River Oak Capital

# 2021 H1 Letter to shareholders

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River Oak's book value per share increased by 7.4% in the first half of 2021. Our book value on June 30, 2021 was SEK 89.2 million, equivalent to SEK 286.95 per share.

| | Investment return (pretax) | Change in Book value per share | OMXS30 incl. div. | Difference |
|---|---|---|---|---|
| **2017 (from Feb 7)** | 13.2% | **8.6%** | 5.4% | 3.2% |
| **2018** | 0.0% | **(6.0)%** | (7.0)% | 1.0% |
| **2019** | 61.7% | **50.1%** | 30.7% | 19.4% |
| **2020** | 104.0% | **74.3%** | 7.4% | 66.9% |
| **2021 per June 30** | 9.6% | **7.4%** | 22.8% | (15.4)% |
| | | | | |
| **Total gain** | 309.1% | **187.0%** | 69.1% | 117.9% |
| **Compounded annual gain** | 37.8% | **27.1%** | 12.7% | 14.4% |

When evaluating investment results, it is my strong recommendation that you always look at the longest available period as shorter time periods with their inherent randomness won't tell you much of value. As always, I have included a full track record of the past nine years which includes the results of my Zen Capital Family Partnership from 2013-2016 at the end of this letter.

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**Notes to table**

[1] Change in Book value per share is reported net of a 20% dividend on the A-shares according to the Company's Articles of Association, taxes and general operating costs.

[2] The OMXS30 column does not include having paid the standard annual tax on Swedish investment accounts.

[3] Estimated currency effects on Investment return: 2017 -10%; 2018 +5%, 2019 +3%, 2020 -6%, years not mentioned <2%

River Oak does not in any way strive to foresee or profit from currency movements. Our belief is that any impact from currency movements will be negligible over time.

**Fellow Shareholder,**

Our core holdings had another strong six months. Their average revenue and operating earnings growth in the first half of 2021 was 45% and 73%, respectively[1]. These are quite extraordinary numbers under any circumstance, but keep in mind that for our holdings these numbers are on the back of two previously very strong years in 2019 and 2020 as well.

## Capital raising

I was happy to welcome 10 new shareholders in our July capital raise. It brought us to well above SEK 100 million in assets and to 64 shareholders based in eight different countries (Belgium and Germany added) in four different continents (only Africa, Antarctica and South America to go). As usual, Larisa and I also increased our investment in River Oak, this time by SEK 5 million.

Regarding our new shareholders, I must mention a quite extraordinary coincidence. Two of our new shareholders, an American couple, live in the nice city of Gainesville, Florida. Gainesville is primarily known for being a home for the University of Florida and its huge campus (where lost alligators sometimes stroll around) which spans 2,000 acres. For comparison, the Euro 2020 soccer matches were played on 1.8-acre pitches meaning that the campus could fit 1,117 full-sized soccer pitches and still have some room to spare. As for the coincidence: Gainesville is also the place where I spent six months doing my master's thesis work for then start-up and now Nasdaq-listed ViewRay, Inc. back in 2005. I met this couple without any prior acquaintance only through our common interest in investing. It's a small world.

Our next capital raise will be on October 1st. Information will be sent out a couple of weeks in advance to shareholders and to our interest list.

## Connoisseurs

Sinch joined Fortnox and Qt Group in our 5-bagger club (that is, companies that have returned more than five times our initial investment). Despite its current small membership base, this club is not exclusive by any means. It is open for business 24/7/365. If you know of a small business in the Nordics that has reached some traction and is looking for capital to grow with a long-term partner, please tell them to reach out to us.

On the subject of multi-baggers, I have found that many people, laymen and professionals alike, often assume that just because a stock is up substantially – especially if it's a public stock – surely it must be sold or at the very least trimmed. Without going into detail on company valuation, interest rates, etc., I'll just say the following which I believe is true for all stocks over the long term:

[1] Companies that were sold in the period or were part of the portfolio only during a short part of the period are excluded from the calculated averages.

