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*The following investment case, excerpted from Letter to Partners #27 & #28, exemplifies my approach to identifying and evaluating opportunities:*

## Overlooking the holy grail (almost!)

Screening for European software companies is fast and easy, initially generating a rather long list of potential investment candidates. However, the real work begins in refining this list to match the previously mentioned criteria. This process is crucial in narrowing down the selection to companies that truly fit the investment framework. The goal is to identify those with the right characteristics to drive outsized returns for the fund over the long term.

One company that particularly stood out during my research is a relatively small firm located in the Swedish town of Växjö. The company has consistently achieved exceptionally high operating margins in the 70s within its core business and has grown at impressive double-digit organic rates, further accelerating growth through M&A. Its corporate governance is strong, with shareholder alignment reinforced by reasonable compensation structures. Notably, the Chairman also serves as the major shareholder, holding over 18% of the shares.

Initially, I made the same mistake as Peter did with Facebook, ignoring this best-in-class company due to its relatively high revenue multiple. It wasn't until I made several other investments in the space and took the time to study Peter's book - learning from his insights and experience - that everything finally clicked. In hindsight, I realize I was essentially sitting in front of the holy grail of software companies in Europe, yet I failed to connect the dots conceptually.

The company I'm referring to is **Fortnox AB**, which offers cloud-based solutions tailored for small and medium-sized enterprises (SMEs). Its core focus lies in accounting, invoicing, and financial management software. Fortnox provides a comprehensive suite of products that enable businesses to streamline their financial operations, including bookkeeping, invoicing, payroll, and other essential administrative functions. For readers in Germany, DATEV is likely a familiar name, while Xero holds a strong presence in the US, UK, Australia, and New Zealand.

Similar to Facebook, Fortnox initially concentrated on a relatively small niche - Swedish SMEs - and has since established a dominant market position, with Visma being its only credible competitor. However, it seems that Fortnox's product is superior, positioning it as the clear category leader with monopoly-like status within this specific niche. What truly sets Fortnox apart is its relentless focus on customer satisfaction and its continuous innovation, consistently bringing new solutions to the market. Leveraging its foundation, Fortnox has expanded its portfolio into broader financial services, seamlessly integrating solutions such as invoicing, payroll, and comprehensive financial management tools. The company also offers Fortnox business cards which work seamlessly as well as small business loans and factoring solutions. This relentless focus on innovation and customer feedback has enabled Fortnox to stay ahead of its competitors, continuously redefining industry standards and cementing its position as a market leader in its niche.

The synergistic effect of robust brand recognition and relentless innovation serves as a powerful internal growth engine. This dynamic not only instils confidence in the company's ability to maintain its strong financial profile but also suggests that it will likely capitalize on further economies of scale over the coming decade. Additionally, there is a compelling opportunity for international expansion into less saturated markets where technological sophistication among competitors may be lower, particularly in Europe and beyond.

Fortnox's strong network effects translate into significant pricing power, a critical factor in sustaining its franchise's durability and resilience. This pricing power enables continuous investment in technological innovations that consistently enhance the user experience. Recently, the company underscored this capability by launching a new suite of packages tailored to its customer base. When

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compared to more mature players like Xero, there are compelling arguments that Fortnox will further leverage its network effects.

After completing my research, I began exploring the valuation. I felt confident in the durability of the company's competitive advantages, which justified paying a premium multiple for the business. I had a strong conviction that the company could compound at significant rates over the long term. Financially, the business is in excellent shape - with a net cash position, zero debt on the balance sheet, and favourable cash conversion and working capital dynamics.

I extended my typical DCF model - usually spanning a 3-5-year forecast - to a 15-year period to capture the compounding effects more effectively. This longer horizon revealed that the free-cash-flow yield could grow from a modest 2%+ initially to over 15% in the long term, projecting a CAGR (<13%) well below the historical growth rates (>30%). With resilient organic growth rates in the mid-20s, the EBIT multiple for this asset is expected to compress to the low 20s over the medium term, thereby mitigating risk.

Additionally, I believe the asset holds significant upside potential from M&A, also making it an excellent take-out candidate. Remarkably, this scenario unfolded just weeks after I built our position in Fortnox at the low 60s SEK range. EQT, a prominent Swedish private equity firm, along with the Chairman, proposed to take the company private at SEK 90 per share. While it's incredibly rewarding to see my thesis validated, I also firmly believe that the true beneficiaries in this case will be the new owners.

#### **Fortnox AB: A Thesis Validated**

In the last Letter to Partners [#27], I outlined my conviction in Fortnox AB - a Swedish leader in enterprise resource planning (ERP) software with monopoly-like economics. Shortly after I initiated the position, private equity firm EQT and the company's Chairman proposed a take-private transaction. The deal has now closed at SEK 89.75 per share. I paid SEK 64.80 per share and received a dividend of SEK 0.25, resulting in a return of +38.89%.

While it's gratifying to see this thesis validated so quickly, the real story lies in what the transaction signals: private markets are increasingly recognizing the long-term compounding power of mission-critical Software-as-a-Service (SaaS) businesses with embedded workflows and robust data access. Fortnox's ability to expand into adjacent financial services beyond accounting, drive progressively higher margins, and innovate relentlessly made it a natural target. I wouldn't be surprised if, within a few years, the company returns to public markets at a multiple of its current size and scope.

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