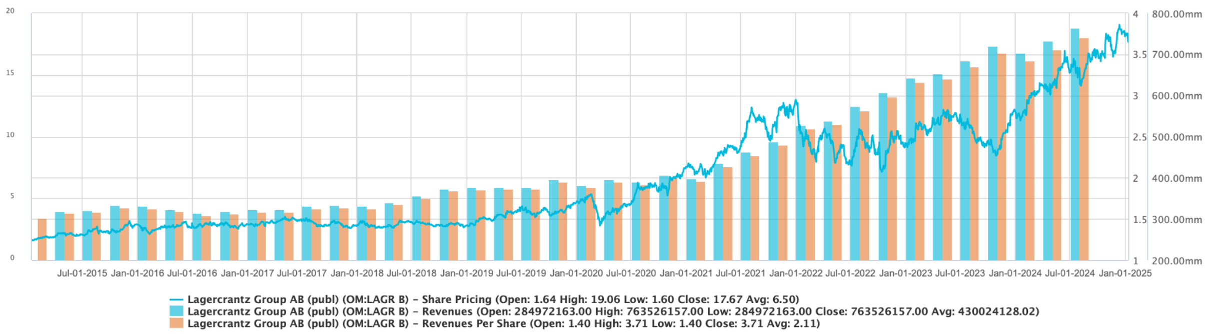
The sustained enhancement of EPS indicates that efficiency gains are far from sporadic. Instead, such gains become woven into the company's culture through recurrent initiatives and disciplined methods of execution. Over time, this operational vigilance may transform the company into a leaner, more agile organization. Ultimately, such an environment benefits both internal stakeholders—who may enjoy smoother workflows and clearer performance expectations—and external stakeholders—who witness sustained profitability and potentially favorable share price movements. The end result is a mutually reinforcing framework in which financial discipline and operational excellence drive EPS, and EPS, in turn, feeds back into the strategic imperatives of the organization.

Sales Growth and Margin Expansion

Two basic levers often determine long-term share price appreciation: margin expansion and revenue growth. Although other elements—such as valuation multiples and dividend policy—can affect performance, studies repeatedly show that over long horizons, continuous revenue growth is the most important driver of earnings growth. Experiences of European industrial and technology giants including Lagercrantz, Addtech, and Constellation as well as global companies like Danaher and Roper Technologies support this understanding. According to a Boston Consulting Group (BCG) analysis of S&P 500 companies, multiple expansion takes precedence in shorter timeframes (around one year), but over a decade, sales growth accounts for the bulk of shareholder returns [43].

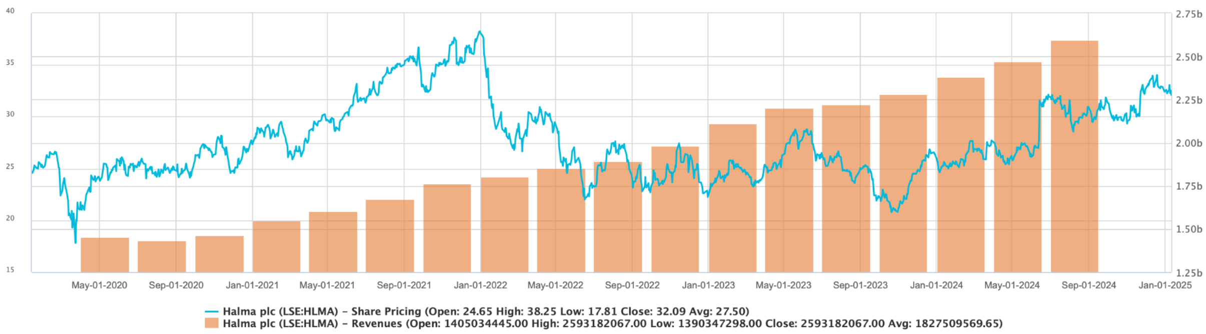
Over a ten-year horizon, a close examination of share price drivers consistently reveals that sales growth exerts a dominant influence on long-term value creation, often contributing approximately 70% to 80% of total returns. Lagercrantz has shown this predominance of top-line expansion by showing an internal analysis spanning 10 years whereby sales growth accounted for almost 74% of its shareholder returns while margin expansion contributed just

15%. Though increases in operating margins can provide significant profitability boosts—especially in times of increased economic uncertainty—it is the consistent compounding effect of top-line growth that most consistently drives Earnings Per Share (EPS) upward and underpins significant share price appreciation over time.

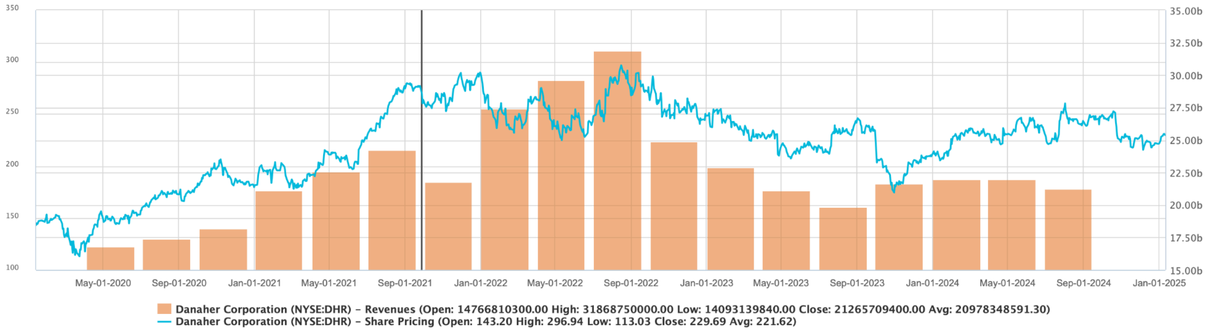


Recent observations drawn from FinChat data on a variety of industrial and technology compounders substantiate the preeminence of sales growth. Lagercrantz Group AB (OM:LAGR B) serves as an instructive example; it demonstrates a notable 34,25% five-year performance CAGR, accompanied by a revenue five-year CAGR of 16,31%. The broader increase in share price relative to revenue growth signals the influence of additional factors beyond top-line expansion, including margin enhancement, acquisitions, or shifting market sentiment. Nonetheless, over extended periods, the robust revenue CAGR suggests a consistent expansion in customer demand that has allowed Lagercrantz to sustain its momentum. This pattern, in which share price extends beyond even strong sales growth rates, is not confined to any single firm but appears across numerous similarly positioned companies.

Margin expansion can serve as a formidable amplifier of returns, despite being secondary to sales growth in explanations of ten-year performance. A compelling case is offered by Halma plc (LSE:HLMA), whose 5,3% five-year performance CAGR contrasts with its stronger revenue five-year CAGR of 10,.93%, as reported in FinChat(2024). Here, the share price has remained positive but modest, suggesting that external forces—potentially margin-related or tied to investor expectations—may be moderating the pace at which share valuations converge with revenue momentum. Nonetheless, there exists a possibility that if Halma successfully translates these expanding sales into further margin improvements, the share price could in future align more closely with its robust top-line growth.

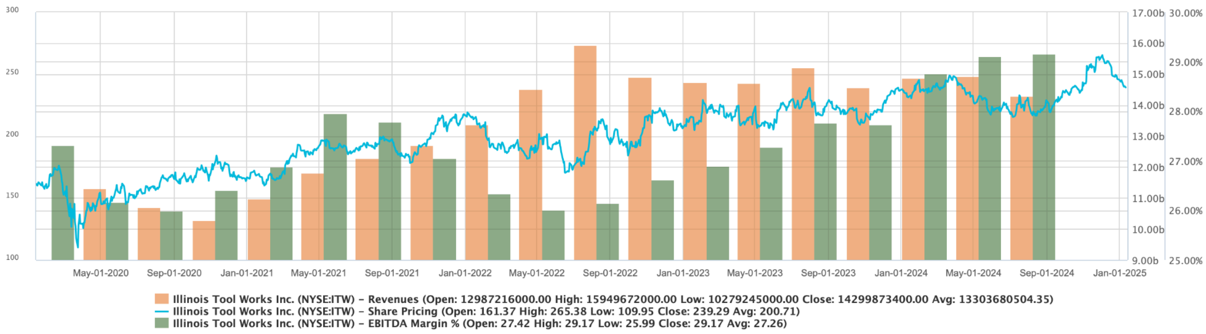


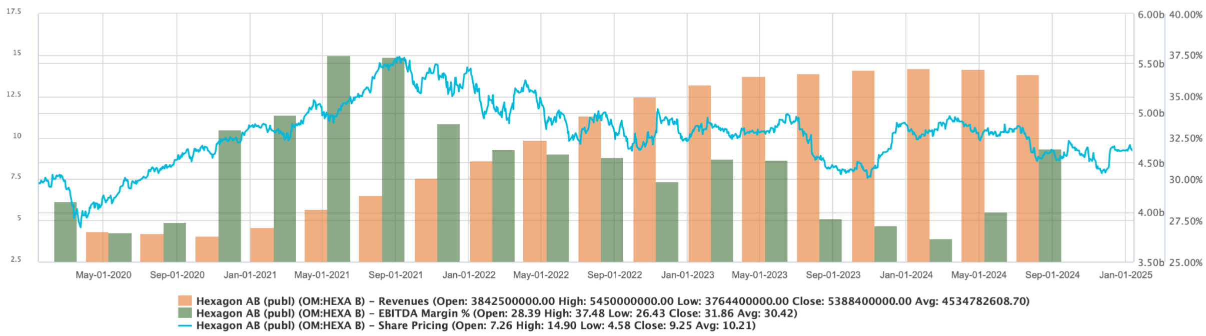
The experience of Danaher Corporation (NYSE:DHR) likewise illuminates the interplay between sales growth and margin expansion. Its five-year performance CAGR stands at 11,53%, whereas its five-year revenue CAGR is 8,82%. Analysts frequently emphasize that Danaher's central growth catalyst is its devotion to targeted acquisitions and robust sales expansion, combined with the structured Danaher Business System that instills standardized best practices and operational efficiency. Margin gains clearly foster overall profitability, but the unwavering drive for acquisitive growth and a consistent increase in top-line revenue remain the primary forces behind Danaher's ability to generate long-term EPS improvement.



Although sales growth undeniably carries the greatest weight in shaping extended performance horizons, margin expansion becomes particularly impactful during specific intervals, offering higher profitability that can be reinvested or returned to shareholders. After 2018, Lagercrantz demonstrated a marked improvement in margin management to complement its already strong track record of sales expansion. This complementary synergy of additional revenue streams coupled with disciplined cost management quickened EPS growth, an outcome that was subsequently mirrored in the firm's accelerating share price. In such cases, additional sales volumes can help absorb fixed costs, thus allowing further cost optimization that strengthens free cash flow and can be strategically deployed for future growth or dividend distributions.

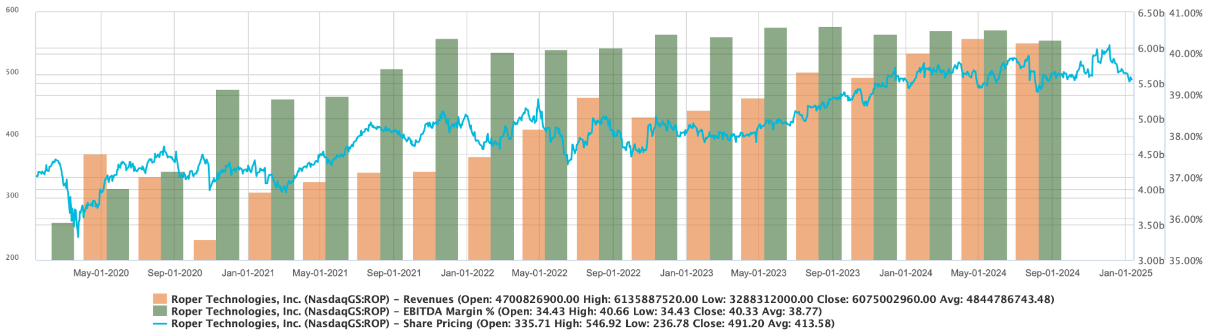
Similar patterns emerge among companies like Illinois Tool Works (NYSE:ITW) and Hexagon AB (OM:HEXA B), both of which exhibit moderate to high five-year performance CAGRs and have held or improved their profit margins over time. Although neither of these companies depends just on margin improvement, careful cost control guarantees more efficient movement of more revenues to the bottom line. For long-term investors, this operational efficiency generates significant benefits over a ten-year period in line with the conclusion reached by the Boston Consulting Group (BCG), which holds that sales and steady or increasing margins taken together can drive significant share price increase.

