Young Elephants

Conversations with founders & CEOs

Interviews by Matthias Riechert
P&R Investment Management Ltd

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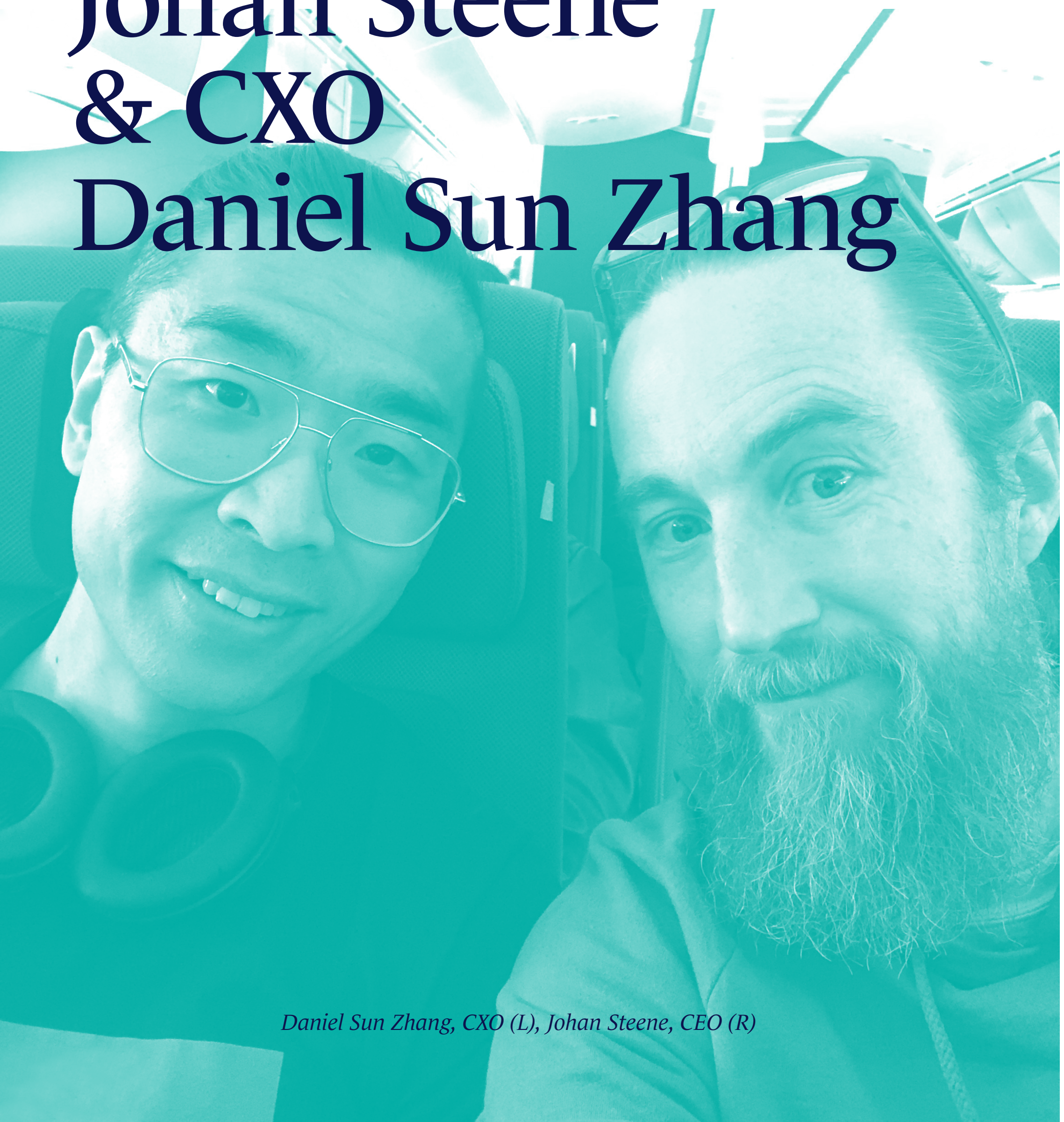
EXCLUSIVE EXTRACT

Teqnion
Co-founder & CEO Johan Steene & CXO Daniel Sun Zhang



Daniel Sun Zhang, CXO (L), Johan Steene, CEO (R)

Overview

Teqnion, founded in 2006, is a Swedish industrial serial acquirer active across a wide range of technical niches. The company operates through a decentralised structure of subsidiaries. Teqnion is following in the footsteps of successful Swedish serial acquirers such as Indutrade, Addtech and Lagercrantz. The company raised 80 million SEK at a stock price of 26 SEK through an IPO on the Nasdaq OMX in 2019. Since then, the company has grown organically and through acquisitions resulting in a stock price performance of 67% CAGR since listing.