If you are right about the business and don't know the stock price, you'll be alright. If you focus on the stock price and are wrong about the business, you won't.

Lee Freeman-Shor has written a short book called 'The Art of Execution' in which he presents the results of a study he did of all the investment managers he hired over almost a decade running a large UK-based fund-of-funds. In the study, he divided the managers into different groups based on their behaviour. His best performing group was one he called 'Connoisseurs' for their ability to treat every investment like wine: if it was off, they got rid of it immediately, but if it was good they knew it would only get better with age[2]. He found that a key trait within this group was a high boredom threshold – nothing ever seemed to change in their portfolios. They would talk about the same companies year after year. For Lee, it was boring to the point of him sometimes struggling to get out of bed on days when he had a meeting scheduled with one of his Connoisseurs. Nevertheless, this group handily outperformed all the others.

So many investment firms and its managers feel a constant urge to do *something*, and the new is often a lot more exciting than the old. I counter this natural human instinct by regularly reminding myself of all the progress our "old" companies have made over the years compared to the new ones I'm considering – our most shining example is Fortnox that has gone from a relatively small and unknown start-up to becoming a backbone of Swedish entrepreneurship and small business ownership. With Lee's book, I now have an additional tool to help me which is to always remember the Connoisseurs.

The Connoisseur mindset is not to be mistaken for never selling. All our investments, the homeruns as well as the laggards, are re-evaluated a couple of times per year. Only when an investment is considered attractive over the coming years – regardless of its past performance – will it be in our portfolio. It's important that you know that a company's attractiveness as an investment for us is never a pure monetary return on investment calculation. Utility and benefit for its customers, company culture, business risk, my level of conviction and being able to sleep well at night are always part of the equation too.

## Our investments

We have made one new investment so far this year in Goodfood, a Canadian online food delivery company. It was brought to my attention by one of our new Board members Amir Dov whom you had the good fortune to meet at our annual meeting in April. A memo outlining the investment which I encourage you to read is attached with this letter. In short, it's a very exciting, entrepreneurial and fast-moving company in an industry that is transitioning online.

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[2] A wine connoisseur is an individual who has deep knowledge of the subject of wine. This knowledge goes beyond knowing how to taste wine or having a deep appreciation for it. A seasoned connoisseur will, for instance, have the ability to assess a young wine and know its aging potential. Wine connoisseurs are also well-adept in tasting and analyzing wine for what it is, without much bias.

We have also sold two investments, one long-term holding and one in the due diligence phase.

In all investments I make for River Oak, I have a high conviction that the company will be a long-term winner that we can stay invested with for many years – ideally forever. This is always the goal going in. As a corollary, if I no longer have high enough conviction that it will, I sell. This is what happened in the case of Storytel.

I will also sell if my reason for investing at the time of investment has proven wrong or if circumstances have changed so much that we are now looking at a completely new situation. This is what happened in the Swedish e-commerce marketplace company CDON which we invested in last December and subsequently sold out of in the first half. When things materially change, it is easy as an investor to rationalize and forget why you invested in the first place because when you own shares in a company you have a whole other emotional connection to it – you are now "buddies". In cases like this, I prefer to sell and then do the "refreshment" analysis on the company under the new thesis. This way, the work can be completed with no distractions and then compared to all our other available alternatives on a clean slate with no biases attached. A stock doesn't know that you own it, but you sure do! I wish the CDON team best of luck in their challenging and exciting future.

storytel

We sold our last remaining shares of Storytel, a Swedish audiobook streaming company, in the period. We first invested in 2018 and the investment generated an annualized return of approx. 21% over our 3-year holding period.

What initially got me interested in Storytel was its entrepreneurial roots, its first-mover advantage in many markets which had enabled them to develop the largest local language catalogues which is a very important factor in audiobooks, and their market leadership in many countries with seemingly limited competition. The runway especially in Europe seemed great. In addition, I was a happy and heavy user myself.