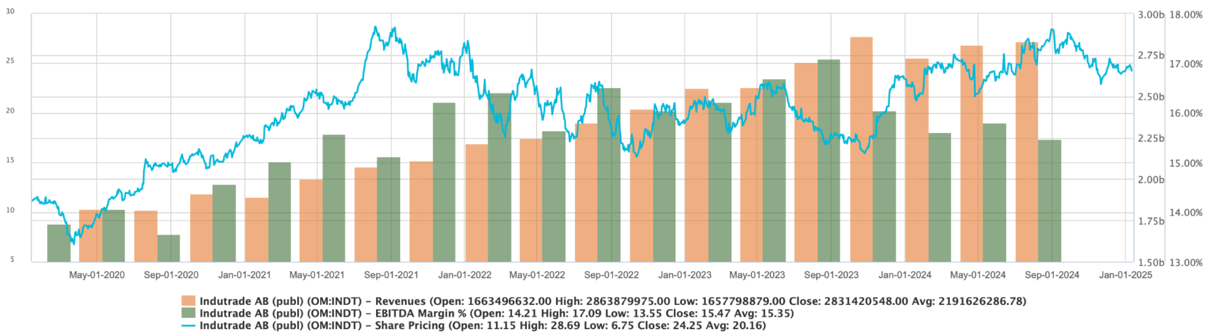




BCG’s perspective on time horizons reinforces the crucial role played by sales growth. Whereas multiple expansion and shifts in valuation multiples may drive a significant share of returns within a one-year period—due in part to fluctuations in investor sentiment, macroeconomic developments, and trends specific to certain sectors—these influences typically recede when the horizon extends to five or ten years. Within these longer time frames, sales growth reasserts itself as the most reliable predictor of cumulative share price appreciation, whereas margin expansion, although meaningful, rarely eclipses the contribution of top-line growth in explaining total returns.

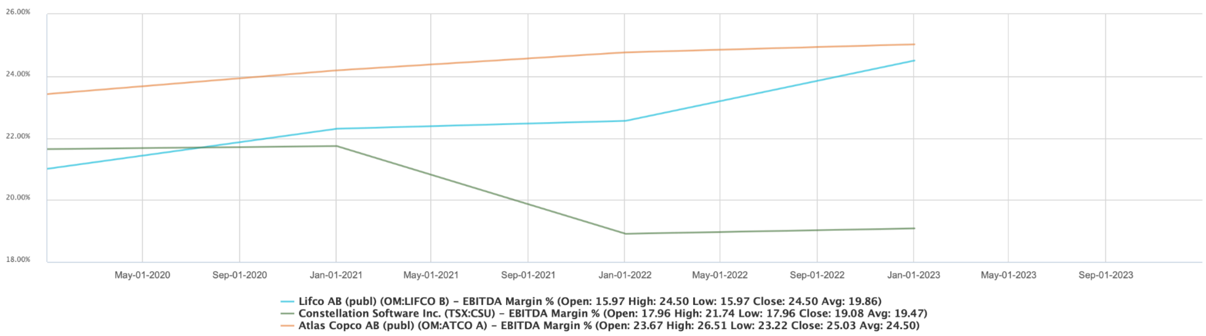
Moving forward, companies recognized as modern compounders need to combine continuous sales expansion with prudent margin management. Companies like Roper Technologies and Indutrade AB, which keep diverse product lines and worldwide footprints, show resilience gained from supplying several end markets while guaranteeing controlled operations targeted at either preserving or increasing margins. Investors that value both expansion and consistent profitability will find great resonance in this interaction between cost consciousness and growth. The experiences of Lagercrantz, Addtech, in line with BCG's more general study point to one main lesson: sales growth provides the main force behind continuous share price acceleration, even if margin improvements are a great engine booster. For companies that shine in maximizing both dimensions, the outcome is a strong basis for preserving EPS growth over the long run, therefore providing shareholders with the promise of consistent value creation when seen from a ten-year perspective.





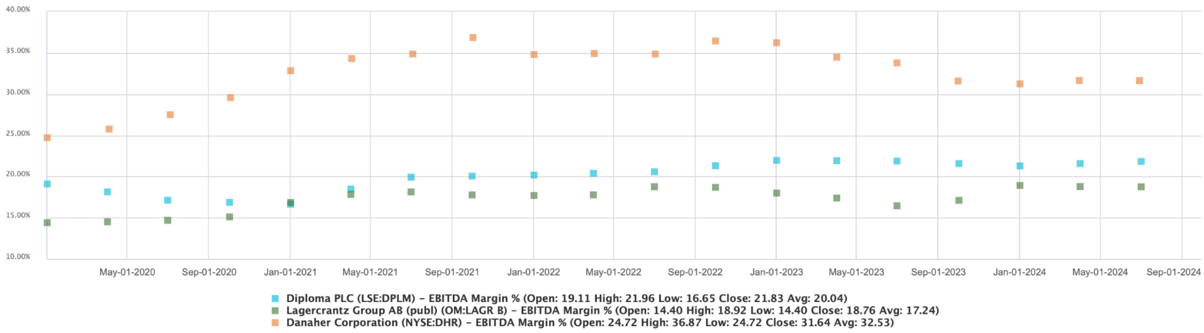
EBITDA Growth (5-Year Average)

By their capacity to control leverage, preserve profitability, and produce consistent shareholder returns, acquisition-driven compounders show financial competence. Compounders driven by acquisition use a disciplined acquisition approach to increase their market share and generate strong EBITDA increase. Notable companies including Constellation Software Inc., Lifco AB, and Atlas Copco AB—which show outstanding EBITDA growth and financial stability—are included in the dataset.



A vital gauge of operational effectiveness and profitability is EBITDA increase. Companies such as Diploma (24,15%), Lagercrantz AB (20,6%), and Danaher Corporation (13,23%) show outstanding performance in acquisition-driven strategies by means of cost reductions, operational synergies, and seamless integrations, therefore producing amazing outcomes. Diploma, for example, has shown constant operational excellence by using acquisitions to increase its product line while keeping scalability and margin expansion. Similarly, Danaher

Corporation has successfully combined operational efficiency with creativity to maintain strong EBITDA increase by means of several acquisitions.



On the other hand, companies like Illinois Tools Works (3,61%) and Roper Technologies (8%), clearly show the difficulties of acquisition-driven expansion. Their slower EBITDA growth emphasizes possible inefficiencies in industry-specific obstacles or integration, but it also illustrates the challenges in realizing synergies or controlling expenses in a dynamic market. These scenarios show the variations in results depending on industry dynamics and execution capacity.

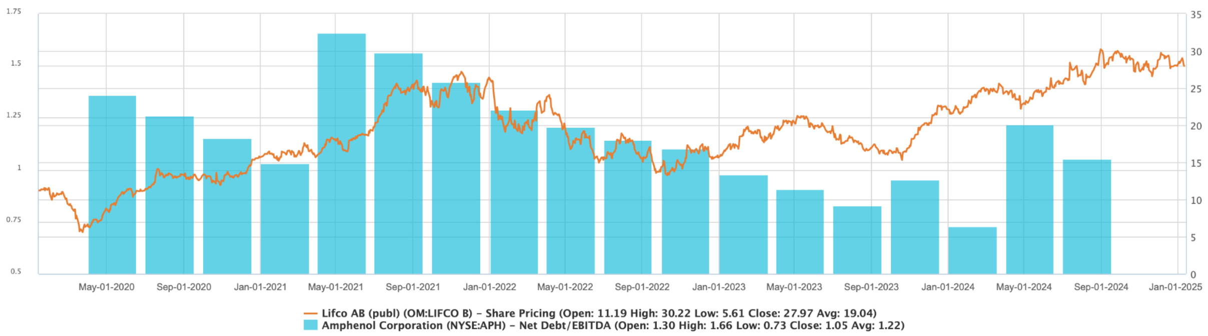
Ticker	EBITDA 5Y CAGR
LIFCO B	18.13
APH	12.23
DPLM	24.15
HLMA	10.08
ANSS	7.96
HEI	12.92
INDT	12.8
CSU	16.84
LAGR B	20.6
BERG B	15.01
NDSN	6.72
PRM	
DHR	13.23
ROP	8.03
BEIA B	6.42
ATCO A	12.14
ITW	3.61
HEXA B	8.97

Ticker	EBITDA 5Y CAGR
BRO	-3.91
KPG	5.93
BYDG.F	7.45
FERG	9.69
AHT	10.15
TMO	10.22
MC	10.43
DSY	12.21
TDY	12.64
TDG	13.88
ASSA B	14.47
XANO B	17.13
JDG	17.38
AME	23.16

EBITDA Growth (5-Year Average)

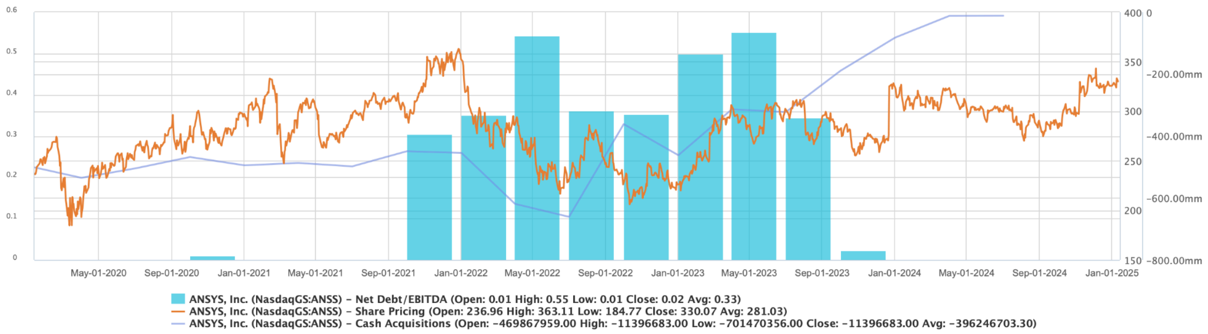
Net Debt/EBITDA

These companies' varying degrees of leverage reflect their financial discipline and risk tolerance. Maintaining low leverage ratios, companies such as Amphenol Corporation (1.09) and Lifco AB (1.45) can pursue acquisitions without compromising financial stability. This sensible strategy helps these companies to keep financial flexibility and reduce the dangers connected with market volatility.