Matthias spoke to Johan and Daniel in June 2023.

History

Matthias Riechert

Hi Johan. I'm very happy to speak to you. Please tell us, how did Teqnion start?

Johan Steene

Teqnion was founded by my best friend Jonas Häggqvist and myself back in 2006. His parents were a big part of it because we didn't have any money. We just knew that we wanted to start our own company. His parents were shareholders in a couple of small companies, trading industrial goods on the Scandinavian market. Jonas' father had been CEO of one of the Bergman & Beving subsidiaries in the 1980s and 90s. So he told us about that type of business models where there's an industrial conglomerate that scouts for and acquires small, technology driven, more or less family owned companies with a good track record and solid history, low business risk and good cash flows and just incorporate that type of business into the big conglomerate and continue to let it be a small, resilient, flexible company with good earnings and cash flow.

> It sounded so easy because we didn't understand better and we were young and naive.

So we thought we can do that and we can do it fast and we can do it much better than anyone else. We looked a little bit at Indutrade and Addtech that came out of the old Bergman & Beving and we said, we can probably do this.

We started out by persuading Jonas' parents that they should trade in their shares they had in two trading companies or agent companies into Teqnion shares. In addition, there were five other shareholders of these two companies that took a little bit longer to persuade. But in the fall of 2006, we had founded Teqnion. And all of a sudden, we had the new mother company Teqnion with two fully owned subsidiaries. And we started out by that, without any money but by convincing existing shareholders of two companies to build Teqnion together.

Jonas was CEO and I was the operational manager. So I was, I don't know, like a COO. I started working with the people inside these two subsidiaries, trying to understand what made a small industrial company successful and profitable. Jonas focused on finding new businesses that we could take over and spoke to banks to build relationships. Since we didn't have any money other than the money that was coming from our business, we needed them to lend us money. Our own cash flow and bank loans were the way to grow.

Matthias **How much financial firepower did the two companies produce back then?**

Johan There was no firepower at all. It was just wet gunpowder. I think together they were turning around a little less than 30 million Swedish

(in mSEK)	2015	2016	2017	2018	2019	2020	2021	2022	CAGR
Revenues	175.6	178.7	197.1	296.2	579.5	659.1	920.2	1324.8	28.7%
Gross Profit Margin	41%	38%	40%	42%	37%	39%	43%	43%	
EBITDA	24.9	13.9	17.5	30.0	24.1	55.1	100.3	139.8	24.1%
Margin	14.2%	7.8%	8.9%	10.1%	4.2%	8.4%	10.9%	10.6%	
Net Income	14.9	9.8	13.6	26.0	32.5	44.0	79.8	110.4	28.5%
EPS	NA	1.81	2.42	4.05	2.12	2.69	4.88	6.79	
Op. Cash Flow	13.1	13.2	22.7	35.0	18.8	114.8	119.6	104.9	29.7%
Cash Acquisitions	-12.1	-7.8	-4.3	-56.6	-50.4	-59.3	-158.9	-133.3	
Equity	30.2	38.0	51.2	96.8	212.6	256.8	336.8	443.0	
Long-term Debt	16.0	11.3	9.0	44.1	57.4	56.6	105.5	124.5	

Table 1: Financial overview
Source: CapitalIQ as of June 30, 2023

Krona in the beginning. That's like 3 million Euros. We earned, maybe 5% before tax. So that's something like 150,000 Euros in cash flow.

Matthias **And that was before central cost, though. You had to be paid a salary.**

Johan We had very small salaries, of course, because we were young but worked hard and we believed that we could take over the world really fast and put Teqnion on the stock exchange. I thought, maybe, it will take five years to build something sustainable, Jonas is faster and believed we could do it in three. We would never believe it would take 15 years to get where we are now.

