Oddbjørn Dybvad (REQ Capital) – Acquisition-driven Compounders

Tom Yeowart: Oddbjørn welcome to the podcast. Thank you very much for coming on.

Oddbjørn Dybvad: Thanks for inviting me.

Tom Yeowart: So, I would love to start by learning about how you got into investing in the first place, what the beginning of your career looked like, and then how you came to co-found REQ and really, what you are trying to achieve at REQ?

Oddbjørn Dybvad: If you go back to my time at business school, I had this curiosity around what drives companies and ultimately share prices. And I, of course, was investing back then, but had no principles, I have to admit, and no framework. And started more than 15 years ago on the buy side and managed a global generalist equity fund for 12 years.

And of course, made a lot of experiences over that. Led me into what we will talk about today, acquisition driven compounders. It was a group of people founded REQ Capital two years ago here in Oslo, Norway, and we invest in what I think are quite unique companies and what we're trying to build is, I would call it a knowledge centre around these business models. So, we are a team that manage the REQ Global Compounders and the REQ Nordic Compounders, two equity funds.

Tom Yeowart: It is striking how different you are to a lot of global equity managers. And I would love to learn what drew you to these acquisition driven compounders?

Oddbjørn Dybvad: It has been a journey or an evolution over many years. I came to appreciate the risk side of these business models. So, when I talk about that I talk about trying to avoid single exposure risk, meaning I have made a lot of mistakes during my career and many of the commonalities among those mistakes were single exposure. So, investing in companies that just sell one product to one client in one market, basically. When you look at the acquisition driven compounders they are very diverse. They sell a lot of different products and services to lots of different clients in lots of different markets.

So, I came to appreciate the fundamental risk aspects of these businesses. I came to realise that the return side was quite interesting as well because when you study these acquisition driven compounders and the best of them, they are able to redeploy often 70-80%, even 100% of free cash flow at very high returns on capital - 20% plus for decades.

And when you have those three ingredients on the return side, high reinvestment rate at high returns for a long period of time, you create a lot of value. So, both the return and the risk side drove me more and more into these companies and I wanted to invest purely in these businesses.

And of course you have some examples in the UK. So, for the UK listeners, they might be familiar with Judges Scientific, Diploma, of course Halma has been doing this for many, many years.

George Viney: Did geography play a role in your development, your exposure to these businesses at an earlier phase in your career than perhaps is typical simply because there seem to be so many very successful serial acquirers in the Nordics, particularly in Sweden. What is the reason for that? And was that a driving force in your appreciation of these businesses?

Oddbjørn Dybvad: I think you are right. We are based in Scandinavia and there are quite a lot of these successful ones coming out of Scandinavia, especially Sweden, as you say. So, sitting quite close to the market and observing the ones that were good, I think it was an important start. And if you look globally, we have a database of around 300 companies. But if you look at Sweden alone, you will find around 70 to 80 of these acquisition driven compounders.

And why Sweden? I think it goes back to Bergman & Beving, a company founded in 1906 that started to acquire small, private niche companies as part of their strategy. And of course, there is also a culture in Sweden of long-term owners and industrialists. So, if you look at the best acquisition driven compounders out of Sweden, they have been developed over many years, decades. And it takes long-term patient owners to do that. It is also interesting to see that if you look at the Swedish companies over the last five years, they have broadened themselves a lot outside of Sweden. You see lots of acquisitions going on in the UK by Swedish companies, in the Netherlands, Northern Italy.

If you look at one of our holdings, Lagercrantz they are also speeding up in the UK. They bought in July last year a UK company called Door and Joinery Solutions. And it is a typical acquisition that we see, not just from Lagercrantz but across our portfolio. A private company being acquired that constitutes about 0.8% or 1% of the holding company sales. So, these are small acquisitions and regarding Door and Joinery Solutions, it is a UK provider of high quality, customised, fire resistant doors for public buildings, schools, hospitals, very high margins, around 30% operating margins. And the founder of that business continues in his role. So, that is what we typically see across the portfolio on a weekly basis.