What Swede remotely interested in business and entrepreneurship doesn't remember when founder and CEO Jonas Tellander went to Draknästet[3] to try to save Storytel from bankruptcy in 2009, and in the end was able to raise SEK 1 million by selling 10% of the company? (LINK) That crucial investment is most likely one of the best and most helpful Swedish venture investments of all time. It has allowed Storytel to reach 1.6 million paying subscribers and has probably worked out to a 1,000-bagger or so over the past decade.

So, what caused us to sell? In the end, a few reasons.

[3] The Swedish equivalent of Shark Tank and Dragon's Den

i. The Storytel service has gotten less traction outside the Nordics than I had expected despite very heavy spending, indicating that maybe the Nordics are a somewhat different breed when it comes to enjoying and being willing to pay up for an unlimited listen-all-you-want audiobook service, or that competitors are catching up, or both.

   While Storytel has had no problem to raise capital to fund these initiatives, with so many new and ramping-up international markets, it is hard to get a good grasp of the return on investment they are getting in the different markets. Customer lifetime value is a hard calculation to make in familiar markets, and surely even harder in completely new markets.

ii. The realization that Storytel probably has limited pricing power given the already relatively high pricing compared to services which compete for their user's time and monthly budgets, such as Spotify and Netflix. In the Nordics as an example, Storytel is currently at 19 to 23 EUR per month vs 10 to 15 EUR per month for a similar offering with Spotify and Netflix.

iii. I view their 2023 goals as very challenging. If they are reached, it will likely be very costly in terms of marketing to get there, which goes back to ensuring that this marketing spend actually yields a reasonable return on investment.

As an aside, I was never a fan of Storytel's habit of providing detailed quarterly forecasts on subscribers and revenue per subscriber, and then spending a meaningful amount of time and resources commenting on said guidance and why it was made or missed. At best, this wastes a lot of time and energy for management and all others involved. At worst, it gives the whole company an uncomfortable pressure and a short-term focus of trying to make the numbers rather than focusing on providing the best possible service for users. As a long-term oriented investor (which presumably is what every company wants to have) I couldn't care less whether one of our company's quarterly revenue is X million or X+2 million. I care about that customers and employees are happy, and that the company is developing in the overall right long-term direction.

I don't think the regular quarterly forecasts have given Storytel any benefits whatsoever as a company. I believe they would be much better off if they simply stopped providing any forecasts at all (this is by the way true for many companies; it is by no means unique to Storytel). That would free up a lot of time, energy and potentially some mental "baggage" as well – all valuable resources which could be used to focus on much more important matters. By providing detailed guidance and spending much time on its commentary, a company also puts itself at risk of getting a very short-term oriented shareholder base which is much more sensitive to surprises and disappointments.

On a personal level, I love the service and will keep being a happy – and probably life-long – paying subscriber. I do really like the company too, but we will be cheering them on from the side lines for now.

## Company updates

Thank you to everyone who joined our annual meeting in April! I hope you enjoyed meeting our new Board members Amir Dov and Arimatti Alhanko, seeing their passion for investing and hearing about their impressive backgrounds. Thank you to Tilman and Larisa who made everything run smoothly before and during the meeting. Finally, special thanks to our guest Juha Varelius, CEO of Qt Group, who was generous with his time and who was no doubt the highlight of the meeting (I was his main competition).

Looking ahead, I'm very happy to welcome our first intern, Miguel Neto, who will start in September. Miguel is based in Portugal and recently got his bachelor's degree in Finance from the ISEG Lisbon School of Economics & Management. Miguel is very passionate about studying companies which you can see on the blog he has kept up for a few years. He has also previously done an internship at Cederberg Capital which is an investment firm I hold very highly. Miguel is already familiar with the type of work I do on a daily basis so he will be ready to go and add value to River Oak from Day 1. Welcome Miguel!