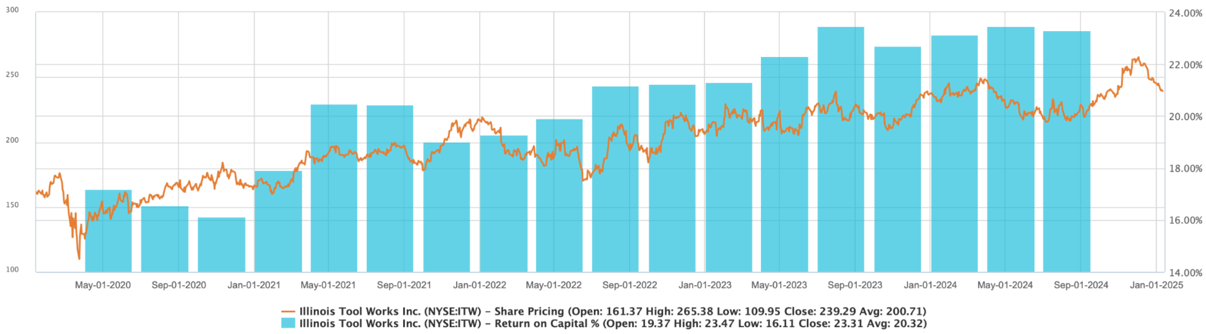
Companies with greater leverage ratios, such as Roper Technologies, Inc. (2.97) and Beijer Alma AB (2.45), suggest more aggressive acquisition strategies. This strategy exposes these companies to more financial risk during economic downturns even if it can boost returns in a favorable market.

With zero net debt, ANSYS, Inc. (-0.51) stands out as showing its financial strength and capacity to self-fund acquisitions—an excellent situation that offers great strategic freedom.



Return on Capital Employed (ROCE)

ROCE serves as a critical metric in evaluating how effectively companies allocate capital to generate shareholder value. High ROCE figures for companies like Illinois Tool Works Inc. (31,89%) and Atlas Copco AB (27,83%) highlight their disciplined capital allocation and strategic focus. These firms excel in extracting value from their acquisitions, demonstrating the importance of targeting high-quality assets and integrating them efficiently.

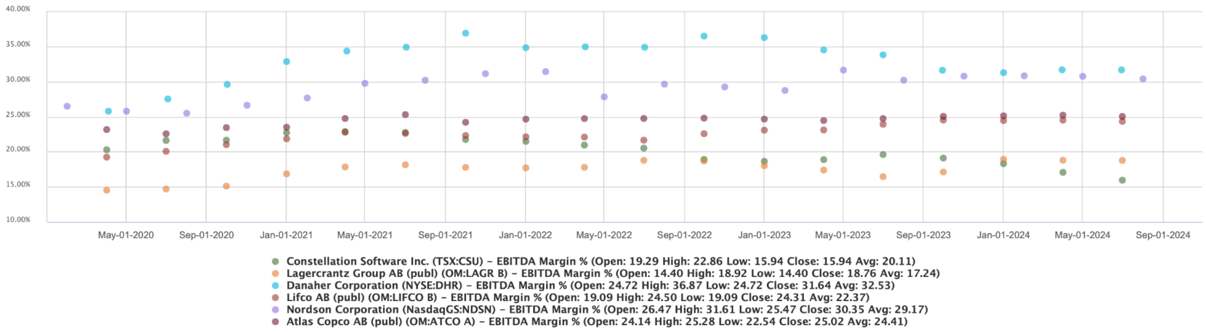


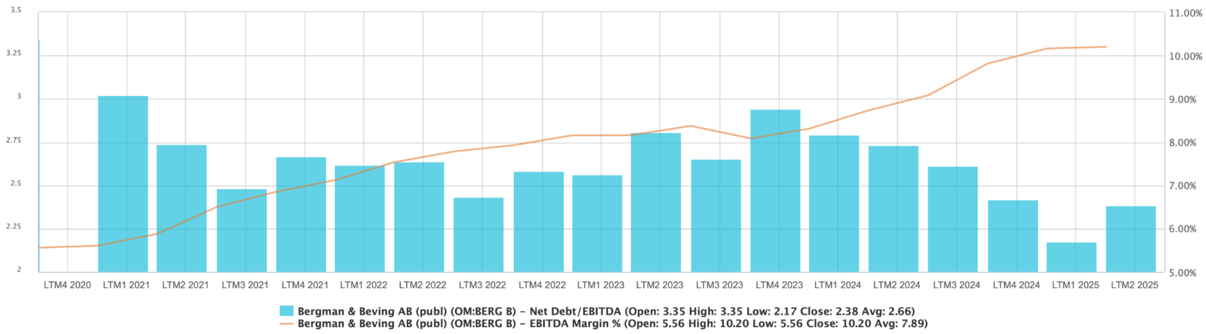
EBITDA Margin Consistency

A classic of financial excellence are consistent, high EBITDA margins. This quality is best shown by Nordson Corporation and Danaher Corporation, which exhibit their capacity to maximize operations and properly use synergies from acquisitions. Their consistent EBITDA margins show effective realization of post-acquisition efficiency and controlled expenses.

By using operational synergies, scalability, and strategic emphasis in their acquisitions, acquisition-driven compounders show strong EBITDA increase. While strategic focus is important, companies like Constellation Software Inc. and Lagercrantz Group AB show the advantages of attaining cost reductions and income boosts by means of clever integration methods.

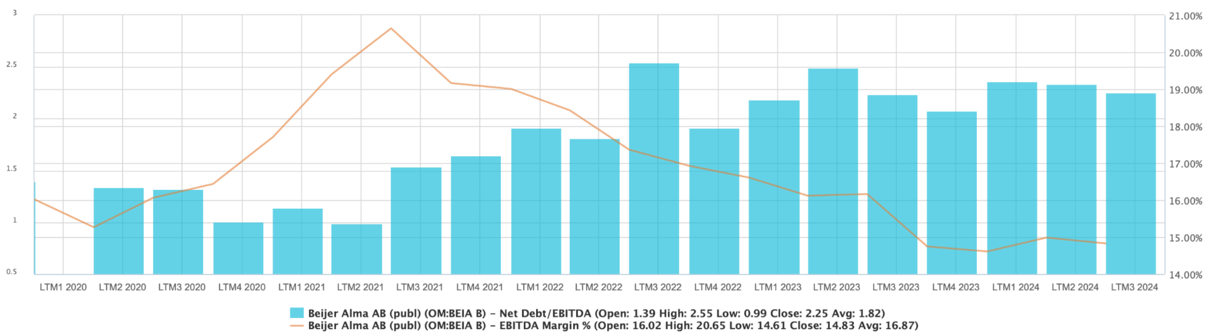
These companies shine in maximizing value from their acquisitions, and Constellation Software Inc. has proven notably great ability to combine software companies and support both profitability and growth. Companies with scalable business models—best represented by Atlas Copco AB—further increase EBITDA by using operational efficiencies and economies of scale. Furthermore, a defined strategic direction—which companies such as Lifco AB clearly exhibit—ensures that acquisitions complement long-term goals and core competencies, therefore supporting ongoing EBITDA improvement.

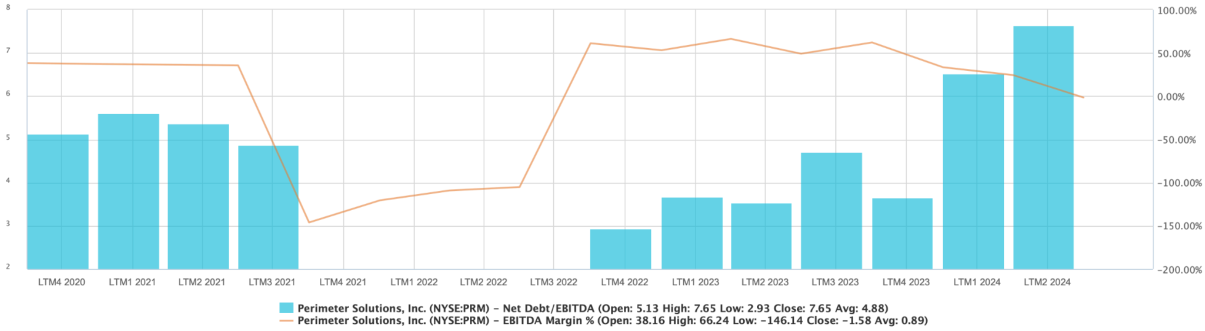




For Bergman & Beving AB, the above figure shows the link between the EBITDA margin percentage over time and the Net Debt/EBITDA ratio. The Net Debt/EBITDA ratio first varies then peaks in LTM1 2021. After that, there is a drop; still, the ratio still shows some fluctuations in next periods. The ratio notably declines significantly during LTM4 2022 and once more towards LTM1 2025. This implies a decrease in financial leverage during these times, maybe resulting from debt repayment or good performance of earnings. By comparison, the EBITDA margin shows a consistent increasing trend, beginning below 6% and rising to 10% at the end of the period. This consistent increase suggests that the company is improving its profitability by generating more earnings from its operations relative to its revenue. This could be the result of better integration of new businesses and the standardization of specific operations. The simultaneous stabilization of the Net Debt/EBITDA ratio and the rise in the EBITDA margin indicate that the company may be strengthening its financial position. The improvement in the EBITDA margin implies that the company is becoming more efficient or experiencing growth in its operational earnings. Despite periods of increased financial leverage, the overall trend points to a company that is managing its debt levels while improving profitability over time.

Meanwhile, companies such as Beijer Alma AB and Roper Technologies, Inc. highlight the long-term risks of high debt levels, where limited financial flexibility can undermine EBITDA expansion. External market shifts pose further threats, with Perimeter Solutions, SA experiencing negative EBITDA growth owing to unpredictable economic circumstances and obstacles in execution.





Comparative assessments reveal rather clear performance differences. With outstanding EBITDA growth and strict financial discipline, Constellation Software Inc. and Nordson Corporation stand out as showing that their acquisition techniques can keep high EBITDA margins over time. Conversely, Bergman & Beving AB and Perimeter Solutions, SA show the drawbacks of such strategies since they come across inefficiencies in operations and smaller EBITDA margins. While using sensible financial management, mid-tier performers—including ANSYS, Inc. and Halma plc—upkeep moderate but constant EBITDA growth, hence assuring ongoing stability.

Generally, careful capital allocation and focused operational control produce financial excellence among compounds driven by acquisition. Giving EBITDA expansion top priority and maintaining strong metrics top importance helps these businesses lead in their fields. As Lifco AB shows, keeping reasonable degrees of financial leverage helps to prevent excessive budgetary pressure and supports further acquisitions by shielding against Showcased by Nordson Corporation and Danaher Corporation, high EBITDA margins point to deft operational efficiency and integration. Strong ROCE in companies like Illinois Tool Works Inc. and Atlas Copco AB shows how well capital is used strategically to produce outstanding returns for owners.

Insider Ownership and Succession Planning

Insider Ownership: A Catalyst for Long-Term Value

A pillar of governance systems in successful businesses is insider ownership—that which consists of shares owned by board members, top management, and major private owners (often families). Long-term corporate plans and the generation of shareholder wealth depend much on this ownership structure. Data from Finchat (2024) and S&P Capital HQ (2024) expose clear variations and shared trends in insider ownership dynamics across portfolios. Insider ownership among management averages 3% for the generalists; their median is 1%. This small number hides the power that board members and major private owners—who together own 20% on average (19% median) have. Concentrated private ownership guarantees congruence with long-term shareholder interests, hence preserving the continuity of company plans in turbulent times. Complementing a significant 16% average ownership by board members and private entities, the specialist portfolio shows average management insider ownership at 2% (0.9% median). These ratios nonetheless show operational inefficiencies even if they are somewhat less than those of their generalist counterparts.Halma plc and ANSYS, Inc. among other mid-tier companies highlight the strategic importance of insider ownership in guaranteeing steady expansion.

An even more striking metric is the extent of CEO insider ownership, measured against their annual base salary. CEOs of *generalists* own shares equating to 104 times their fixed remuneration on average, with a median of 10 times. This demonstrates their vested interest in the company's long-term success. For specialists, the average is a vast 219 times, indicating a profound alignment between leadership incentives and shareholder interests.