DIVIDEND ADJUSTED STOCK PRICE (SEK)

67% CAGR since IPO

Chart 1: Stock IPO'd on April 4, 2019 at SEK 26
CAGR is based on stock price of SEK 230. Source: CapitalIQ as of June 30, 2023

I think we bought the first company in spring 2007. But you have to keep in mind that the first rule of building a company group like this is to acquire quality companies with a solid history, low risk, good cash flows and good earnings, big moats towards competition. Those companies tend to cost something and since we had very little money, we had to ignore that first rule and just pretend that it doesn't apply to us. Of course, we knew it was wrong, but we had such high thoughts about ourselves that we just said this is what we can afford, so we will be able to manage it anyway. So Jonas bought companies and I jumped into these companies and tried to understand how to turn the culture around and make them good.

And this would probably not have been doable if we didn't have a good economic situation. So it was really good we could start earning money. Even though these companies had a lot of problems when we tried to do good things with them. We started earning money more or less because the macro environment was still good.

And all of that money went into new acquisitions and into hiring more people and opening up new offices. Yeah, we didn't look around the corner at all. We thought highly of ourselves and before we started we thought it would be really easy. Oh, it's so easy and why don't more people do this? In the fall of 2008, the financial crisis hit hard. We lost a lot of orders. All of a sudden, we were stuck there with all our costs and we didn't have any assets to sustain ourselves. I mean, everything that we had built up until that point, which was a lot because we grew really fast, it was just trembling and on the brink of collapsing.

Matthias **It sounds like your whole company became a turnaround situation.**

Johan Yeah, it was definitely a turnaround situation, especially when it came to culture. I think we bought companies where the owners wanted out because the culture had turned rotten, at least in some respects. The companies we were able to buy didn't tend to have a pleasant work environment. If you keep on doing business like that, everything's going to implode on you. I mean, no one wants to be with you, not your co-workers, not your customers, and not your suppliers because you're going to do a poor job.

My job was to turn around these cultures. When you start doing that you realize it's doable, but it takes a lot of effort, patience and time. It's not something that you can do fast. You want to do it well so that it remains stable for a long time. It takes years to turn around a rocking culture.

In 2008, when everything was trembling, we had to find someone to re-capitalize us and help us downsizing in an orderly fashion. We were very lucky because Eric Suren, he was one of the shareholders that traded in his shares into Teqnion shares in the beginning, one of the original Teqnions, connected us with two new investors, who had just sold their company and were looking for interesting investments. And they came along and me and Jonas tried to convince them that we were a good bet. It was hard but somehow, they believed in us and they put some money in. And with that money we could downsize Teqnion until we stopped bleeding. We were on firm ground again in the summer of 2009. We were half of our staff; we were half of the sales. I think we ended up 2009 with 45 million Swedish Krona in sales and we lost almost 1 million Swedish Krona.

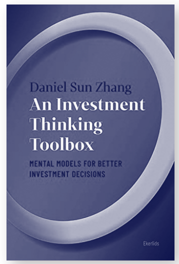
Jonas felt that we delivered what we had promised to our new investors. He said, we tried this, it didn't turn out the way we wanted, but, what's the word? He's not such a nostalgic guy. He decided to do something else and resigned. And I thought, well no, I'm slow and stubborn. We wanted to build something really big, and this was not big anymore. I don't like quitting. I spoke to the majority shareholders and said, if I do it alone you have to understand that I will do it in my own pace. I'm not Jonas. And they said, that's fine.

FOUNDER

Johan Steene is CEO and co-founder of Teqnion. He studied mechanical engineering at the Royal Institute of Technology in Stockholm. He owns 5.9% of the company. Johan first learned to manage a business when he organised the Student Carnival Festival in Stockholm. Finally, before starting Teqnion, he learned about business models and development while working at a company that sold lottery systems to state owned lotteries. Johan also competes in ultramarathons. He won the Vol State ultramarathon in 2022.

CXO

Daniel Sun Zhang, CXO, focuses on acquisitions and business development at Teqnion. He joined Teqnion in 2021. Previously, Daniel worked at McKinsey & Company, Bain & Company and as head of strategy and business development at Textilia AB. Daniel graduated *summa cum laude* from Stockholm School of Economics. He is the author of the book "An Investment Thinking Toolbox".