So, when we look at this space, we find them in the Nordics, we find them in the UK, in Canada, some in the US. But that is primarily our hunting ground.

Tom Yeowart: As serial acquirers and as the acquisition model has become more popular, people have sought to create a framework for thinking about these things and you hear people refer to them as roll-ups, as holding companies, as acquirers. I would love to know how you define your universe because there are different types of serial acquirers. But also, which part of that universe you prefer?

Oddbjørn Dybvad: That is a great question and there are lots of ways to look at this. On a general level, these are publicly traded companies that generate strong free cash flows and they use that strong free cash flow to acquire small private firms. That is the heart of the strategy. These listed organisations; they excel at identifying, negotiating and completing acquisitions in the private markets at quite attractive multiples. Taking it from there, you can look at these in many different ways. And we try to keep it very simple. We like to talk about generalists and specialists. So, when I am talking about generalists, these are sector agnostic companies. I like to think of Berkshire in the early days where you only had the private part of Berkshire, not the big listed part. These companies invest in many different sectors and geographies.

On the other side, you got specialists that only operate in one niche or in one geography. And we often also see that specialists become generalists over the years. So, Lifco in Sweden is a good example. They started only with dental distribution companies, 25 years ago and evolved into a generalist of 200 companies in lots of different sectors.

We are careful on pure roll-ups. You mentioned roll-ups. You have some success stories there, but you also have some big failures. And the reason why we are quite careful on those is that they often are quite aggressive. They often use a lot of debt. So, in our world, we tend to look more on the generalist and prefer those.

Tom Yeowart: And clearly prefer companies that are funding their acquisitions through free cash flow rather than going to market, raising new capital. Yep. Yeah.

George Viney: And Oddbjørn, it's interesting that by focusing on those businesses that are acquiring small, private businesses, you are by definition excluding many successful acquisitive businesses like Berkshire Hathaway, but also like Danaher, like LVMH that are buying publicly listed businesses and have had great success doing that.

Oddbjørn Dybvad: I think you could say that when we started off two years ago, we're a small boutique asset manager, we're building the company, and it makes a lot of sense for us to try to find these small, mid cap type of companies that have this strategy and that have a very long runway of redeploying capital.

It is much more difficult for Danaher or Berkshire to repeat the success than perhaps a company with a market cap of a billion dollars or below. But of course, it is important to learn from the successes, right? To learn from the Danaher's and the Berkshire's because there are some signs you can look for in the small mid-cap space that could tell the story that this could become a really good company over the decades.

Tom Yeowart: Just taking a step back, you talked a bit about generalists and specialists and your preference for generalists, but can we go into a bit more detail on the advantages and disadvantages of each model? So, I guess if you are a specialist, maybe it is easier to acquire companies within your industry at a quicker pace to begin with, but you may be run into issues around redeployment of capital at some point, as you become too big a part of the market. Whereas generalists, maybe it is harder to begin with because you are having to expand your circle of knowledge and competence. But you obviously have a much longer runway of redeploying capital. Are there other aspects that naturally lead you towards generalists?

Oddbjørn Dybvad: I think you are spot on. You are talking about the return side of things, having a long runway that leads you into generalist. But it's also on the risk side that we just talked about, that we feel that when you become more diversified across sectors and across companies and geographies, we are more immune to failures because many of these companies that we own, they acquire typically, 10, 15 companies every year some of them, and they have portfolios of somewhere between 50 and 200 companies. And if all those 200 companies are within one niche that could be quite painful if that niche gets into challenges. But if those 200 companies are spread across, if one of those 200 companies get into trouble, we know for sure that if management is not able to solve the issues it does not impact the whole portfolio to a big degree. So, I think we have appreciated the risk side of the generalists.

