



River Oak Capital

# Finding that elusive 10-bagger

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# Background

- Wife & two kids (5 yo & 2 yo)
- Former elite athlete, Swedish National Badminton Team 1992-2006
- M.Sc. Engineering Physics; Specialization in Mathematical Optimization 2000-2005

Master's Thesis: Built software to optimize cancer radiation treatment plans at University of Gainesville, Florida 2005-2006

Supervisor founded [ViewRay, Inc.](#) in 2006; listed on Nasdaq in 2016

- ... 2006 – 2010
- Investor since 2010  
Small business owner and operator since 2013  
Started investment family office in 2013 and River Oak Capital AB in 2017



# River Oak Capital

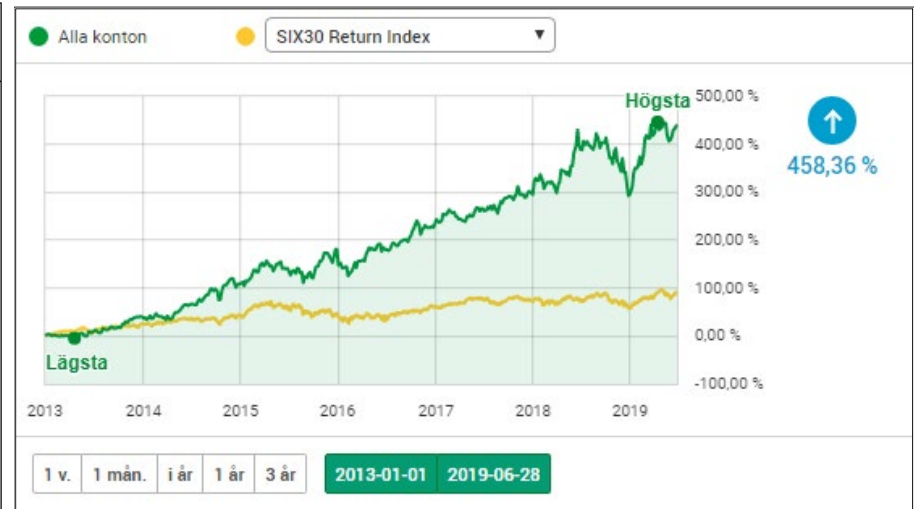
- River Oak Capital AB started operations in Feb 2017.
- Ten co-founders, all friends and colleagues.
- Private investment company: 11 initial shareholders, 33 shareholders today.
- Absolute focus on businesses, not stocks.
- Highly concentrated 5 to 10 holdings, long-only, no leverage, **keep things simple.**

## Historical pretax returns

Feb 7, 2017 – June 30, 2019: River Oak Capital AB

Jan 1, 2013 – Feb 6, 2017: Zen Capital Family Partnership

	Investment return	Net return	OMXS30 incl. div.	Difference
2013	41.0%	30.8%	25.4%	5.4%
2014	45.0%	33.8%	13.6%	20.2%
2015	35.1%	26.3%	2.5%	23.8%
2016	20.5%	15.4%	9.1%	6.3%
2017	19.6%	14.0%	7.0%	7.0%
2018	0.0%	(5.6)%	(7.2)%	1.6%
2019 (per June 30)	40.1%	36.2%	19.3%	16.9%
<b>Total gain</b>	457.7%	273.7%	88.6%	185.1%
<b>Compounded annual gain</b>	30.3%	22.5%	10.3%	12.2%



Approx. currency effects on Investment returns :

2014 +7%, 2016 +2%, 2017 -10%, 2018 +5%, 2019 +2%, other years <1%.

# Investment criteria

**Always focus on the big picture, never spend much time diving into details.**

(If I feel the need to read 10K footnotes and research CEOs pets, I'm in the wrong place.)

## **DG's 5 minute rule:**

If I don't roughly understand the business in first 5 minutes, I almost never spend more time on it as one month of study won't help me get a high enough conviction.

1. Companies with competitive advantage that I understand well.
2. Companies with solid base to survive downturn – balance sheet *and* business model.
3. Companies that I believe will earn more in the future than they do today.
4. Honest, capable and competent management.

Prefer management that owns enough stock to make a real difference in their lives if all goes well.  
Running a company is tough and oftentimes grueling – you need management that really cares.