Matthias **What were your learnings and what kept you going at that stage?**

Johan I think by doing this for a few years I had realized, that I actually had the ability to make people enjoy what they were doing at their work. I could somehow influence people to want to become really good at what they did. And by doing that, getting a positive response from their co-workers and colleagues. They went into a positive spiral where you do good things and try your best and you get appreciated for that and you do more of that and all of a sudden that company starts to earn money, because that's what happens when people try to be good at what they do.

Matthias **Since 2021 you work with Daniel Sun Zhang who is CXO. Can you tell us how you met and what the title CXO means?**

Johan One day in the fall of 2020 I received a cryptic text mentioning an idea for a new CFO from an unknown sender with a funny avatar. We were hiring at the time but this contact felt a little bit sketchy. I replied in a text that question or idea should be sent via email and thought no more of it. The same day I received a long letter from Daniel that intrigued me and I then asked if he could come over to the office for a talk. After a three hour talk, I knew he was a warm, humble and brilliant guy so, I told him he couldn't be the new CFO, but that I would love to work with him if he wished to join the team. He asked what his position and tasks would be, I replied that we would figure it out together as we went along. I offered him the position as CXO where the meaning of the X could be decided later. He jumped onboard and since then we have had a lot of fun!

Matthias **The first time I met you was at the Redeye serial acquirer conference in Stockholm in 2021. You presented your company to investors and analysts. I remember that you read word-by-word from your script and barely looked up. What was going on?**

Johan Yeah, that was a very special day. I have two sons. One of them struggled a little bit in school, especially when he had to stand in front of the class. That day, he had to do a presentation and I couldn't convince him to go to school. I understood him well because when I was his age, I was shy, too. I was really scared to talk in front of people.

I said, okay, you don't have to go to school today, but then you have to come with me to my work and see what I do in such a situation. I said, it's possible to speak in front of people by just writing down a script and then simply follow it. I will show you today how that works. So, he sat in the audience, and I just followed my notes on a piece of paper. It was hard because I normally tend to look in the audience and improvise. But I really wanted to show my son that it's possible to just force yourself through a task that feels too big in a moment. Just get it through and get it done. I think it was good for him to see that I'm confronted with the same type of challenge.

Matthias **I was very impressed when I heard about that afterwards, because it means that you are teaching by example and you were willing to sacrifice your reputation as a CEO for your son. Speaking of struggle, tell us a little bit about your hobby endurance running.**

Johan I read about this sport or hobby in 2010. I was curious. I was not interested in competing or becoming good at it. I was just really curious where my own limits were. Can people really run 100 miles in 24 hours? Or is it just 100 people on the earth that can do that? Last summer I ran the Vol State Road Race across Tennessee. It's extremely hot and humid and you run on rural roads, countryside roads, through small towns crossing the entire state. It's 314 miles long, the only irrational race since it is Pi x 100 miles, which is 500 km. You do that as fast as possible while the clock is ticking until you reach the finish.

Matthias **How long did it take you?**

Johan Three days and 20 hours approximately.

Matthias **That's almost 100 miles per day! Isn't your body giving up at some stage?**

Johan It's the brain or your thoughts or your will that will just give up. You can't stand it anymore. The body is fantastic. It can do anything. But your brain needs the will and it needs to sleep at some time. Otherwise the chemicals get unbalanced.

Matthias **What have you learned from this experience?**

Johan I think it's just that I don't want to give up. Even though that everything looks dark and it's terrible and I hate the place I'm at or where my mind is, I know that it's just for now. I can be here in pain right now.

I can be here in pain for a day more, or a week more. Because there's an end to it.

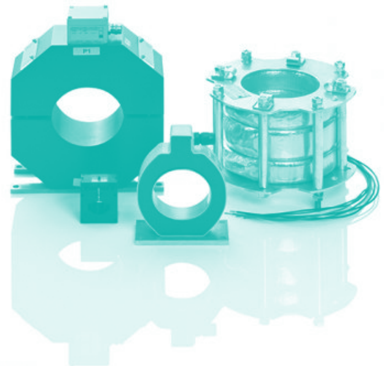
I just have to get there. It's possible to push through. You don't have to force it or do it fast. Just accept where you are and keep on moving. I did quit one race in 2011 before the finish line. And I hated that. I have never done that since. I just continue. Of course, I have performed really poorly in many races, but I always tried to reach the finish line because that's what I signed up for. I don't have to perform well in the field of competitors, but for myself, I need to reach the finish line.