George Viney: You mentioned your aversion to debt, preference for companies that acquire from free cash flow. And also businesses that run into diseconomies of scale as they get too big, your preference is for the smaller and more nimble businesses that are earlier on in their acquisitive growth story. Are there other red flags, which create no-go areas for you when looking at businesses that maybe of a mid-size, maybe funding their acquisitions out of cash, but otherwise turn you off?

Oddbjørn Dybvad: You touched on capital allocation. So, what turns us off generally is having to fund acquisitions through issuing equity. Of course, we have some exceptions to that. When you are get in quite early, some of these need to use a little bit of equity. But on a general level, these are cash generating businesses that use own cash flow.

They are generally family owned, or management owned, which means that they are quite conservative, I would say. They could use much more debt than they use, but given the ownership structure, they keep it quite conservative. So, we try to avoid those companies that use a lot of debt in order to acquire private companies. We also are quite cautious on companies that do not embrace fully decentralised structure. We prefer decentralised structures, small head offices and lots of autonomy. And we prefer insider ownership of course, that goes without saying, you want skin in the game. And that is important in all type of companies, right?

Tom Yeowart: These companies are unusual in many respects. The way they are run is different. Their culture and philosophy is very different. Does that also translate into the way they communicate with shareholders and what advantage and benefit does that bring?

Oddbjørn Dybvad: I think you are right. We often see that these companies, since they are family owned or management owned, they tend to communicate in a different way. They tend not to guide the market, which we appreciate. I would argue they tend to have a longer-term mind-set. So, the way of communicating, I would argue, is a competitive advantage because I think that many of these companies attract very long-term shareholders that do not appreciate short-term guidance.

And I guess many listeners have read the same type of books as us, like the Outsiders and Intelligent Fanatics and those kind of books on outstanding CEOs. And many of these are operating behind the scenes, that do not search for publicity. There are many ways these companies differ, I would say. So, in order to invest in them, I think you need the conviction that this is the right way of communicating and you need the discipline to hold on.

George Viney: Do you think the cultural aspects that come with that style of communication and management and operations, do you think that that is durable? What gives you confidence that these aspects can survive the absence of a founder, an owner operator that really holds the keys to the direction, ambition, scalability of these businesses?

Oddbjørn Dybvad: That is a good question. When I started investing in these companies many, many years ago, I thought one of the biggest risk I was taking on was a founder risk or a key man or key woman risk, right on the top. But I have come to appreciate the culture building of these outstanding CEOs. And I have come to realise that I think many of these companies are less dependent on the top person than I initially believed. I have seen several transitions where you have seen CEOs retire and leaving the responsibility to the next generation. And the culture seems to be intact.

And by the way, these CEOs they do not quit. They retire in general. Typically, you know many years in advance the succession planning of these companies. We like internal succession planning. There is quite seldom that you have external hires. You do have some exceptions.

Tom Yeowart: I was just going to ask on Diploma where somebody is hired externally, they come in, the model is tweaked. I think it is fair to say in Diploma's case that they have probably pushed their foot down on the accelerator a bit and have started doing bigger acquisitions. And so far, that has been pretty successful. I think Windy City has generally been a very good acquisition, but where also I think that was funded out of raising new equity. So, I am interested when there is change in the people at the top, where there is also change to the way they operate just how you analyse and consider that change.

Oddbjørn Dybvad: Diploma is quite a special case in two instances. The first one is external hire of management. And the second one is what you might call a change in strategy or at least bigger acquisitions. On the general level, those two things, the external hire and also seeing a change towards bigger acquisitions is something that makes us watch and follow the company closer than we have previously done. And I agree with you, the acquisitions so far have been good. And that is why we sit and own it.

There are generally two reasons why we sell and this is a very long-term strategy that we run, but we quite seldom sell. But in instances we sell, it's when we realised we have made a mistake in terms of assessing capital allocation or it's not as decentralised as we think or there is some sudden changes in management, external hire. But we seldom sell because the company in question is trading at a high multiple. That happens now and then in these companies that sometimes they get priced up because of good execution and selling based on that and trying to buy it back is not something we try to do.