Ownership Structures as Competitive Leverage

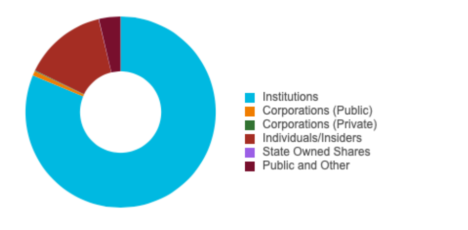
High insider ownership fosters a unique governance model that contrasts sharply with institutionally owned firms. The long-term orientation of private owners enables a more strategic, generational approach to decision-making. This contrasts with the short-term focus often associated with institutional investors, whose strategies may prioritize liquidity and immediate returns. Examples like Vitec in Sweden and Heico in the US exemplify firms where family-led ownership blends strategic continuity with operational independence. This governance model also mitigates the risks of empire-building and poorly aligned incentive structures that can arise in diffuse ownership frameworks.

Summary | Detailed | History | Crossholdings | Insider Trading | Charts

View Security: Summary Currency:[4] Euro Go

Ownership Summary [1]

Type	Common Stock Equivalent Held	% of Total Shares Outstanding	Market Value (EUR in mm)[2]
Institutions [5]	112,839,866	81.28	25,035.2
Corporations (Public)	1,049,687	0.76	232.9
Corporations (Private)	191,440	0.14	42.5
Individuals/Insiders	19,594,059	14.11	4,347.2
State Owned Shares	55,383	0.04	12.3
Public and Other [3]	5,099,650	3.67	1,131.4
Total	**138,830,085**	**100.00** [6]	**30,801.5**

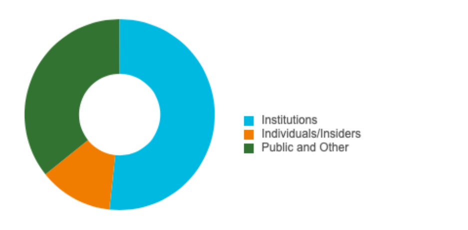


Summary | Detailed | History | Crossholdings | Insider Trading | Charts

View Security: Summary Currency:[4] Euro Go

Ownership Summary [1]

Type	Common Stock Equivalent Held	% of Total Shares Outstanding	Market Value (EUR in mm)[2]
Institutions [5]	20,614,002	51.73	897.4
Individuals/Insiders	4,985,405	12.51	217.0
Public and Other [3]	14,249,934	35.76	620.3
Total	**39,849,341**	**100.00** [6]	**1,734.7**



However, the benefits of insider ownership are not without caveats. Excessive concentration of ownership can lead to governance risks, particularly when coupled with ineffective checks and balances. Ensuring a balanced governance framework, complemented by transparent decision-making processes, is crucial to fully realizing the advantages of this ownership model.

Succession Planning: Sustaining Corporate DNA

Succession planning emerges as a vital dimension in sustaining corporate performance. The data and analysis underscore three principal models: the "forever-CEO," the internal candidate approach, and strategic external recruitment.

The "forever-CEO" archetype highlights founders or long-serving leaders who embody the company's strategic DNA. Figures like Mark Leonard at Constellation Software and Gerteric Lindquist at Halma exemplify this model, where CEOs not only drive strategic growth but also cultivate enduring corporate cultures. These leaders, often significant shareholders themselves, ensure long-term alignment between management and shareholder interests.

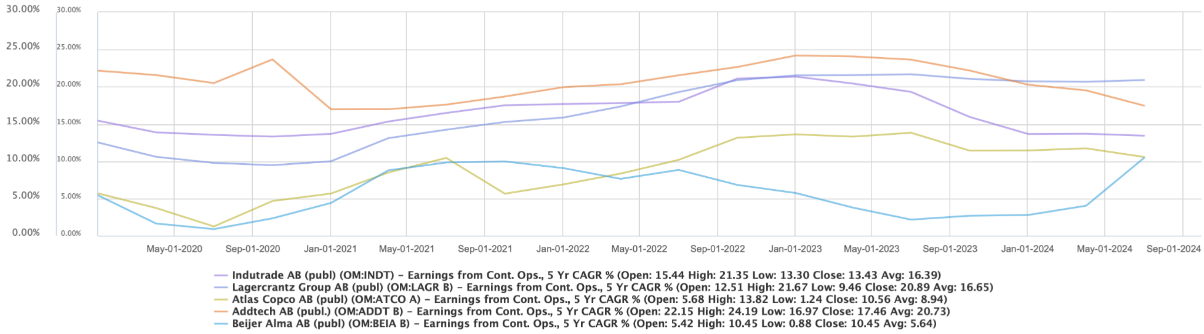
Especially in firms with strong succession planning, the internal candidate approach is also rather important. Companies reduce the risks related to sudden leadership changes by developing leadership ability inside their teams. Notable examples are Niklas Stenberg at Addtech and Per Waldemarsson at Lifco, whose ascensions highlight how well this strategy maintains strategic continuity. strategic continuity in operational freedom. This governance structure also helps to minimize

On the other hand, albeit less preferred, outside hiring gives fresh ideas and leadership qualities to handle changing market issues. Although outside consultants run the danger of upsetting business cultures, their strategic significance is in guiding failing companies toward innovation and expansion.

The Role of Organic Growth and Capital Allocation in Value Creation

Long acknowledged as fundamental components of value creation for companies—especially those with a long-term view—organic development and careful capital allocation have been identified as In very competitive marketplaces, the ability to create sustainable organic growth while carefully controlling acquisitions differentiates enduring success stories from fleeting performers. Businesses that successfully combine these two strategies not only show good shareholder returns but also keep operational resiliency. This equilibrium has structural and strategic orientation for future expansion as much as it offers short-term financial benefits.

Often a sign of operational health and strategic consistency are stable or rising margins. Based on their higher EV/EBIT multiples, companies with steady margins—whether attained through acquisitions or organic efforts—tend to fetch higher values. Stability in margins is rewarded by the market because it demonstrates a company's ability to weather fluctuations while delivering value. This is particularly relevant for acquisition-driven compounders, where maintaining organic growth alongside the acquired entities' development ensures long-term success. This dual approach highlights the importance of operational discipline and strategic foresight in capital allocation.

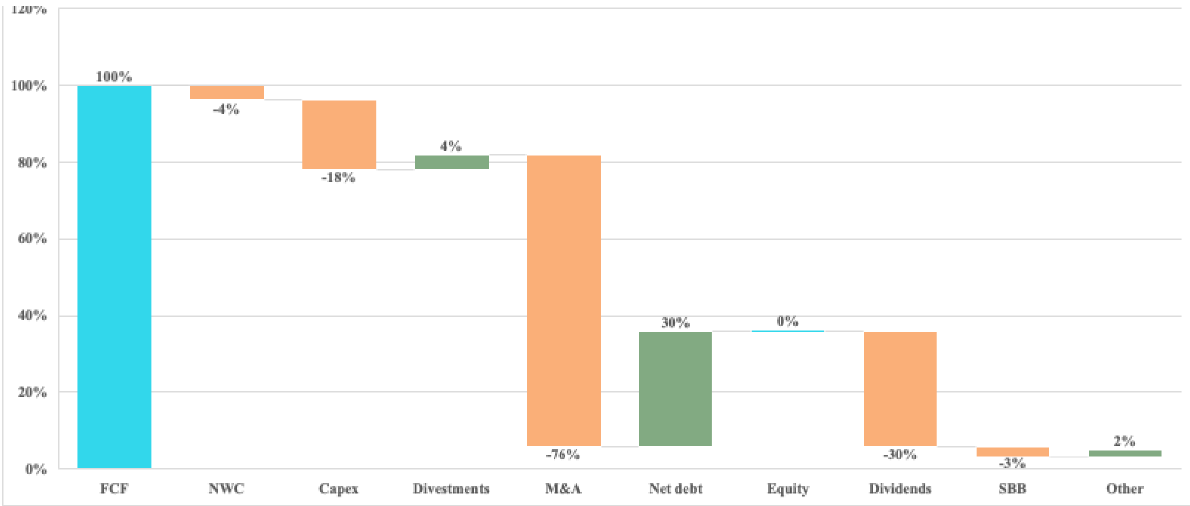


Organic Growth as a Strategic Imperative

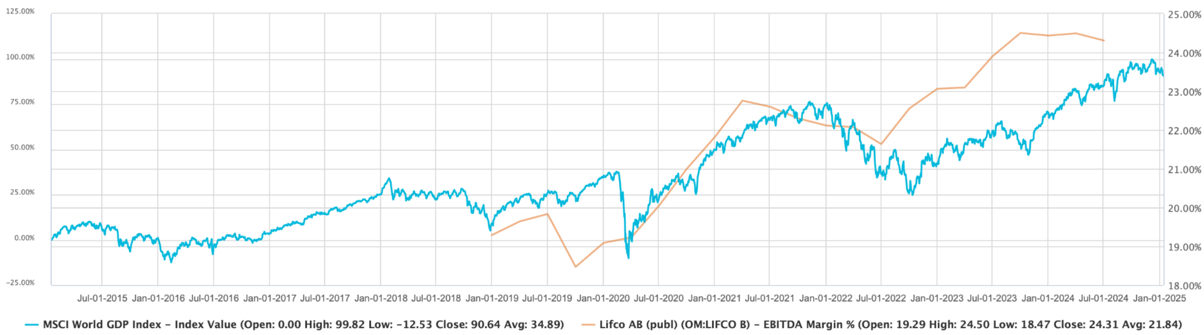
We cannot stress the value of natural development. Businesses like Assa Abloy and Indutrade highlight this by means of measured activities and leadership styles. Assa Abloy's CEO, Nico Delvaux, for instance, underlines how organic development distinguishes "good companies from great ones" by generating sustainable value and inspiring innovation (Assa ensures credibility and competitiveness while avoiding organizational stagnation [50]. Abloy, 2019) Indutrade's CEO, Bo Annvik, also emphasizes how natural expansion for organizations driven by acquisition especially, organic growth, is a key indicator of internal capacity. It shows a company's capacity to improve value from within, which is essential to verifying distributed business models and making sure acquired companies keep growing under new ownership. Companies such as Lifco have demonstrated this through consistent organic EBIT growth across their acquired segments, such as Dental and Brokk. Over decades, Lifco's ability to focus on organic development while pursuing acquisitions has solidified its position as a decentralized yet cohesive organization.

The Dual Engine of Organic Growth and Acquisitions

The interplay between organic growth and acquisitions forms the bedrock of successful value creation strategies. Companies like Addtech and Lagercrantz exemplify the dual-engine approach. Their strategies balance acquisition-led expansion with strong organic development, ensuring resilience and adaptability in evolving markets. In the case of Lagercrantz, while 76% of its FCF from 2002–2023 was allocated to acquisitions, its focus on maintaining organic growth metrics has been integral to its long-term success [46]. This blend of strategies has not only driven financial performance but also bolstered its operational stability.

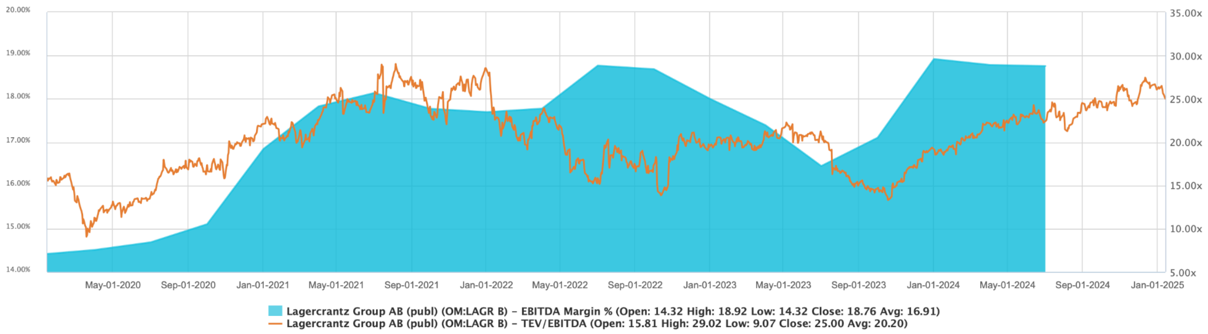


A critical factor in maintaining this balance is effective leadership and incentive structures. Companies like Assa Abloy and Lifco tie executive remuneration to organic growth metrics, aligning leadership goals with long-term shareholder value. For example, Lifco ensures that organic EBITA growth exceeds GDP growth in relevant markets, emphasizing the priority placed on internal development [47]. This strategic alignment ensures that leaders remain focused on organic improvements alongside acquisition strategies.