SELECTED TEQNION SUBSIDIARIES

Vicky Teknik – Complete system supplier of equipment for TMA vehicles.

Elrond Komponent – A complete portfolio for a safe electrical environment.

Hem1 – Design villas.



Injab – Leading supplier of measuring transformers.

Reward Catering – A Dublin based trailer and food truck manufacturing specialist.

Teltek – A market leading supplier of industrial scales.

Cellab Nordia – Comprehensive solutions in pathology, histology, cytology, cell and molecular biology.

Business model and products

Since 2006, the company has acquired 26 firms across Scandinavia, Ireland and the UK. Teqnion focuses on buying capital light businesses that supply a niche physical product. Teqnion aims for a cash return on their investment within five years.

Matthias **How would you describe Teqnion's business model?**

Johan We are an industrial group of companies that supply or sell physical products business to business. We hope to have moats towards competition, often in the form of regulations or standards around the applications so that it's hard for competitors to come in and take a piece of our cake. On top of that, we grow a lot by scouting, finding, and acquiring healthy companies with low business risk, solid track record, good earnings and good cash flow. We want to own them forever and try to help them evolve and become better over the years. We're not looking at a specific industrial niche or segment. We look broadly into more or less every industrial niche but only at companies that supply a physical product. That's very important for us because we need to understand the business model. Will this physical product still be relevant for society in ten or 20 years?

Most of what we sell is unsexy or rather boring but it's necessary for society.

Matthias **Dan, you search for companies to acquire. Can you dive deeper into your acquisition criteria?**

Daniel Yes. Let me start on the financial side. We look at high returns on capital. That's one thing. It has to be high and I want it to be higher than our group average. I also look for stability of both revenues and margins over time. I prefer firms with growth over time. I like when gross margins are high, higher than the average. I would not go below 40%. I want to ensure that the company is really creating value and capturing a part of that in free cash flow. I like EBIT margins that are higher than average.

We want the organization to be big enough to tolerate changes, if someone retires, if someone wants to change their job, if someone dies, or whatever. So, we very seldom consider a company with fewer than five people. We look for high revenue per employee, for example if you're below 100,000 Euro per employee, it would need to be very special case for us to look at it.

And then going more into the qualitative side, we need to work with people. The litmus test is basically, can I give them my house keys? Do I feel comfortable giving them my bank account password? And if the answer is yes, then we can proceed. If we feel that, no, this person is just trying to say the right things to sell the company, we walk away. I mean, the due diligence process for us is really on the people. How do we collaborate? How do we work together during this period? When we negotiate the contract, for example, how focused are they on small things? How do they prioritize their time? How do they prioritize our partnership rather than squeezing out one extra percentage?

At small companies, one person could be worth a third of the whole company. If you buy it from two entrepreneurs, those two guys could be 60% of the company. Our assessment of people is very important. We understand people, we understand entrepreneurs in this context. We understand businesses of a certain size, we understand business to business, industrial things, technical things, et cetera. But we also know that we don't understand every niche.

If you don't understand jewellery, you need to know the jeweller.

I think it's equally important to understand what you don't understand and be fine with it. You need to understand human behaviour. I don't think that will change.

The financial engine

Johan It's important for us that our growth on a group level is quite stable. It's not so good if it jumps a lot because the cash flow is used for reinvestments. So we always get this current stream of money that we can redeploy to whatever we want it.

Matthias **I know that you are very good at walking the shop floor to assess the quality of a business. Can you tell us more about that aspect?**

Johan Walking the shop floor is very important for me. I don't know if I'm good at it, but I am curious, really curious, passionately curious, especially when we are looking at new companies.

I love learning new things. I want to understand how everything works.

And if I just let that feeling come out, I think people feel that I'm honest, because I am. And then we tend to have a very honest discussion. And then you can ask honest things and get honest answers. And that gives you a really good perspective on how that person and the company is functioning.