George Viney: And as you mentioned earlier, Oddbjørn, the confidence you have drawn from observing these businesses over many years is partly driven by understanding that they are not entirely dependent on one individual, one capital allocator at the very top of the pyramid. And perhaps that informs your emphasis on decentralisation as well.

Could you unpack this point about decentralisation and why it is so important in your investment criteria?

Oddbjørn Dybvad: Yeah, we strongly believe in decentralisation and entrepreneurship. Decentralisation, it is an organisational form that is basically based on the belief that management do not have all the right answers about underlying divisions or subsidiaries. They do not have all the answers about how to deal with customers, suppliers, and competitors. So, management in these organisations that we prefer, they delegate a lot of responsibility and of course with responsibility comes increased motivation and knowledge sharing. So, I would say that decentralisation is a philosophy of using a carrot rather than the stick.

What we see is that, truly decentralised businesses, they have inherently very lean corporate headquarters. There are typically just a few people on headquarters, and we fundamentally believe that these companies enjoy some kind of entrepreneurial energy from which we as shareholders can greatly benefit from.

So, the key is to be true to decentralisation, avoiding the halfway approach where top management interferes in subsidiaries now and then. So, at the heart of decentralisation is that entrepreneurship should be actively nurtured and applied.

I think it is quite different from the traditional private equity approach, where the traditional approach is to buy a broken business at low multiples, turn it around and realise the multiple expansion at exit. The best acquisition driven compounders that we invest in they have quite a different approach.

They buy private companies, often with good growth prospects, good return on capital. And the value creation framework, so to speak, is to let these good private companies continue to operate independently and help them to achieve growth targets, generate cash flows, and generally work with some very simple incentive mechanisms to keep growth and cash flow and return on capital up. So, on an overall level; these are permanent homes where founders of the underlying companies continue to operate. They often continue to own even 20%. So, on an overall level; I think our strategy harness some kind of entrepreneurial energy, which is above the average listed company out there.

Tom Yeowart: Thinking about the risk side of the equation, given the decentralisation and the autonomy these are naturally businesses that are more agile and adaptable to changing environments. Is that the case?

Oddbjørn Dybvad: Yeah. We believe that, that many of these companies, since decisions are taking so close to the end market, they are easier to adapt. You also see it through the financials. When you go through stressful financial times, you often see very strong cash flows coming out of these holding companies, so to speak, or up to the holding company because the underlying enterprises are incentivised to generate cash. So, I would say that these companies are faster to adapt to changing market needs than many other companies out there due to the organisational structure.

Tom Yeowart: On the decentralisation, centralisation point, is there a distinction to be made between specialists and generalists? I am thinking of the likes of the Danaher's of the world who have made a virtue of having a business system that improves efficiency, improves margins. Whereas what I believe you are saying with the generalists is that actually all those things, integration, cost efficiency, they get in the way of autonomy and decentralisation. So, it would be interesting to hear you talk about maybe some of the differences between the companies you own and whether centralisation, integration can work for some, but really do not work for others.

Oddbjørn Dybvad: If you look at the generalist, many of them, they work through some very basic principles or call it incentives down in the underlying companies when it comes to cash generation, return on capital and growth. So, of course, our companies, they take a board seat in the underlying enterprises. And when you talk about business systems, the Danaher Business System, I think many of the companies we invest in; they use these very simple metrics to both track and motivate.

One of the companies we have invested in they bought a Scandinavian company a few years back. And I spoke to the CFO of the company being acquired and she told us that the organisation as a whole that was acquired did not notice a lot of difference. But the management in the company that was acquired noticed of course the focus on cash generation. What she told me is that when she reported up to the holding company, that these companies typically do on a monthly timeframe, she was told by the top management that all receivables that were older than 30 days, were written down to zero as she reported up to the holding company. So, what do you do as a CFO when you know that your receivables older than 30 days are written down to zero when you report up? Well, you take up the phone and you call your clients and you ask them to pay. So, back to my cash flow argument, these are businesses that work through some kind of business system, if you could call it that, being incentives that are very aligned to what I think shareholders would like, being cash generation, return on capital and growth.

