



BUILDING & ENSURING SCALABILITY - WHY IT MATTERS?

BOREO SERIES | 18 OCTOBER 2023

BOREO

LAUNCH OF BOREO SERIES

Dear Friends of Boreo,

Our crystallized philosophy summarized to the Boreo Book

'Our primary objective is sustainable long-term profit generation. This goal we achieve with a business model that is based on the acquisition and ownership of great entrepreneurial companies with ability to generate sustainable long-term earnings growth and strong cash flows. The profits generated by the companies are re-invested back to operations or to acquisitions with attractive expected returns on capital. The decentralized operating structure promoting culture of ownership and release of entrepreneurial energy is a core pillar of the firm's business concept and sustainable earnings growth is ensured through the support and coaching of companies and the personnel.'

The simplified business concept above is what we view to summarize the essence in the case of Boreo, the firm we're building with great pride and motivation. In the last three to four years, we have been on the journey to develop and search for a simplified concept that serves as the backbone for the development of the firm in the long run. With the now crystallized concept - summarized in detail in the 1.0 version of our operating manual, Boreo Book – we feel to have reached a level of detail and simplicity that allows us to focus resources on execution instead of developing the business concept itself.

The Book made available at this stage to our key employees discusses the core elements of our crystallized philosophy: sustainable long-term profit generation – decentralization, capital allocation and long-term view. The simple framework discussed in the pages of the Book is what serves as the foundation for the building of Boreo for many years to come.

Launch of Boreo Series to facilitate discussion on what matters the most in the long-term

Since the introduction of the new Boreo in March 2021, we have wanted to create room for communication on what is of greatest importance in evaluating prospects of Boreo to succeed and create shareholder value in the future. For this purpose, we are now launching a new communication format named as the *Boreo Series*. The Series comprises a series of letters that we distribute through our communication channels in the future. In writing the letters we aim to shed light on the fundamental principles and beliefs we apply in building Boreo and in steering the ship.

This Series is introduced with an objective of it to serve equally for the people working in companies owned by Boreo, our current and future shareholders and other stakeholders such as customers and suppliers of our companies.

Our aim is to publish one writing in a quarter. However, and acknowledging the importance of resources being allocated continuously in the best interest of our shareholders, please excuse us if we miss this guidance due to other priorities that may from time to time. Hence, our aim for the frequency of publishing letters can be written along the same lines as our dividend policy reflecting capital allocation priorities *'our target is to publish a new Series writing every quarter, taking into consideration resource allocation priorities'*.

We see this Series to serve as the basis-level information for understanding our quarterly and annual stock-market communications. Our purpose is not to undermine the quarterly trading updates but to complement the updates with discussion on more timeless topics that guide us through work and life in general.

Starting with scalability that we view to be critical for long-term success

We are pleased to launch the Series with a writing on the topic of *scalability* that is of great relevance in long-term company building. We view the discussion of this topic to be timely as in the last three to four years, our focus has been not only in growing earnings but in growing in a manner that enables us to continue the growth path in the future as well. In the long-term, we target to grow the number of companies from the current 22 to 30, from 30 to 50, from 50 to 100 and beyond.

In this writing we discuss our approach on building and ensuring scalability and why we believe it to be of importance for long-term success of the firm.

We hope you enjoy reading this first script, that the Series results in enhanced interaction with our stakeholders and welcome any commentary on the content or the concept we have created.

Yours sincerely,

Kari Nerg, CEO of Boreo

WHY SCALABILITY MATTERS AND HOW DO WE WORK WITH SCALABILITY IN THE FIRM?

Building scalability – work done in 2020-2023 for purposes of future scalability

Since the spring of 2020, we have grown the number of companies in the Group from seven to 22. Simultaneously, we have built the foundation of the decentralized organization structure, introduced new ways of working in the organization and increased the number of people engaged with Boreo parent company and Business Areas from three to 13.

The build-up of resources has been done to match the capabilities of the organization with the new business model and to create the operating model's core pillars such as the monthly reporting structure, the Boreo Clock, the Boreo Game Plan concept, and the Boreo Academy (more of these structures in the coming letters). The greatest investments related to these processes are required in the beginning of a journey of our type, whereas later in time they are imbedded into daily routines.