When it comes to a shop floor you try to look at the operators of the machinery there, or people sitting at an assembly line assembling things, and you can have eye contact with them and you greet them in some way and you see that they smile and greet you back. That's just small indicator. But it's a healthy thing. I mean, you can walk a shop floor and no one will look up. And if they look up, they soon look down and they won't try to reach you in any way or greet you in any way. So that's a small thing. And then of course, simple things – is it neat, is it clean? Are they proud of the place where they work? I love people that are proud of the place where they work.

Matthias **What other aspects are important for you when dealing with people?**

Johan The owners usually want to show their business plan for the coming three years. Then I say, okay, I really love to see that, but can you please tell me where you went to school? What did your mother and father do? Do you have siblings? What do they do? Do you have a family? Do you have a summer cabin? And then you start talking about their lives and then you listen to how they tell and if they are passionate and then you can start asking intriguing question about how did you dare starting a company, how were the first years, what were your mistakes, what did you learn from that? Hopefully you get the life story and then you do your whatever assessments you want with that. I tend to focus on the people and the relationships between them. After a while you can understand if this person in front of you really cares about their co-workers or not and if they do that, they also tend to care about the customers, they tend to care about long lasting relationships, strong relationships. All the financial figures you can get from the annual reports.

M&A deal economics

Matthias **Dan, how do you think about valuation? What are your hurdles rates?**

Daniel I know that most of the serial acquirers like to talk about multiples. We don't think in multiples. We try to get our investment back within five years. That is the ruler that we use.

Matthias **You're right, most investors use EBIT multiples and they say, we pay five times, or eight times EBIT. When you look at payback periods do you look at after tax free cash flow?**

Daniel Yes, that is correct. So that's already quite a big difference.

Matthias **Can I run you through a very basic example calculation assuming no growth to check my understanding?**

Is that calculation roughly correct? Do you end up at approximately 36% ROE? *(see Table 2)*

Daniel Yes, that sounds correct. Historically we are closer to maybe 30% return on equity. One reason for that is that we had some excess cash that dragged it down a bit. To keep ROE high, it is also important to buy higher quality companies that are able to redeploy at great rates because sooner or later you become what you eat, right? And if you buy companies that redeploy at 5% rate, you get a return of 5% sooner or later.

Matthias **Have you changed your approach to quality and valuation over time?**

Daniel Yes. Look, you can have a fixed hurdle. In the public markets, for example, you can say I never buy anything above a P/E ratio of 15. That's one philosophy. If you're patient and lucky, you can find great things cheap. But there is also a higher possibility that you just get a higher share of low-quality companies.

Purchase price	100
Free Cash flow	20
Multiple	5
Equity	50
Debt	50
Interest Rate	5.0%
EBIT	25
Interest	(2.5)
Tax	(4.5)
Net Income	18
ROE	36%

Table 2: Exemplary ROE calculation of one deal assuming flat growth

We experienced that. For companies we roughly paid a P/E of four, profits remained flat or declined over time. Then we needed to fix it. It took time and attention to improve a mediocre company. With higher-quality companies it's easier for us to support them and basically do nothing. Nothing doesn't mean nothing, of course, but close to nothing, so we can focus on scaling further.

By trying to achieve a payback in five-years we can be more flexible in valuation. Today we only look at companies with growth rates that can beat inflation in real terms, maybe closer to five to 10% growth, which is stable or higher than GDP. It is very important to have some organic growth. If its below GDP or even shrinking, I mean, uh, then you don't have a twin engine anymore. You have one engine that is going well, and another engine that is just imploding.

Matthias **How do you avoid overpaying for quality?**

Daniel If we believe that a company will be growing, we typically include an earnout. The more we believe it will grow, the lower the percentage we pay upfront. We agree on a sensible starting point and if the company continues to grow, the seller gets paid for that growth. If the company stops growing, we paid fair value for a company. If the company continues to grow, they get paid more and we get a better company. We try to structure it in that way so that everyone gets happy, no matter direction.