Regarding specialists and generalists. I think of course, many of the specialists, and we do not have a lot of specialists in our fund, but it makes sense for some of these specialists to adapt some more common type of synergies. It is easier to get some synergies out than on a generalist level. Generalists tend to not hunt for synergies at all. What they typically do, the generalist is to have annual conferences where they invite all the underlying subsidiaries and where the underlying subsidiaries are allowed to, of course look for synergies if they would like to. But there is no pressure for a common ERP system. There is no pressure for cooperation.

George Viney: As a shareholder and analyst of these businesses, how do you gain comfort and clarity on a business like Lifco, which has over 200 businesses. There must be many businesses that are outperforming, many that are underperforming. But how do you get insight into what is going well and what isn't at a company like that?

Oddbjørn Dybvad: It starts with, of course, track record. And it also boils down to management. So, if you look at the specific case of Lifco, it is a company that we have followed over many, many years. We know how they operate and you have seen the results for many years. Of course, that creates some confidence. And when you know that the current management has basically had the same playbook for many, many years. And they are still quite a small company in an international context. We know that they can continue with this same playbook for many, many years to come.

So, our analysis is based on, of course, track record, management and the three principles we invest behind. So, capital allocation, decentralisation, and ownership. And I think all those aspects are covered in Lifco and we think they can continue to reinvest for many years to come.

Tom Yeowart: Clearly, you have a preference for companies that are decentralised in terms of their operations but I just want to explore capital allocation and the extent to which that is centralised versus decentralised.

Oddbjørn Dybvad: Well, you have different examples there, right? You have the North Star, Constellation Software. It has been a very successful model when it comes to decentralising capital allocation. There are not many Constellation Software's out there that has been able so far to do that successfully. But I would also argue that, you just mentioned Lifco, under the top management there are several portfolio managers that can do acquisitions and so, I think in some of these companies capital allocation is more decentralised than it might look like.

When you get bigger as a company like Constellation Software which is among the biggest company we invest in, you need to decentralise capital allocation in order to keep deploying capital. But in much smaller companies, it makes sense to have that structure on capital allocation only on top management. They create the structure and the understanding on what is a good business to acquire. So, there is a difference there. But as companies get bigger, I think they need to solve the capital allocation issue of having to decentralise capital allocation. I think it has to do with training, it has to do with culture because there are people in many of these organisations that have seen top management do a lot of profitable acquisitions over the years, and they learn how to do it and they get more responsibility. So, I think it is possible.

George Viney: There is something in the execution, scalability of successful capital allocation as these businesses grow. But there is also a more fundamental element of the opportunity you are seeking to exploit, which is essentially an arbitrage between private markets and public markets where these privately owned, often family owned businesses, are available at often very cheap multiples.

I would be interested to hear why you think that opportunity exists and why it can persist, why these businesses are essentially valued very cheaply for their cash flows and that there are many, many of them available so that these businesses can acquire them.

Oddbjørn Dybvad: That is a good question. Our companies, they typically pay somewhere between 4-8x EV/EBITDA for small private companies with generally high incremental return on capital and good growth opportunities. And of course, that is very cheap compared to multiples of quality companies in the public markets. And these type of acquisitions are less risky than large acquisitions because they do not require extensive integration processes. And the financial risk associated with the deals is lower also due to the small size. So, regarding the arbitrage opportunity, and perhaps we should be a bit careful of calling it an arbitrage because of course there are risks involved in all type of acquisitions, I think that arises from the information asymmetry of acquiring these small private companies because large companies are often mature businesses while small companies are often reliant on a few customers and a few suppliers.