Stable Margins and Market Valuation

The relationship between margin stability and market valuation further reinforces the importance of disciplined growth strategies. Companies with stable or increasing margins generally achieve higher EV/EBIT multiples, as seen across industries [59]. For instance, firms like Lagercrantz demonstrate that stability—whether achieved through organic growth or acquisitions—commands market respect and rewards. Market trends reveal that it is not the source of margin improvement that matters most but its sustainability and predictability.

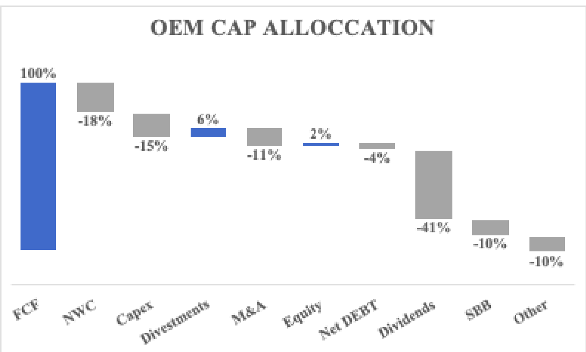


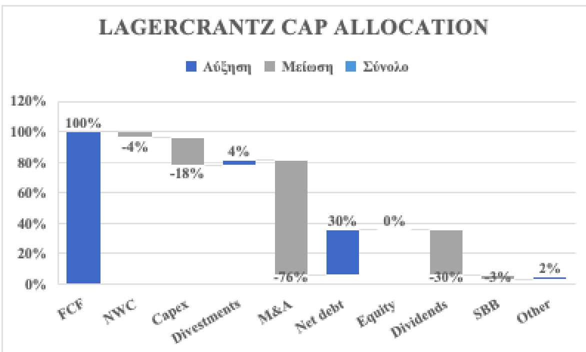
Moreover, firms with decentralized models, such as Addtech and Indutrade, illustrate how empowering local managers can lead to consistent performance. By decentralizing decision-making, these organizations maintain agility and responsiveness, enabling them to capitalize on both organic opportunities and acquisition synergies. This approach not only mitigates risk but also fosters a culture of innovation and accountability, contributing to long-term margin stability and value creation.

Case Study: Comparing Lagercrantz and OEM

2002 figures	Lagercrantz	OEM
Sales	1463	1534
EBIT	27	40
Margin	2%	3%
ND/EBITDA	-0.4x	0.6x
Market Cap (year-end)	620	510

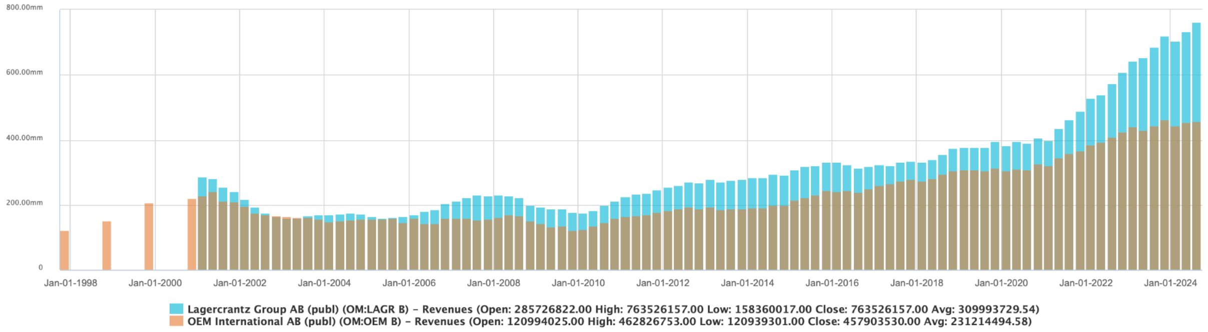
The Lagercrantz and OEM case study presents a good one of the interaction among organic development, acquisitions, and capital allocation. Beginning in similar financial circumstances in 2002, with sales of €160 million (Lagercrantz) and €168 million (OEM), these businesses followed different approaches that have produced different results. Lagercrantz gave acquisitions a priority; 76% of its FCF went toward M&A operations, while OEM's 11%. On the other hand, OEM concentrated more on natural development; 60% of its total increase over this period could be ascribed to organic projects, whereas 25% for Lagercrantz.

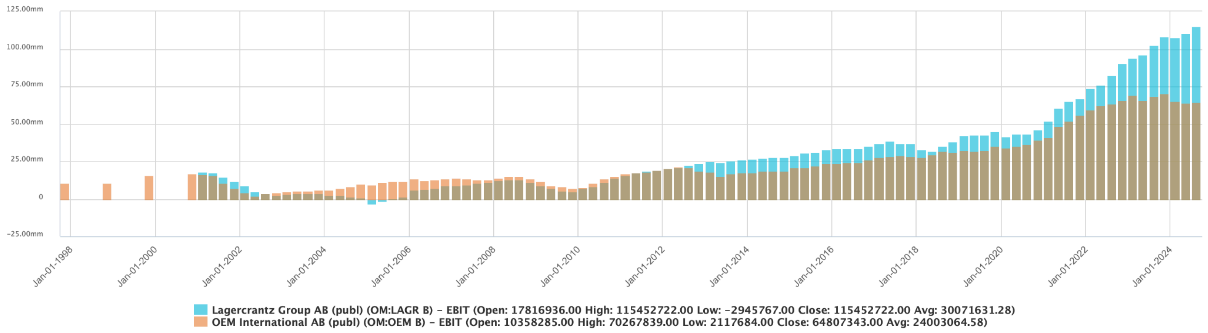




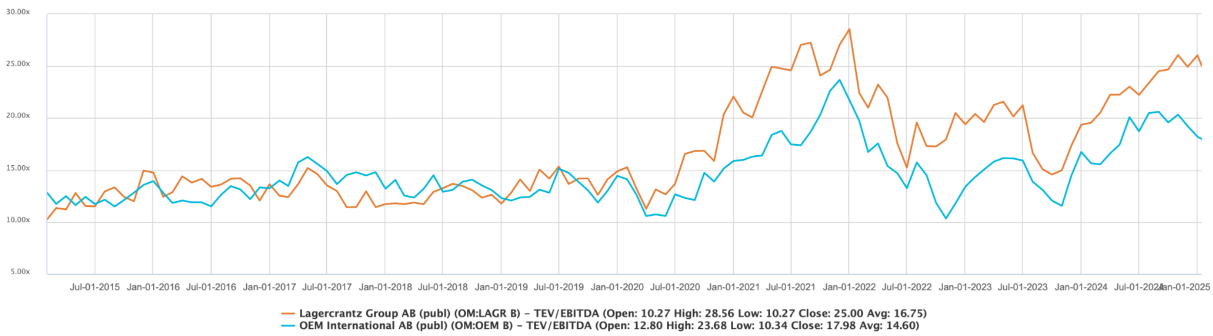
Despite Lagercrantz's heavy investment in acquisitions, it managed to maintain operational leverage within the best limits, demonstrating the effectiveness of its dual-engine approach. By 2022, Lagercrantz had achieved a CAGR of 8.6% in sales and 20.3% in EBIT, outpacing

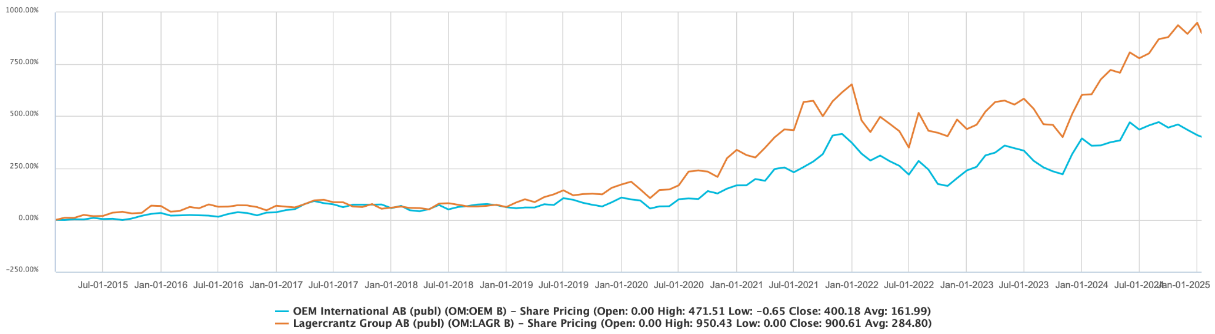
OEM's respective growth rates of 6.0% and 15.7%. This performance translated into significant TSR and EPS outperformance, with Lagercrantz delivering a total shareholder return of 10,000% from 2002 to 2024, compared to 5,000% for OEM (Finchat, S&P Global).





The difference in valuation also became obvious in 2015, when the market began to recognize Lagercrantz's superior execution. This was reflected in its EV/EBIT multiples, which started to consistently outpace those of OEM. This shift in perception underscores the importance of a cohesive strategy that aligns organic growth with acquisition-driven initiatives.





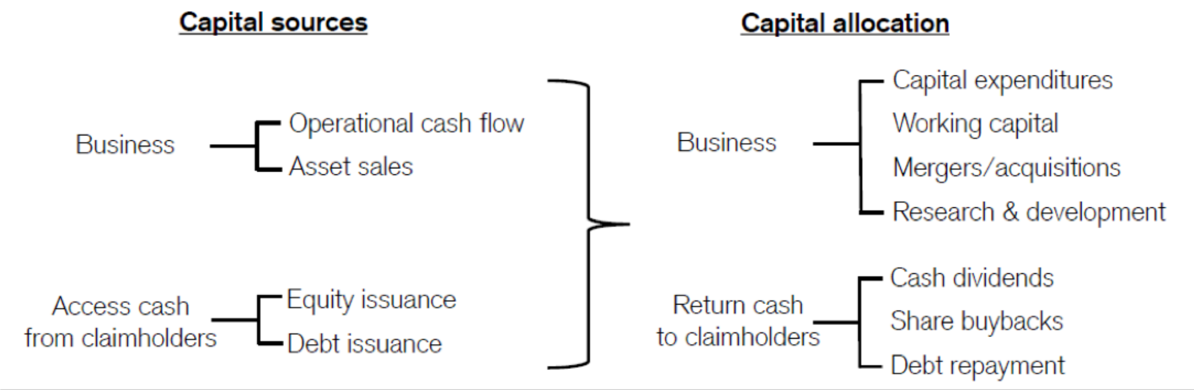
Insights from the Case Study

The Lagercrantz and OEM case study emphasizes the need of combining organic growth with well chosen acquisitions to reach sustained shareholder value. While a sensible mix of both approaches produces good long-term outcomes, successful companies show a dual focus and make sure that acquisitions do not impede internal development. Strategic capital allocation helps businesses to grab growth prospects without compromising their financial health by keeping reasonable levels of leverage below 2.5x EBITDA. Regardless of their source, consistent margins show stability and help to boost valuations, therefore strengthening market confidence; investors usually value consistency with more trust. Equally important is the match of executive compensation with natural development goals since such incentives inspire leadership to focus on the production of sustainable values. Ultimately, as Lagercrantz and OEM show, ongoing success depends on the interaction of organic development and acquisitions. Companies that achieve this equilibrium—by means of disciplined capital allocation, targeted leadership incentives, and operational resilience—are probably going to outperform rivals and guarantee long-term returns. This all-encompassing strategy not only improves financial performance but also confirms a company's position as a market leader in an always changing corporate environment.