I have finally instilled some permanency into our office space by signing a 3-year lease. When this little business venture of ours was started from almost nothing a few years ago I was sitting in a very humble office located on top of a Thai restaurant in an industrial area building under a demolition contract. I did find it quite luxurious at the time to have lunch so close nearby plus it was also a big upgrade from my previous office. In fact, believe it or not, of the four office spaces River Oak (and my family office) has rented, the landlord has terminated our contract due to a coming demolition or complete restoration in all of them. If you didn't know better, you'd almost suspect a plot.

As much as I enjoy looking back at those humble beginnings when subscribing to a Wall Street Journal or an Economist.com was completely out of the question, I do prefer where we are today. (I might agree to go back if I was also promised to become 30 years old again.) I'm moving into the new office on Eklundshovsvägen 5 which is located right above Studenternas stadium next week. The office will be shared with Nutris, a health platform software company with three employees that is owned and operated by my family. Welcome over for a coffee anytime you want, to discuss business or anything else, or for an (optional) basketball shootout. This invitation is of course open to our international shareholders and friends too.

## Looking ahead

As always, there is a lot of talk about the current 'high uncertainty'. I think we should all just agree that high uncertainty in the world is a certainty and be done with it. This would save humanity a lot of unnecessary worry every year.

Rather than trying to find a playing field somewhere in the world where there is no uncertainty, I believe it is a far superior strategy to embrace it and play as best as you can with it. We will continue in the same fashion as always: focusing on great companies and the people that build them rather than on macro events, high uncertainty and stock prices.

I'd like to express my gratitude for how much I appreciate talking to many of you about the business trends you're seeing in your own jobs and industries. This type of "inside" information is invaluable when you're trying to understand companies and industries better. Thank you for being so generous with your knowledge and experience.

I will keep investing our hard-earned capital based on our three main pillars: Fundamental business analysis, a long-term mindset and keeping things simple.

Thank you for bringing your long-term mindset to this partnership which allows me to focus on the things that matter.

September 2, 2021

Daniel Glaser
Chief Executive Officer

**Founding principles**

Our basic idea is simple:

1. **Make a bet on human progress.**

   Human progress is the reason why stock markets have historically produced average annual returns of 6% to 10% over the past 200 years.

2. **Invest in companies that are better than average or available at lower prices.**

   The objective here is to add some additional returns on top of the 6%+ returns that the general market has provided and is likely to keep providing investors over time.

**Goals**

1. **Don't lose money.**

   We always think about the downside first.

2. **Earn an average annual investment return of 15% over time.**

   This will result in an average annual increase in book value per share of ~11.5% after a dividend on the A-shares according to the Company's Articles of Association, taxes and general operating costs.

## Historical returns

Feb 7, 2017 – June 30, 2021: River Oak Capital AB
Jan 1, 2013 – Feb 6, 2017: Zen Capital Family Partnership

| | Investment return (pretax) | Net result | OMXS30 incl. div. | Difference |
|---|---|---|---|---|
| **2013** | 41.0% | **30.8%** | 25.5% | 5.3% |
| **2014** | 45.0% | **33.8%** | 14.0% | 19.8% |
| **2015** | 35.1% | **26.3%** | 2.2% | 24.1% |
| **2016** | 20.5% | **15.4%** | 9.4% | 6.0% |
| **2017** | 19.6% | **14.0%** | 7.7% | 6.3% |
| **2018** | 0.0% | **(6.0)%** | (7.0)% | 1.0% |
| **2019** | 61.7% | **50.1%** | 30.7% | 19.4% |
| **2020** | 104.0% | **74.3%** | 7.4% | 66.9% |
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| | | | | |
| **Total gain** | 1338.6% | **667.7%** | 176.1% | 491.6% |
| **Compounded annual gain** | 36.8% | **27.1%** | 12.7% | 14.4% |

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