So, small private companies, they often receive a significant valuation discount due to that, even though both returns on capital and growth in these small private companies are good. So, these are small private acquisitions taking place of good companies at somewhere between 4-8x EV/EBITDA, and I think the market of course sees that these holding companies are very good at capital allocation. Because if you look at the pricing of the listed entities themselves, they often trade at a premium, right? And they often trade at a premium to the market in general. And the reason is, of course, that the market, at least in the short run sees that the capital allocation is very good.

I think the opportunity for us as investors into these businesses lies in that the market is not willing to look far enough into the future of the many years of opportunities that lies ahead of many of these companies.

George Viney: And that exists at both levels, at the target acquisition level that the founders are as sellers, but also willing participants to remain at the companies at which they founded, albeit under new ownership. They do not necessarily have the time horizon, the permanent home that you mentioned before of the acquirer. It exists there and hence often they will have low multiples for that reason. But then that is layered on top of, at the holding company level where investors seem to consistently underestimate the opportunity for reinvestment for, as Tom mentioned, adaptation and growth from these acquisition led businesses.

Oddbjørn Dybvad: We talked about Sweden early on, and if you look at some of the Swedish names historically, they have been acquiring in Scandinavia. Right. And of course, it is a big market, but it is a limited market. And what I find quite interesting about when we are discussing the Swedish ones is that the most successful ones are getting into Europe. If you look at the opportunity set in the UK or in Northern Italy, it is so much bigger than in Scandinavia.

So, then it boils down to, do you think a seller or an entrepreneur in the UK is different than an entrepreneur in Sweden or in Northern Italy? I do not think so. I think these are interesting homes for many entrepreneurs. All these sellers, they have the same challenges. There is not the second or third generation that wants to continue. There is often 60-year-old man or woman that still has a lot of energy, so they want to continue to run it under a permanent home. They want to of course offload some responsibility because they built this through their whole life. Many of these founders that sell into our companies, they are proud of their companies. They want to keep the brand name; they want to keep the employees. They do not want massive cost cutting. They want to keep their reputation in the local society. Back to the pricing discussion we had, there are many reasons why these permanent homes are attractive compared to private equity as you know what you get as a seller and you know that you are not sold to another party five years down the line.

Tom Yeowart: I have DCC the UK company in mind, but where the market starts to take a more cynical view of the underlying exposure. And this probably relates to more specialist businesses, which are not as diversified, but where the gap between the public market multiple and the private one starts to erode. And where maybe there are question marks around the sustainability and durability of the underlying businesses and how you think about that. Because on the one hand, these acquisition led businesses, they are adaptable. They can funnel capital into new areas and they can change. But on the other hand, the most successful ones seem to have a very decent blend of good organic growth and good inorganic growth.

Oddbjørn Dybvad: You mentioned DCC. We have been a long-term owner of that business for many years, and unfortunately, from a share price perspective, it has been one of the weakest ones that we have. Operationally they have been doing well. And I think, it has to do with concerns on the transition in one of their businesses. So, it is the cheapest one, so to speak, among all the companies we invest in. And that has to do with the uncertainty that investors have regarding future growth opportunities. We still believe in the company. We still believe in the management and the opportunities there. We have seen this company historically, go through similar phases of growth concerns. But we still own it. And it is quite a special case when you compare it to all the other companies that we have.

Regarding your point on organic and inorganic, it is good that you mentioned that because the companies we invest in, we tend to speak too much about the acquisition part. We tend to speak too little about organic growth and we care a lot about organic growth and many of the companies we invest in, as I've said, they come from a family background often, or a process oriented background, often asset light industrial companies, distribution businesses that understand how important it is to grow organically.

So, what you typically see in our companies is GDP+ organic growth. And these businesses combine that with acquisitions. So we like to look at companies that have these dual engines or growth, so to speak, both the organic part and the acquisition part.

Tom Yeowart: Going back to your definition of what a compounder is, so the ability to essentially redeploy capital and earn high returns on invested capital over a long period of time. I would love to know what the general characteristics of your global portfolio are, if you are thinking about return on invested capital, growth rate, all those things. Just to get a sense of I guess the underlying compounding power.