The Mastery of Capital Allocation

Capital allocation represents the cornerstone of sustainable value creation in corporate strategy, a process defined by its ability to channel resources into avenues that maximize shareholder returns. Whether through organic growth, mergers and acquisitions (M&A), share buybacks, or dividends, the art of capital allocation differentiates extraordinary firms from their peers. This section explores critical insights into mastering capital allocation, blending strategic frameworks, financial discipline, and execution excellence [49].

Exhibit 1: Sources and Uses of Financial Capital



Source: Credit Suisse

The Role of Strategic Allocation in Value Creation

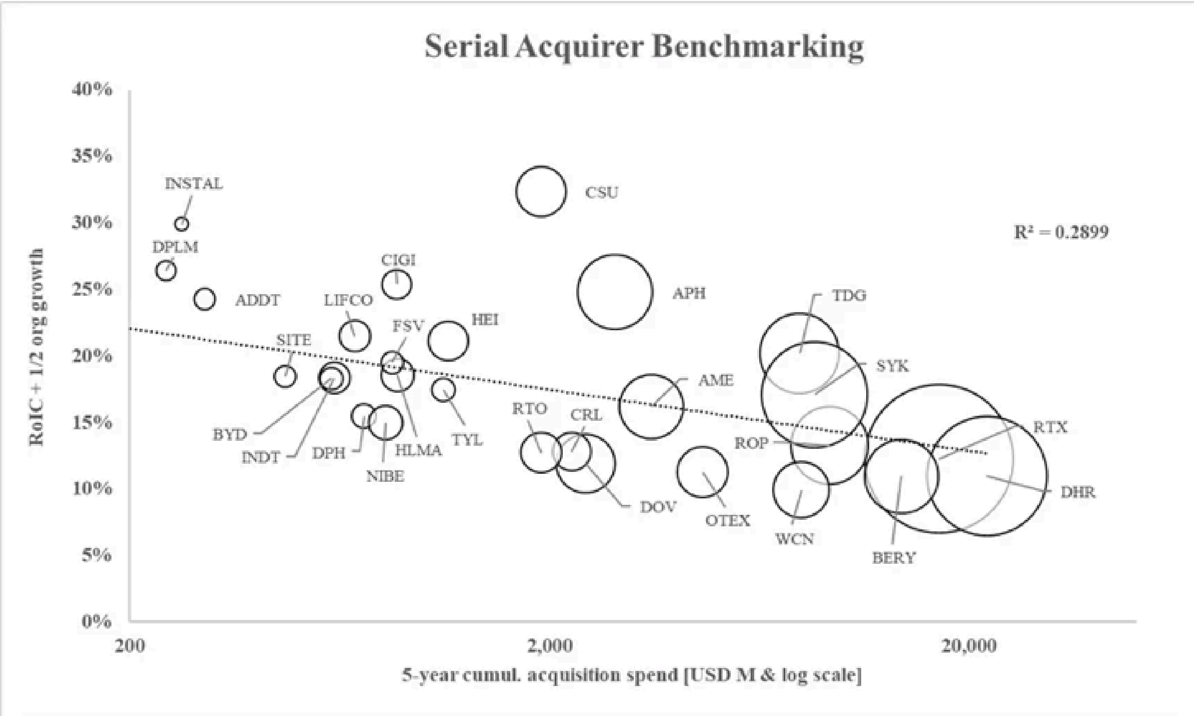
Capital allocation extends beyond choosing between investments; it embodies the alignment of capital with strategic priorities. For instance, Indutrade highlights how their "strategy of acquiring cash flow" is backed by a robust balance sheet, enabling steady investment in complementary businesses [50]. Similarly, Lifco showcases its focus on acquiring market-leading sustainable businesses, blending growth with a prudent deployment of capital [51].

A Comparative Perspective: ROIC and Business Performance

Evaluating the effectiveness of discipline and execution excellence mostly depends on the return on invested capital (ROIC). Source: Credit Suisse made investments in complementing companies. Likewise, Lifco highlights its emphasis on capital allocation. One dataset's comparison study shows how much more value companies with higher ROIC—such as 40% in "excellent businesses" against 6% in "bad businesses"—generate over time. This difference shows itself in reinvested earnings; high-ROIC companies keep more money to support expansion, hence producing compounding effects.

	Bad	Average	Great	Excellent
Earnings	100	100	100	100
Capital Invested	1667	1250	500	250
Return on Capital (A/B)	6%	8%	20%	40%
Growth Rate	5%	5%	5%	5%
Reinvested Earnings (B×C)	83	63	25	13
Earnings to Owners After Invest (A-D)	17	38	75	88
Cost of Capital	8%	8%	8%	8%
EV (E/(F-C))	555	1250	2500	2917
P/E (G/A)	5.6x	12.5x	25.0x	29.2x

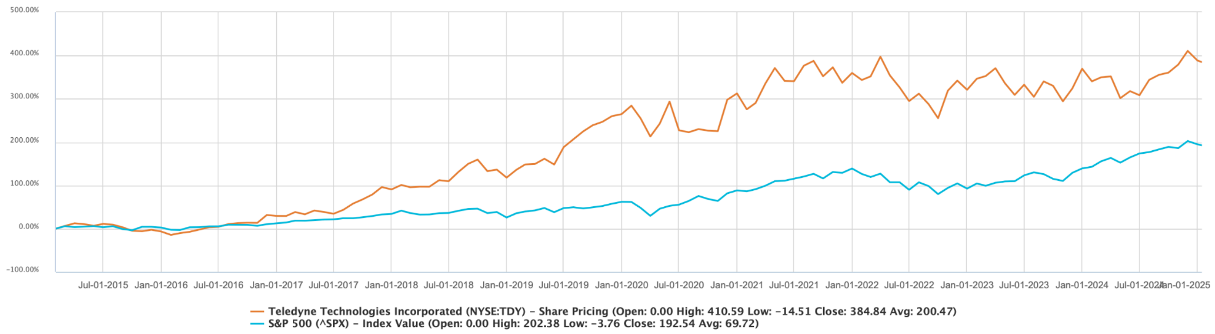
Maintaining strong ROIC gets more difficult as companies grow. This adverse relationship is shown visually by aggregated M&A spend from 2015 to 2020 against ROIC. Companies with careful capital allocation, including purchasing companies with synergies or operational improvements, however, counteract this tendency and maintain performance among expansion [53].



Source: Exploring Content, 2021

Integrating Capital Allocation Into Corporate DNA

Strategic allocation often intertwines with operational ethos. For instance, Teledyne exemplifies this through its decentralized structure, fostering entrepreneurial decision-making within its subsidiaries. By leveraging a framework of fiscal discipline and monthly performance reviews, Teledyne achieved an annual return of 17.9% over 25 years—more than double the S&P 500's performance in the same period [27]. This approach echoes across other successful examples, where organizations adopt decentralized decision-making to align incentives with outcomes. Volati and Indutrade, for instance, emphasize autonomy at the operational level, enabling focused resource deployment and niche specialization.



The methodical study of cash flow distribution techniques among different companies reveals this mastery and emphasizes the important part of disciplined capital allocation in promoting sustained value generation. The results show that businesses with high degrees of concentration and accuracy in their capital deployment may accomplish notable expansion, balance operational reinvestment, and provide outstanding returns for their owners.

From the companies itself as well as from individual analysts, the cash flow records from many sources provide a comprehensive view of capital allocation over a 10-15 year period. Reflecting the company's strong reliance on outside development through acquisitions, a sizable 76% of the whole gross cash earned from operations went toward mergers and acquisitions (M&A). With sixteen percent of cash flow used going into capital expenditures (Capex), the company shows its dedication to internal operational growth.

While dividends represented a -20% outflow, indicating a clear preference for reinvestment over cash distributions to shareholders, the net contribution from debt, which amounts to 23%, shows the use of financial leverage as a key component of the funding strategy [19][30][50][51].

Over a ten-year horizon, the reinvestment rates for M&A as a percentage of free cash flow (FCF) provide further evidence of aggressive capital allocation strategies. Lagercrantz, for example, achieved a reinvestment rate of 110%, significantly outpacing its peers, with Indutrade and Lifco maintaining rates of 94% and 86%, respectively. This emphasizes a larger trend among these companies of giving acquisitions top priority over other types of capital deployment, enabled by smart balance sheet management and a cautious attitude to risk [46][47][51].

Comparative study of capital distribution exposes particular variations in approach and implementation. For example, Addtech allocated 66% of its money to carry out acquisition activities for the year 2001–2002. This strong focus on acquisitions was matched by a 32% dividend allocation, implying a balanced strategy aiming at both shareholder returns and expansion. Meanwhile, Indutrade, during a similar period (2005–2022), allocated 65% to M&A while maintaining a dividend payout of 24%. Lifco's focus on M&A was even more pronounced, with 75% of cash flow allocated to acquisitions from 2015 to 2023, supported by 23% from net debt. While Beijer Ref, with a noteworthy 109% allocation to M&A between 2008 and 2023, shows the potential for acquisitions to drive development, Lagercrantz showed a similarly aggressive approach, committing 76% of its cash flow to M&A operations over two decades.

M&A as a percentage of funds from operations (FFO) highlights even more the focus on mergers and acquisitions as pillar of capital allocation. Particularly in years of strategic strategy, annual reinvestment rates across companies including Addtech, Indutrade, and Lagercrantz expose periods of increased activity where reinvestment exceeded 100% of FFO, so highlighting the resilience of these companies' allocation systems across different market conditions.

This information emphasizes how carefully reinvestment, outside development, and acquisitions must be balanced. Consistent prioritizing of acquisitions as a growth shareholder value is shown by cumulative trends. Often above 75%, strong M&A reinvestment rates reveal a distinctive approach to seize acquisition prospects, especially in a favorable state of the markets. Dividends, averaging 20–30% of cash flow allocation among the studied companies, act as a stabilizing agent to maintain consistent investor confidence. Capex investments, usually between 10% and 20%, meanwhile show continuous attempts to improve operational competitiveness and efficiency.

Comparative analysis of capital efficiency exposes significant differences in CapEx as an Addtech, Lifco, and Beijer Ref exhibit a capacity for improved capital efficiency and increased allocation to accretive M&A prospects. These results support the need of keeping a capital-light operational approach in order to improve financial flexibility for strategic development.

Analyzing NWC dynamics in a slower growth environment reveals a clear change in working capital management among companies. Many businesses shifted in 2023 toward releasing NWC, which runs counter to patterns in 2022. Historical analogues like the Great Financial Crisis (GFC) of 2009 point to the importance of such NWC releases in steadying cash flows during recessionary times. For example, in 2009, NWC releases offset about 78% of the operating cash flow decrease, therefore highlighting their importance in supporting M&A activity. This trend fits companies using dual growth strategies—organic development and acquisitions—even in lean economic times.

The way capital was distributed during the GFC (2008–2010) exposed different strategic choices taken by companies. Reflecting a strong investment attitude within market uncertainty, almost 64% of operating cash flows in 2008 were focused on M&A. On the other hand, 2009 focused more on debt reduction and NWC releases; M&A spending dropped to 22%. This dynamic emphasizes how resources are allocated dynamically depending on macroeconomic conditions and particular company policies. Resilience and long-term growth during economic downturns depend critically on the capacity to balance dividend stability with leverage degrees. The longitudinal patterns in capital allocation over economic cycles imply that keeping high dividend policy, especially in recession, has considerable signaling effects, so boosting investor confidence. Companies with good working capital % of operating cash flow and strong balance sheets specifically, businesses with reduced CapEx, such those in which using NWC releases to boost development, management—including Bergman & Beving—showcased an ability to maintain strong M&A activity. These revelations highlight the need of matching capital efficiency with strategic ambitions so that companies take advantage of growth prospects and protect financial stability.