5. Attractive price.

# Value investor?

- Definition has become so wide these days.
- Often confused with low valuation metrics. In Sweden I've seen it described as investors looking for high-free-cash-flow, high-dividend-paying companies.
- What Ben Graham advocated for investors was to:  
***“Capitalize upon a favorable difference between price and appraised value.”***
- Whether a company:
  - 1) has high or low free cash flow *today*
  - 2) has high or low valuation metrics based on *today's* numbers
  - 3) elects to pay a dividend or not

... clearly has nothing to do with the ***difference*** between price and appraised value.
- Correct appraisal of value is all about the future!

# It's all about business

- Fast-growing companies in markets with winner-take-all characteristics can be just as undervalued. (Microsoft 1990s, Amazon 2000, Google 2004)

Degree of undervaluation often magnitudes larger than beaten-down “value stocks” in tough industries.

- Ben Graham said so many smart things that some have gotten less attention than they deserve:

***“Investing is most intelligent when it is most businesslike.”***

- At River Oak, I and the Board of Directors consider ourselves businessmen and women.
- We will look at anything that makes good business sense.
- Instead of looking for beaten-down stocks to revert to the mean, I look for companies with above-average performance that I believe won't.
  - i) These companies operate in industries with strong secular growth, and/or
  - ii) Have a culture that breed and foster above-average performance.

# Investment idea for this conference?

- **I never make stock recommendations.**

I've always found broader lessons to be much more helpful, so focus will be on those.

- *Give a man a fish and you feed him for a day.  
Teach a man to fish and you feed him for a lifetime.*
- Took a look in our portfolio: Which holding is most interesting to talk about in Cyprus? Fortnox.
- Out of courtesy to River Oak's shareholders I generally don't talk publicly about our investments.

However, I've written many times about Fortnox in my letters to shareholders.

If you're 1 of our 40 monthly visitors you already know all about it so...



# FORTNOX

Småföretagens bästa vän

- Online-based software for Accounting and related business management services
- Market leader and operates only in Sweden

## Initial investment in 2015

- *“Only 15% of large companies and 11% of small companies buy cloud services for accounting and financial control. The most common reason is lack of knowledge, SCB's survey shows.”*
  - Fortnox 2014 Annual Report
- Fortnox had ~100k customers – There are 1 million companies in Sweden of which 99% are ideal size for Fortnox services.
- Accounting firms cooperation – virtuous cycle
- ARPU likely to increase as customers add more modules like Salary, Invoicing etc. over time in addition to Accounting module.
- Culture entrepreneurial and sports team like; positive and shared happiness in each other's success, but they want to win.
- (See 2015FY Letter to partners)

## Today

- Main thesis points pretty much the same
- 286k customers
- ARPU +45% since 2015
  - Should continue to increase over time as long-time customers subscribe to more modules than recently acquired customers.
- Launched many new modules and also new services like insurance, financial services etc. in the past few years
- Potential international expansion

# FORTNOX

Småföretagens bästa vän

*Earnings up ~11x since initial investment*

*11-bagger for family office, 5-bagger for River Oak*

## **Lessons?**

- Difficulty not in seeing attractiveness, product stickiness, network effect etc.
- But in buying in at optically high price: I paid 800M EV for 2015 Earnings of ~20M.
- What did I really pay? 5x 2019 Earnings
- ... and in holding

# Dare to be different

- Most investors don't aim for 10-baggers ... and thus don't tend to own them.
- If you want above average results ***you need to do things differently than the average.***
- Focus your time and energy where you see a 2x to 10x upside over time. If all you see is a 25% upside, move on to the next one.
- All 10-baggers will become optically expensive from time to time.
- Focus on the big picture.
- Focus on your personal strengths and areas of interest – goes a very long way towards being different.

This is where you will find your edge vs the market.

# Qualities of multibaggers? My observations:

- Optically expensive on today's numbers.
- Simple-to-understand business.  
(no sum-of-the-parts, discount to book value stories)
- Market leader in its industry/niche.
- Its products and services are a very natural part of its customers daily lives.  
Their customers literally can't live without it.
- Company culture is positive, innovative and focused.  
(few distractions)
- Main thesis points remain roughly the same over time.

# Why look for 10-baggers?

**Most Obvious Question of the Year Award**



But really, do I want to spend my time trying to find 10-baggers when they are so rare?

## **Example 1**

Ten 10% positions that all go up 50% over 5 years

Sounds pretty good, right?

---> **Compounded Annual Gain 8.5%, i.e. market return**

## **Example 2**

90% cash

10% in one company that becomes a 10-bagger over 5 years

Effect on your overall portfolio returns?

---> **Compounded Annual Gain 13.7%**

Imagine if you are able to find two ...

# Questions?

Except whether I think Fortnox will be another multibagger from here.

# Thank you for listening.

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