Financially*, profits (operational EBIT) of our operating companies (excluding Group costs) have from 2020 to 2023 (R12 Q223) increased by 245 % from c. 3.8m€ to c. 13.1m€. Group and Business Area related costs on the other hand have increased from c. 0.5m€ to c. 3.5m€. As a result, the profits at Group-level have increased by 196 % from 3.3m€ to 9.6m€ and Group-level relative profitability from 4.5 % to 5.6 %.

The above set of figures describe well the impact of thinking long-term and prioritizing mid- to long-term success over short-term earnings. In the short-term, the current portfolio of 22 companies could be managed with less resources than what we have engaged in the business today. On the other hand, we believe that resources roughly in the scale we have built to-date are a must in ensuring the sustainable long-term profit generation of our companies.

Why scalability matters to us?

Scalability is important for us for achieving our primary objective – sustainable long-term profit generation.

First, we are there for the long-term and in achieving our primary objective it is of significant importance that profits grow at a higher rate than costs do. The current level of costs of c. 3.5m€ attached to resources engaged at Group and Business Area level equal to roughly 2% of Group sales. As the major investments on Group and Business Area level have already been taken, we expect to grow in the future in a manner that results in declining share of group costs in relation to sales and earnings.

Second, while we see that the best knowledge of running daily operations is locally at our companies, one of our fundamental beliefs is that as an owner of small entrepreneurial companies, supporting resources are a must to ensure long-term sustainable profit generation. Many of the businesses we own today could operate in a decent way without support of any kind. However, for companies to sustainably grow profits in the long run, a professional owner of our type with ability to ensure continuity and to support in strategic questions is needed.

In this letter we touch upon a few important topics which we see to be of relevance from the point of view of scalability:

1. Decentralized organizational structure as the basis for building scalability,
2. Capable and committed key employees with ability to autonomously lead our companies, and
3. Growing horizontally and vertically provides an opportunity for scalability.

Decentralized organizational structure as the basis for building scalability

The decentralized organization structure and its basic characteristics, i.e., decision-making as close to operations as possible, high level of autonomy at company-level, steering with KPIs and incentivization aligned with the firm’s long-term strategic targets forms the basis to build scalability in a firm of Boreo’s type.

Decentralization exists in today’s corporate world in many forms and fashions. To specify how our decentralized organizational design works in practice, we have created a set of basic structures and requirements for all our companies. These include for example the Boreo Clock that sets the minimum requirement for business reviews and board meetings for each company as well as the Boreo Game Plan concept ensuring a common view of future strategic direction (from company to BA to Group) and focused strategic development of our companies. With these structures, our target is to enable our companies a simple, effective, and non-bureaucratic way of operating and to achieve scalability in the Group.

The key roles and responsibilities of the Group, its Business Areas and companies are illustrated in the picture below.