Matthias **How do you decide on organic versus acquisitive investments?**

Daniel When we redeploy money in our own daughter companies, we want to keep that at a five-year payback period also. Usually our managers rightly think like owners and focus on their own company, not on Teqnion. However, if the best way to redeploy capital for company X in our portfolio is to buy a new machine for that company, and that machine takes eight years to get their money back, then Johan and I have to coach them. Yes, it may be the best way to use money for your firm but for us as a group, five years is better than eight. It is super important that we stay disciplined, because otherwise we might redeploy all of our money on buying capex or on hiring new people at our current firms. And that would of course bring down shareholder returns.

P/E multiple	5-year growth rate	5-year payback
5.0	0.0%	100
6.1	10.0%	100
6.8	15.0%	100
7.5	20.0%	100
8.2	25.0%	100
9.1	30.0%	100

Table 3: Acquisition multiples that achieve a full payback with different growth rates over five years Source: Own calculation

The compounding runway

Matthias **How do you think about your growth runway?**

Daniel We try to redeploy capital at a very high rate. I'm mentally aiming at above 30%. If you let that compound, it's going to be worth a lot. How long can we keep that up? I don't know but we are trying to continue like this for as long as it works, and we'll learn new ways to handle bigger. One way is to buy companies that have higher returns on capital than our average. I would love that every new company is the best that we have. Some of the more recent firms are closer to maybe 50% ROE. I would love them to be able to redeploy money internally at rates that are better than what I can do with acquisitions. That would be the dream. We might also get into a situation where we need more people in M&A and maybe consider different geographical areas. Maybe one day it becomes too difficult to base everything purely on trust. Maybe we need guardrails and policies. But hopefully we'll figure that one out before we need to do that.

Matthias **30% return on incremental capital would be phenomenal. You can have all my money if you can do that for the next ten years. You aim for five to six deals a year. How do you think about the deployment rate?**

	2015	2016	2017	2018	2019	2020	2021	2022	Overall
Cash from operations	13.1	13.2	22.7	35.0	18.8	114.8	119.6	104.9	442.1
Cash deployed in acquisitions	12.1	7.8	4.3	56.6	50.4	59.3	158.9	133.3	482.7
Reinvestment rate	**92%**	**59%**	**19%**	**162%**	**268%**	**52%**	**133%**	**127%**	**109%**

Table 4: Historically more than 100% of operating Cash flow was reinvested in acquisitions. Source: CapitalIQ as of June 30, 2023

Daniel If we do five deals times 50 million SEK, that's 250 million. I think in 2019, we bought two companies, in 2020, we bought two. And then we ramped up a little bit when I started. We did five and four, and now two deals in the first half of this year. Finding more companies is not the bottleneck. But we are slowly getting better at integrating these companies. And of course, we don't integrate them in the way that big corporations do. We don't do ERP, we don't do the traditional synergies, et cetera. But it's still some kind of learning, because we need to figure out how do we get to know these companies and make sure that they are happy, which ultimately translates to organic growth to the bottom line. The second we acquire companies faster than we can absorb them we get into a situation where basically luck plays too much of a role. We never want to get into a situation where we cannot handle the companies we buy, because if they start costing us money or getting slower, I mean, then the whole thing just crumbles apart.

So, I think that is really where we are and what we're trying to understand right now. We also, as you know, acquired three companies now outside of Sweden. In Sweden we know a lot of the local regulations. We speak Swedish better than English. We have a quite big network of people that we know, that can help out with things or for recruitment or et cetera. But when it comes to the UK, we don't have much. It's a new world for us over there, which we are trying to learn as well.

Matthias **You both clearly stand out. You come across as very authentic, humble and honest. Does this open the doors for some vendors who don't like to engage with traditional financial buyers such as private equity?**

Daniel Yes, strangely enough, I would say. A lot of the founders of the companies we acquired have done a tremendous job. They are great entrepreneurs but very few of them have gone to a business school. Most of them think that finance people are scary. They come with a suit and use fancy words that they don't really understand and don't really take the time to explain. And it's all about money. There is a kind of counter positioning happening for us, to use a strategic word.

So yes, some part of the market opens up because we seem like a normal human being for them.

Matthias **What is the end goal?**

Daniel SEK 1,000 billion in market cap. At the end of 2021, the year when I started at Teqnion, we had a market cap of around SEK 1 billion. We feel that we should be able to compound at 15% per year for a long, long time. Of course, in the beginning a little bit quicker, but when you're really big, it's probably going to be slower. If we do 15% per year over 50 years, so in 2070, that would be 1000X. 1,000 times 1 billion is SEK 1,000 billion or 1 trillion.