Ultimately, the examination of capital allocation, efficiency, and adaptability among acquisition-driven businesses reveals their strategic agility in negotiating both economic crisis and expansion. Particularly in relation to CapEx, net working capital (NWC), and cash flow patterns, the empirical data emphasizes the important significance disciplined financial management plays. Companies such Addtech, Lifco, and Beijer Ref show how lower CapEx as a percentage of funds from operations (FFO) capital-light operational strategies allow more financial flexibility. This helps the search of value-accretive M&A prospects, especially in demanding market conditions.

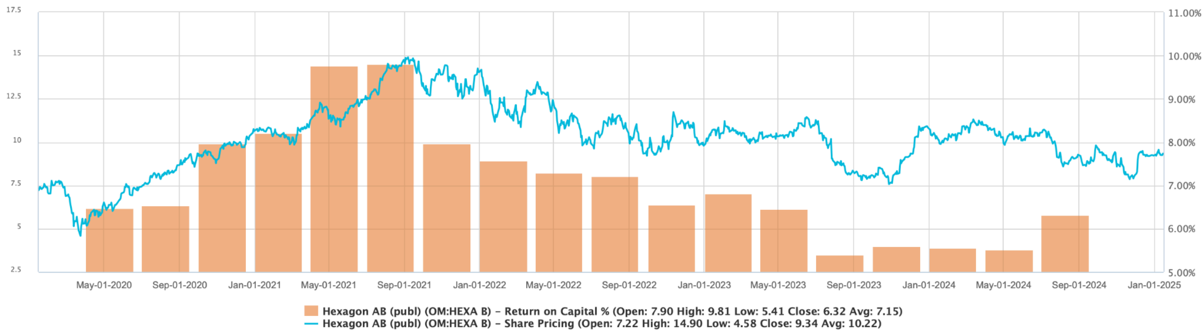
The historical analogues made from the Great Financial Crisis (GFC) offer a convincing argument for the need of NWC releases as a stabilizing tool. These releases essentially counter reductions in operating cash flows during times of slower or negative organic growth so guaranteeing businesses may continue M&A activity and keep strong dividend policies. One important signaling mechanism that supports long-term shareholder value and strengthens market confidence is the capacity of companies to maintain dividend consistency even in recessionary times. Moreover, the analysis of capital allocation during economic cycles demonstrates a reasonable equilibrium between financial conservatism and strategic development expenditures. The change from aggressive M&A expenditure in 2008 to a focus on NWC releases and debt reduction in 2009 shows that businesses showed a capacity to adjust resource allocation in response to macroeconomic conditions. This flexibility emphasizes the need of keeping wise use of debt and healthy balance sheets to negotiate economic instability.

The results highlight generally how well operational efficiency and strategic capital allocation drive sustainable development. The case studies of Nordic companies provide insightful analysis of how companies could make good use of disciplined financial management to survive across several economic cycles. These companies show a strong way to negotiate possibilities and difficulties in the present economic scene by matching capital allocation with long-term strategic ambitions.

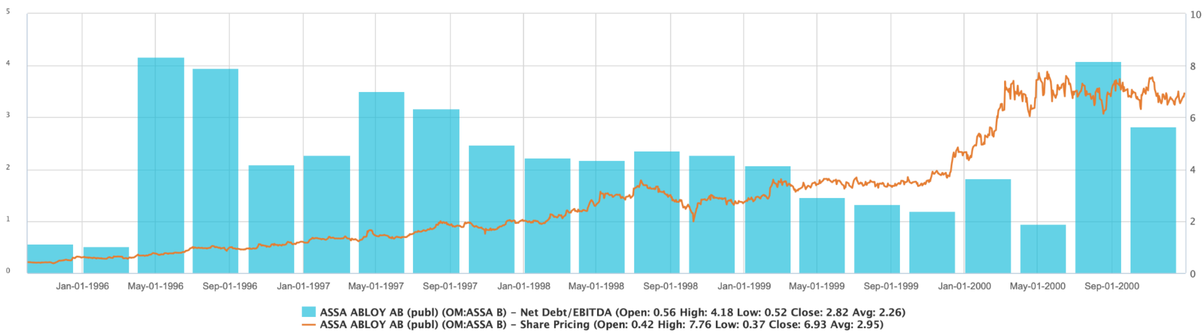
The Balance Sheet of Strong Acquisition-Driven Compounders

The analysis of balance sheets within acquisition-driven compounders underscores the critical role of financial discipline in sustaining long-term value creation. By examining Lifco, Hexagon, and Diploma, we observe nuanced strategies that emphasize the importance of capital efficiency, leverage management, and return on capital employed (ROCE). These strategies reflect the interplay between capital allocation decisions and the inherent risks of aggressive M&A-driven growth.

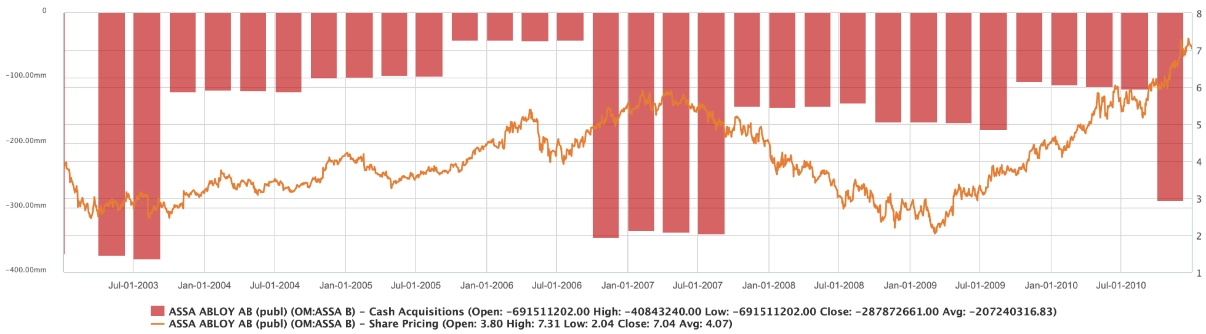
Lifco's success illustrates the value of prudent financial management. Over time, the company maintained a disciplined approach to acquisitions, balancing its capital structure with a focus on high ROCE (20,37% 5Y CAGR) and leveraging opportunities within its market. As a result, Lifco demonstrated superior shareholder value creation (23% 5Y CAGR) compared to Hexagon (7,5% 5Y CAGR). Hexagon's more aggressive strategy during the pre-financial crisis years led to excessive leverage and weaker performance during economic downturns. The divergent trajectories of these two companies emphasize that while short-term market rewards may favor aggressive acquirers, sustainability requires a measured approach to leverage and M&A activity.

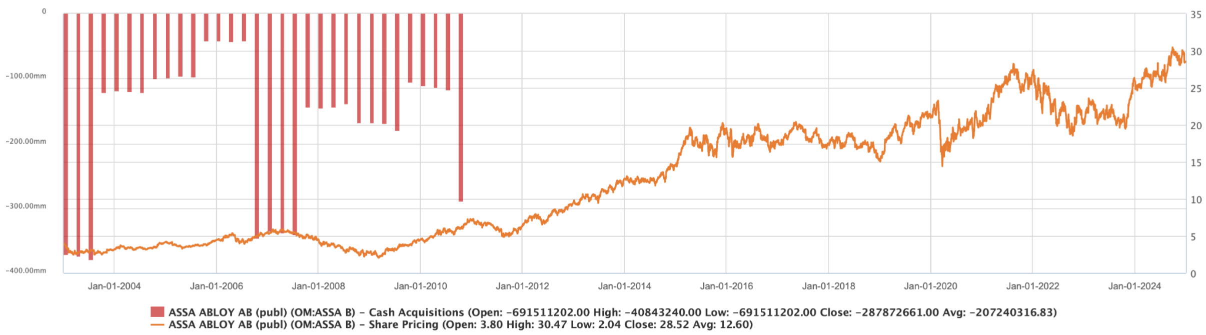


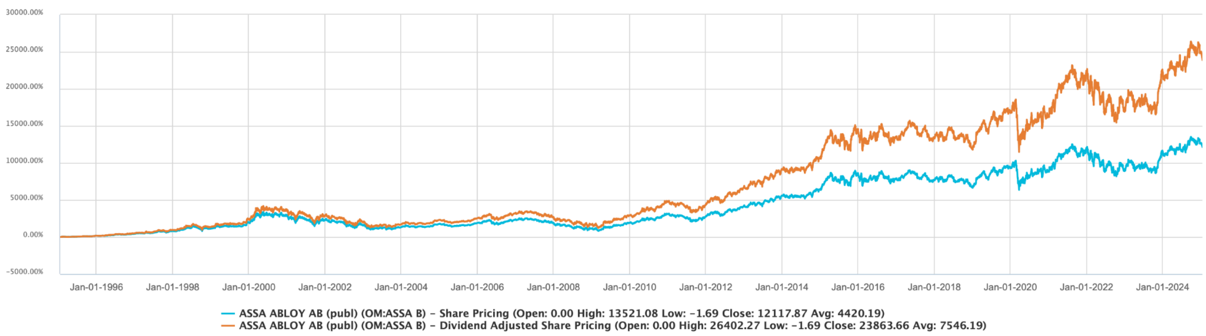
Assa Abloy provides a broader perspective by showcasing the evolution of an acquisition-driven strategy over three distinct phases. Initially, the company pursued rapid expansion, completing over 60 acquisitions between 1995 and 2002, which increased net debt/EBITDA from 1,5x to 2,34x. While this phase yielded extraordinary returns, it also exposed the company to substantial financial risks.



The second phase from 2003 to 2010 marked a period of consolidation, during which Assa Abloy prioritized balance sheet strengthening and moderated its acquisition pace. This conservative approach laid the foundation for renewed growth in the third phase (2011 onward), where the company strategically allocated capital to acquisitions while maintaining robust financial health. Over this period, Assa Abloy's sustained focus on shareholder returns led to a total shareholder return (TSR) of 25,000%, demonstrating the transformative potential of disciplined capital allocation strategies.







The comparative case study of Lifco and Hexagon highlights that market performance is not solely a function of acquisition intensity but also of how efficiently resources are deployed. While Hexagon initially outperformed Lifco in share price development due to aggressive M&A, the excessive leverage incurred during the 2008–2009 financial crisis eroded shareholder value over the long term. Conversely, Lifco's conservative strategy ensured resilience and sustained growth, culminating in long-term outperformance.

A detailed examination of leverage reveals its dual-edged nature. While higher leverage may enable companies to fund aggressive expansion, it often results in vulnerability during economic downturns. This observation is particularly evident when analyzing net debt-to-EBITDA ratios and their correlation with share price performance. In 2022, companies with weaker balance sheets and higher leverage were penalized more severely, as evidenced by lower share price valuations. The negative relationship between leverage and valuation multiples (EV/EBITDA) further substantiates the market's preference for financial prudence, especially during periods of economic uncertainty [59].

The data from these case studies underline a critical insight: *strong balance sheets enable acquisition-driven compounders to navigate economic volatility while maintaining growth trajectories*. This dynamic is further exemplified by Lifco's ability to recover from periods of stagnation and leverage its financial stability to drive renewed expansion. Similarly, Hexagon's disciplined approach allowed it to consistently allocate capital to value-accretive opportunities without overexposing itself to financial distress.

In conclusion, the success of acquisition-driven compounders hinges on their ability to strike a balance between growth ambitions and financial discipline. Companies that maintain a robust balance sheet, manage leverage prudently, and prioritize returns on capital employed are better positioned to achieve sustainable growth and shareholder value creation. The lessons derived from these case studies underscore the importance of aligning capital allocation strategies with long-term financial health, enabling companies to weather economic challenges while capitalizing on opportunities for expansion. This strategic equilibrium is the cornerstone of successful acquisition-driven growth models.