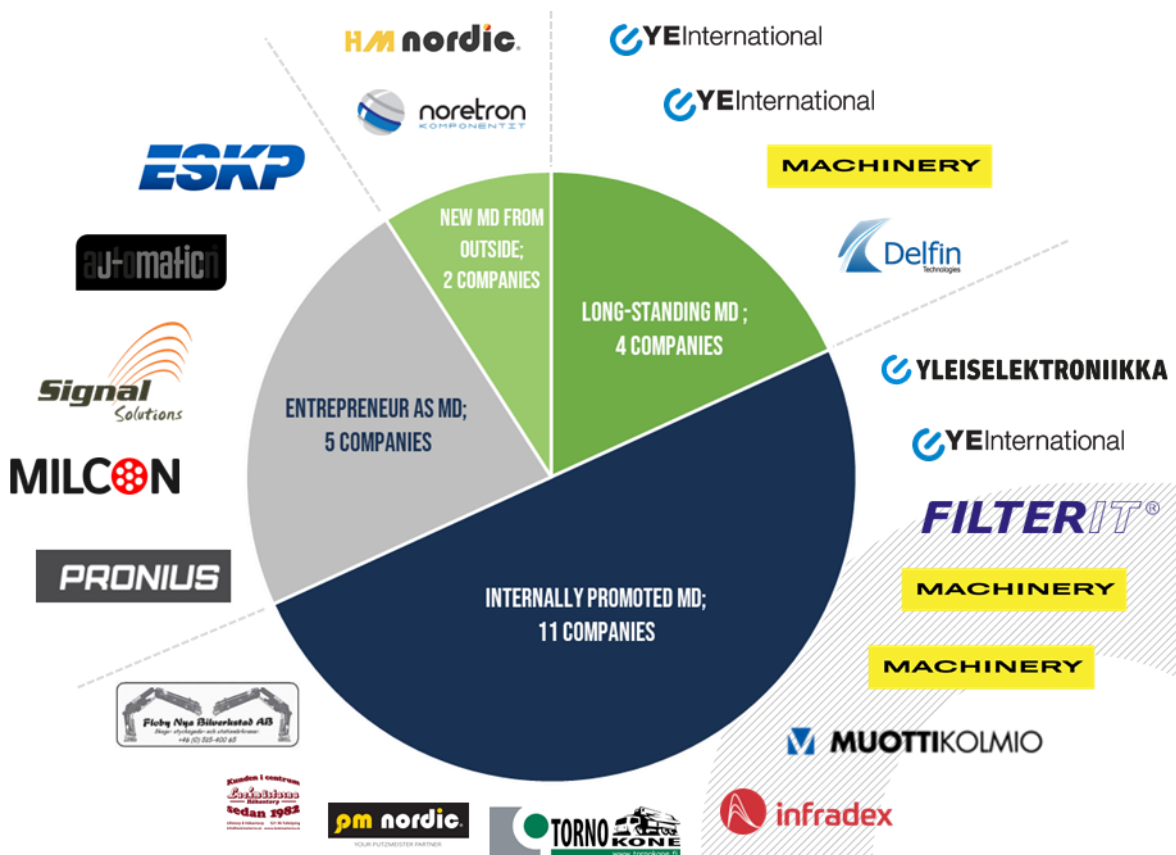
Capable and committed key employees with ability to autonomously lead our companies

Boreo is an owner of small companies which after acquisitions are often in situations of change of some sort. This might not be intuitive to many followers of the firm as we typically acquire companies from entrepreneurs who continue to stay in their companies after acquisitions and the companies continue to operate with relatively limited involvement from the Group or its Business Areas. Many times, however, we work with entrepreneurs to build long-term continuity and to enable the entrepreneurs to tailor a role suiting to their objectives after acquisitions.

With the above in mind, we have a great need to attract and develop capable talent that can take on key roles in our companies. Due to this, the process of developing capable leaders is one of the key processes in the Group. For this purpose, we have created initiatives such as the Boreo Academy that aims to ensure sufficient level of knowledge on targets and standards set at the Group and the development of new Managing Directors and persons to other key positions group wide.

From the point of view of scalability, we believe that the more capable and committed our key employees are, the less support the companies require from the Group and its Business Areas, the more self-directed the companies will be and the better the whole firm will scale up in the future. Furthermore, we believe that in order to achieve long-term success it is important that the key employees share a common view of the key pillars in our crystallized philosophy and certain core values in general. We find this to be important in reinforcing commitment of individuals in the firm while at the same time promoting local cultures and diversity.

The extent of the work done to date for purposes of ensuring long-term continuity of our companies and scalability is well illustrated with the below picture of the composition of our Managing Directors. In 11 of the 22 companies, we have since 2020 promoted the new MD internally, in five companies the former entrepreneurs continue to act as MDs, in four companies individuals who have been long acting as MDs continue to lead the firms, and in two occasions the MD has been appointed externally.