That feels like an end goal. And of course, when you say 1000X or 1 trillion, it sounds ridiculous. I understand that as well. But if you talk about 15% per year for a long time, people are not even impressed. They're like, yeah, but I did 28% last year, or 55% or whatever.

There are different ways to get there. Not all roads lead to Rome, but there are several roads to Rome. And I really love when we get input on how other companies do it. Like, why don't you do it like this? Because Constellation Software does it like this. Why don't you do it like that? Because Berkshire does it like this. And we love that. I love that I learn things and we take inspiration from it. But I think there are different ways to getting there and combining it with doing something a little bit different. Only cloning what others do, I think won't get you to the top.

Culture

Matthias **How would you describe the culture of Teqnion?**

Johan What we demand from every manager and every subsidiary CEO is that they have a good culture where people excel and love to be there. But it should be their culture, not Teqnion's culture. Here, at headquarters, we're only six people. We like freedom, responsibility for each individual. We try to lift the group, not the individual.

The group needs to be worthy of performing in the Champions League, not the individual.

We want to be the best at what we do. The 500 co-workers in our subsidiaries have their own individual cultures. It's up to that management to make sure that people love their work. But we, as the owner, have to earn the right to own this company and make it attractive to the person who runs it.

We want to keep this culture and the way we are doing business. We want to continue to be curious, fast and lean. We will need more heads at the head office and more co-workers in the subsidiaries. All of us here want this to feel as if we are a really small company. We want to feel like we are at the beginning.

Matthias **It's interesting, Johan. You don't seem to use much numbers, KPIs or financial metrics when you talk about businesses. You talk, how shall I say, much more about quality and feelings. Is that right?**

Johan When we close a takeover after a long negotiation, sign all the papers and exchange the money for the shares, I know how it feels at the beginning, how emotional it is. I can relate to this person in front of me that has gone through this process now for some time, and I sit here because I truly believe that this person has built a fantastic company. The person trusts us with taking over the shares and running it towards the future, towards the horizon. And it's been very stressful for this individual to perform this business deal. Then I just want to hug them. It's just in the moment. And I ask is it okay if I give you a hug? And if they say yes, I hug them and then it feels very natural. There's a philosophical talk about hugging people. If you feel it's genuine, then the hug is the best. If it's not, if it's stiff, it's awkward, then it's horrible. For me, Matthias, to make people do what you want, you have to convince them. Yes, you can tell your people a number, dig this hole so that it's going to be 60 inches deep, and they do that. But if you want to have the best ditch and the longest one, you have to give them something else, some sort of passion.

To reach people and to build a team, for me at least, I have never been able to use numbers or KPIs.

Of course, we have financial targets and KPIs. But when I talk about improvements, increase margins, increase pricing, decrease working capital I don't talk about the target in hard numbers. We look at each subsidiary individually and coach each individual in the right way. We're never content, it's never perfect what we do. We could always have done more. We promote that thought all the time. If you reach your targets, the targets were too low in my mind anyway. If we're going to make mistakes, let's make them small so we can correct them fast and continue on. Things happen in the world. We see that with the war. Now we have to fight inflation with big interest rates. But I mean, this business concept was developed and tested for more than 100 years by Bergman & Beving in Sweden. It withstands the test of time and depressions and economic disturbances.

Matthias **Johan, how do you think about your personal future?**

Johan I tend to just love my job more and more because it becomes harder and harder all the time. When we started out back in 2006, I think we had a young idea about let's do this and we find an exit and we get a lot of money because we wanted to do other things than work.

I think it was a young person's ideas. And as the years has gone by and that idea has faded and instead, I see that I don't want to do anything else. I want more freedom, of course, and I want to do more and new things. But it's fantastic for me to have a place to go to work and feel that I'm needed, and I feel that I'm pushed to become better and have colleagues around me that give me love. I feel that I actually evolve. I constantly have to be a little bit better every year. I like to struggle.

I strongly believe that to live a full life and to become happy, I think it's really important to struggle.

The human being is not designed to sit still and have everything served. That's the way to depression for me anyway.

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