Findings on Generalists vs. Specialists in Acquisition-Driven Growth Models

Emphasizing the relative performance of generalists and specialists among acquisition-driven firms, the last chapter offers the main conclusions of the investigation. According to the concept, generalists—who pursue acquisitions across several sectors—and specialists—who concentrate on a limited set of industries—show somewhat distinct growth paths, financial results, and shareholder returns. Although generalists show resilience because of their capacity to spread risk, experts usually excel in their specific verticals, especially in times of good market circumstances. These advantages, however, have certain restrictions that could influence the long-term value generation. The quantitative study of shareholder returns points out their different approaches. Companies like Constellation Software, which embodies the generalist strategy, showed an amazing total shareholder return (TSR) compound annual growth rate (CAGR) of 36,55% over a ten-year period, well above many specialist rivals. On the other hand, expert in industrial domains Transdigm reported a TSR CAGR of 29,31% in the same time. Transdigm's performance is outstanding, but Constellation's larger portfolio helped them to keep momentum under many different market environments. Boyd Group, on the other hand, concentrated on the automobile collision repair sector, witnessed significant short-term profits when demand surged but faced more severe corrections during industry slowdowns, as seen by changes in its five-year TSR.

One of the main conclusions is that long-term shareholder value is strongly influenced by revenue development. Businesses who maintained a high revenue CAGR often showed better TSR. For example, Lagercrantz showed that its TSR CAGR of 34,15% came from a five-year revenue CAGR of 16.31%. This emphasizes the need for top-line expansion since generalists like Indutrade consistently show a ten-year TSR CAGR of 24,41% together with an earnings per share (EPS) CAGR of 13,27%. These generalists were able to reduce the effect of downturns in any one industry by distributing their risk over several sectors, therefore stabilizing their overall development paths.

Specialists did, however, exhibit an advantage in capital efficiency—that is, return on capital invested (ROCE). For instance, Lifco kept an average ROCE of 22%, well above many generalists. This outcome shows the capacity of experts to reinvest in their specialized activities, usually obtaining economies of scale and operational efficiencies improving profitability. Generalists, on the other hand, often distribute capital throughout several areas, which might dilute their total returns even if it offers stability. Renowned generalist Danaher kept a ROCE of 14.5%, less than that of specialists like Lifco but balanced by its larger geographic and sector diversity.

The study reveals a clear trend: *generalists are quite good in dynamically distributing capital among divisions depending on market performance.* This adaptability helps them to seize new prospects and prevent ongoing losses in lagging sectors. Constellation Software's approach of keeping operational autonomy inside its acquired companies under centralized financial control helped it to generate an EBITDA increase of 23,55% over a five-year horizon. Conversely, experts such as Thermo Fisher Scientific, with their emphasis on life sciences, have kept a high EPS growth rate of 12,4% by putting funds into research and development inside their own vertical. *But this focused investment strategy increases specialists' sensitivity to changes in regulations and technology upheavals inside their specialized businesses.*

The research also underlined the difficulties in organizational complexity. Large portfolio generalists can have more integration expenses and run more danger of bureaucratic inefficiencies. Managing more than 125 business units across 50 industries, Constellation Software mostly depends on distributed governance to stay out of these traps. Conversely, because of their more limited acquisition goals, experts usually have less integration problems. By emphasizing "light-touch" integrations that retained the autonomy of acquired companies inside a familiar industry framework, Transdigm, for instance, maintained EBITDA margins regularly above 40%. Their capacity for innovation across several marketplaces may thus likewise be limited by this simplicity.

Both generalists and experts run inherent dangers notwithstanding these variations. Generalists risk overextension, in which case diversification across too many unrelated industries dilutes their strategic focus and generates inefficiencies. Companies that chase acquisitions without regard for key skills clearly run this danger. Regarding specialists, the main risk is in overconcentration. Their reliance on a single market or sector makes companies particularly vulnerable to outside shocks as legislative changes or economic downturns. Boyd Group was vulnerable to downturns when accident rates dropped during economic slowdowns, even if its concentration on the vehicle repair industry was profitable at times of great consumer demand.

The thesis also found newly developing hybrid approaches combining the advantages of both models. While progressively entering related verticals, companies like Halma have taken a targeted approach within the safety and environmental technologies areas. Combining the operational benefits of specialization with the robustness of diversification, this hybrid approach has helped Halma to attain a TSR CAGR of 32% over five years. Such approaches show that, given the growth stays in line with fundamental capabilities, it is possible to enjoy the advantages of both breadth and depth.

Regarding shareholder attitude, generalists appeal to those ready to tolerate more volatility in exchange for the possibility of outsized gains during favorable market cycles; specialists attract investors seeking long-term stability and moderate risk. With their varied portfolios, companies such as Indutrade and Roper Technologies presented a rather more consistent share price performance than more erratic specialists like Thermo Fisher. On the other hand, specialists outperformed when market conditions supported specific sectors, therefore stressing the need of timing and market trends in investing decisions.

Finally, the comparison of generalists and experts shows how different respective approaches of capital allocation, organizational structure, and development strategy produce different financial results. While specialists succeed through targeted expertise but suffer more vulnerability to market-specific dangers, generalists attain resilience and consistent development by diversifying their purchases. *The theory holds that neither strategy is intrinsically better; success finally rests on strategic execution, flexibility, and alignment with market conditions. Offering both robustness and the possibility for extraordinary returns, hybrid models that deliberately mix expertise with diversification may reflect the future of acquisition-driven expansion.* In an always changing global market, this mix of breadth and depth could offer a more sustainable route to value generation for businesses and investors.

Appendix

Ticker	Market Cap ($b)	5Y Performance (CAGR)	5Y Multiplier	5Y Multiplier * Weight	Diluted EPS 5Y CAGR (%)	Revenue 5Y CAGR (%)	EBITDA Margin 3Yr Avg (%)	EBITDA Margin 10Yr Avg (%)	EBITDA Margin 5Yr Avg (%)	FCF Margin 10Yr Avg (%)	Net Debt / EBITDA	ROCE 5Yr Avg (%)	ROIC 5Yr Avg (%)	CapEx + Acquisitions to OCF (Reinvestment Rate)
LIFCO B	13,16	0,2338	1,2338	0,069	16,44	13,42	23,21	22,18	19,73	12,82	1,45	20,37	10,69	79%
APH	86,15	0,2141	1,2141	0,067	12,86	11,39	23,93	23,58	23,51	13,77	1,09	19,86	17,11	119%
DPLM	7,09	0,1628	1,1628	0,065	11,13	19,72	20,84	19,68	19,03	12,8	1,28	15,16	11,74	105%
HLMA	12,68	0,054	1,054	0,059	9,64	10,93	22,4	22,66	22,82	15,54	1,45	15,02	12,31	69%
ANSS	29,37	0,0544	1,0544	0,059	4,77	11,3	33,15	33,79	38,67	33,1	-0,51	10,38	9,73	6%
HEI	27,24	0,1337	1,1337	0,063	8,58	13,68	26,15	26,1	25,08	17,39	2,09	12,81	11,03	324%
INDT	9,27	0,1997	1,1997	0,067	13,27	12,22	16,15	15,46	14,35	8,95	1,72	17,49	11,81	55%
CSU	61,18	0,2533	1,2533	0,070	6,92	23,55	19,25	20,04	19,39	22,07	1,57	27,2	8,29	70%
LAGR B	3,68	0,3414	1,3414	0,075	20,48	16,31	18,01	17,2	15,25	10,58	2,02	19,46	11,9	93%
BERG B	0,69	0,3014	1,3014	0,072	6,35	3,76	8,73	7,77	6,99	5,7	3,14	7,36	4,92	55%
NDSN	11,71	0,0484	1,0484	0,058	8,34	4,12	30,18	28,86	27,28	17,5	1,77	18,13	13,84	176%
PRM	1,71	-0,0047	0,9953	0,055			-11,1				-68,7			5%
DHR	172,7	0,1153	1,1153	0,062	9,24	8,82	34,05	32,15	27,99	21,97	2,16	9,03	8,14	-77%
ROP	54,38	0,068	1,068	0,059	4,43	4,84	40,4	39,4	36,8	27,29	2,97	6,77	4,77	-152%
BEIA B	0,89	0,0047	1,0047	0,056	9,88	8,97	16,58	16,83	16,93	8,38	2,45	15,67	9,58	-13%
ATCO A	73,07	0,1481	1,1481	0,064	10,48	11,55	24,76	24,4	24,33	16,83	0,33	27,83	22,46	-5%
ITW	73,41	0,0682	1,0682	0,059	8,76	2,32	27,41	27,24	26,65	15,81	1,59	31,89	24,2	10%
HEXA B	24,97	0,0751	1,0751	0,060	5,76	6,72	30,11	30,73	29,01	23,95	2,05	11,47	7,95	6%
AVERAGE	**36,9**	**14%**	**1,14**	**0,06**	**9,84**	**10,80**	**22,46**	**24,00**	**23,17**	**16,73**	**-2,23**	**16,82**	**11,79**	**0,52**

Generalists Dataset

Ticker	Market Cap ($b)	5Y Performance (CAGR) (%)	Diluted EPS 5Y CAGR (%)	Revenue 5Y CAGR (%)	EBITDA Margin 3Yr Avg (%)	EBITDA Margin 10Yr Avg (%)	EBITDA Margin 5Yr Avg (%)	FCF Margin 10Yr Avg (%)	Net Debt / EBITDA	ROCE 5Yr Avg (%)	ROIC 5Yr Avg (%)	CapEx to OCF (Reinvestment Rate)	EV/FCF
BRO	28,9	20,5	21,25	14,5	33,01	32,06	32,22	23,39	1,86	11,95	7,84	0,08	40,44
KPG	0,3	60,38	7,92	22,02	28,72		29,56		2,5	23,7	14,34	0,13	17,73
BYDG.F	4,62	-0,65	-7,33	13,51	7,35	8,18	7,77	8,64	5,51	6,35	4,01	0,22	17,73
FERG	34,43	13,63	12,29	8,48	10,5	8,64	9,81	4,64	1,66	26,12	18,75	0,2	38,58
AHT	26,88	15,45	9,98	12,44	43,5	45,1	43,97	8,19	2,28	14,51	10,51	0,6	73,92
TMO	208,71	10,75	12,41	10,93	27,08	26,53	28,3	16,04	2,73	12,4	11,48	0,15	36,23
MC	326,09	8,72	16,3	11,28	29,72	25,69	28,12	14,49	1,22	18,36	11,97	0,32	21,22
DSY	46,36	2,71	11,84	9,49	25,7	26,07	25	24,05	-0,71	10,2	7,48	0,11	29,75
TDY	21,38	4,88	14,34	12,69	24,67	20,31	23,05	12,2	1,66	8,5	7,77	0,09	24,46
TDG	70,41	16,41	13,11	8,74	47,21	45,22	44,79	19,69	4,79	13,65	13,43	0,08	14,17
ASSA B	32,37	7,82	10,97	9,85	18	17,3	17,28	11,25	2,34	14,69	9,48	0,12	25,86
XANO B	0,32	2,11	-21,76	8,84	12,2	13,76	13,23	8,95	3,49	14,4	9,28	0,19	11,02
JDG	0,69	10,87	1,93	10,83	24,58	18,84	22,6	13,62	1,62	18,78	15,5	0,29	39,16
AME	41,33	11,9	9,18	6,16	29,99	27,83	29,31	19,27	1,01	13,8	10,92	0,07	33,29
AVERAGE		13,2	8,0	11,4	25,9	24,3	25,4	14,2	2,3	14,8	10,9	0,2	30,3

Specialists Dataset

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