Growing horizontally and vertically provides an opportunity for scalability

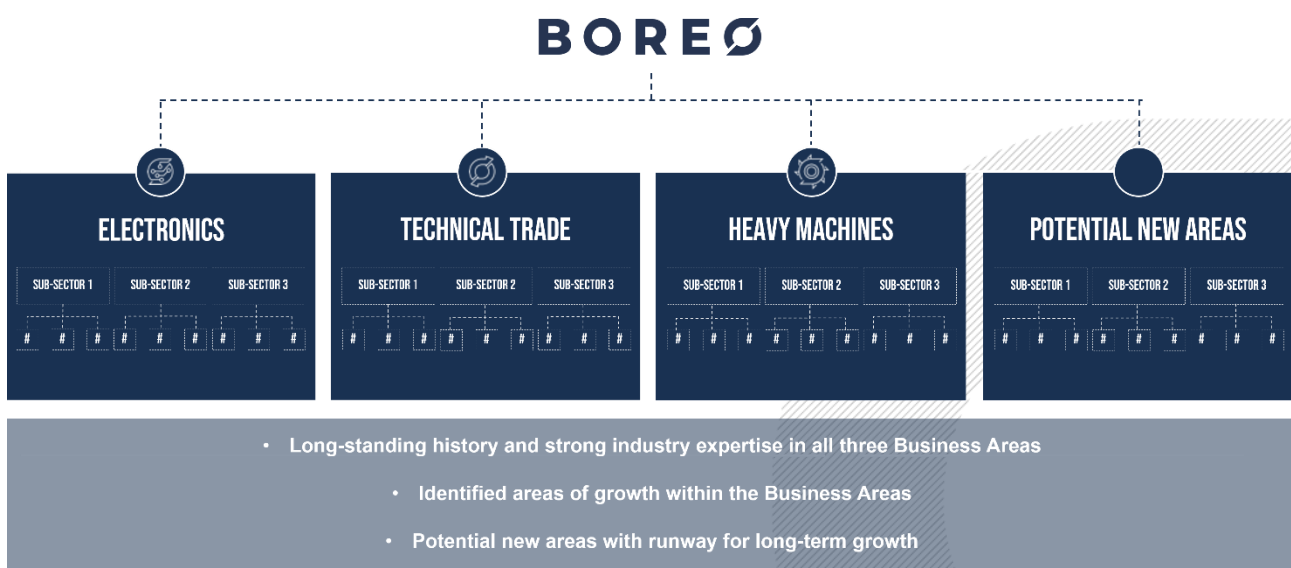
The selection of the industries to play in is an important choice for any company striving to create long-term sustainable growth. There are great examples of industries well suited to pursue an acquisitive growth journey such as the vertical market software industry (e.g. Constellation Software) or the technical trade sector (e.g. many of the Swedish serial acquirers). Many of these sectors are characterized by a fragmented industry and ownership structure, high margins and returns enabling long-term continued growth.

In building Boreo, we combine the approach of continuing to grow in industries where we have long-standing history and expertise, and which meet the characteristics laid out above. In addition, we see it important to maintain the flexibility in entering new industries with runway for long-term growth. Contrary to being fully sector agnostic and acquiring companies in any sectors that would fit the firm culturally and financially, we see the prioritization of sector focus to help us in being a better home for our companies, to mitigate the level of risk attached to new acquisitions as well as to focus our resources in a more effective way. The downside of neglecting opportunities in some sectors not known to us is something that we do not see to materially hinder our opportunities to allocate capital and grow successfully.

When growing vertically in the industries where we are present, we aim to identify both: i) an industry that meets our criteria and allows for growth and ii) individuals who possess the skills and capabilities to execute on the growth opportunities. At this point of time in the firms' journey, we see great opportunities in growing in selected niches in Finland but at the same time we continuously evaluate opportunities for growth internationally.

The benefits of growing in niches familiar to us and in which we have strong expertise include the efficient identification of acquisition opportunities and the ability to manage businesses and the attached risks better.

Finally, as opposed to being limited to growth in one or two industrial sectors only, we feel that for a company of our type and size, a reasonable path forward is to pursue a path with a few dedicated industrial areas and flexibility to enter to new ones when the situation allows for it.



CONCLUDING REMARKS

Developing a firm with a view to generate the highest possible earnings and returns in a short- to mid-term is a different game than the one striving to create long-lasting growth over a longer time period. The latter – being the game we play – involves among other things prioritization of long-term gains over short-term wins and encompasses a great level of sophistication related to scalability. In this game, the ability to scale core capabilities such as M&A, clearly set key objectives and ways of working and process of developing capable leadership are of great importance.

The small companies that we acquire possess the capabilities to generate steady and stable returns. To help these companies to grow and reach a new level, support of strategic and financial nature is required.

Scalability is a buzzword used in many occasions to create illusion of growth beyond something that one cannot concretely grasp on. In our simplistic world, scalability is a core consideration that is present daily in our company building attempts and something for the purpose of which we've built concrete processes and ways of working – the non-bureaucratic governance model, the processes to develop key people and talent, to name a few.

With that said, we hope you enjoyed reading this first script and thank you for making it this far. See you next time!