Oddbjørn Dybvad: If you look at the REQ Global Compounders Fund. If you study the cash flow sources and uses of cash for all the individual companies in the fund and you weight that sources and uses of cash by the position size in the fund, you get a cash flow bridge for the fund as if it was a company.

So, of course we have done that because that reveals a lot of characteristics about the portfolio. So, if you start to look at that waterfall of cash use and source, you will see that the companies that we invest in are very asset light. They have around 6-7% of their operating capital tied up in working capital or CapEx. It is often outsourced production and very low networking capital needs. What these companies in our portfolio typically do is to use somewhere between 70-80% of their operating cash flow to buy small, private companies, just like we've talked about today. And they generally do not issue shares. So, it's cash flow based. If you look at the debt situation of this aggregate portfolio over the last 15 years, it has increased a little bit up to about 1x net debt-to-EBITDA today. So, it is still reasonable in terms of debt and they pay some dividends. It is not a lot of dividends. It is about 0.9% yield on this portfolio. And we appreciate that they do not pay too much dividends because they can reinvest their cash flow at better returns than we can in the public markets.

These companies themselves, they can go into the private markets and deploy it on an aggregate level for the portfolio at around 20% return on equity.

So, it is a growth portfolio, so to speak, with high return on capital within private markets, but of course, publicly listed companies.

George Viney: I am curious to understand, given your experience, your long experience of investing in these businesses, how your preferences and criteria have evolved. What are the major lessons learned? And perhaps we have touched on them already, but it would be good to summarise them and draw them out.

Oddbjørn Dybvad: I think over my 15 years I have become more and more conscious about two things. One is risk, and the other is management. Because what we essentially do is to give our capital to capital allocators. And we have to try to make sure that these capital allocators have the right mind-set. So, I have become much more interested in trying to evaluate management, communication style and those aspects than perhaps anything else.

What I've become more interested in over the years is to try to use these principles that we're talking about today and the successful principles from those companies that have operated over many years to try and find some small ones that are early on in their growth phase, but has the right setup, the right people, the right capital allocation mind-set, right decentralisation. And when you find those companies, it could be like three, four, 500 million euro market cap type of companies, and if you are right, you could experience some massive value creation.

There are some of those in the portfolio, like a couple of Swedish names like Teqnion and also Momentum Group, where we think we see some of those characteristics of very successful ones early. Other lessons we touched on it. Trying to be careful on selling these companies based on just the short term high multiples. That is not our game. I think those are the biggest lessons, actually.

Tom Yeowart: Obviously, your approach is trust-based to a certain extent. It is about the people, the capital allocation, but it is often incredibly hard as an outsider to get a real sense for the quality of people. It can take time, it can take you building a sort of mosaic of information based on what they say and do. So, I am just intrigued into how you get those insights and how you judge people?

Oddbjørn Dybvad: We are not better than others on judging people. But I think there are some lessons learned from our side that we try to find people where it is clear that they have a lot of autonomy and freedom from the board. Where it is clear that they are process oriented, I would say.

Of course these business models, given the opportunity for creating a lot of value, they could attract management and setups with a short-term mind-set. Investment banking backgrounds, consultant backgrounds, private equity backgrounds that are in it for the short-term wins, right. So, we try to avoid that. We try to look at those that have a much longer and often more conservative mind-set.

Tom Yeowart: Oddbjørn, turning to our closing question, what piece of advice would you give your younger self at the beginning of your career?

Oddbjørn Dybvad: Oh, I should start to look at these businesses much earlier. But what should I say? I think quite early trying to learn from your mistakes, I think that is important to see if there is a commonality among the mistakes, you make. Try to put that into system over the years and see what comes out of it. Do that as early as possible. And of course, through that I think you get a lot of respect for the markets, respect for market efficiency and yeah I think that could be an advice.

Tom Yeowart: Great answer and thank you very much for coming on the podcast.

Oddbjørn Dybvad: Thanks a lot for inviting me.