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## Investor interview:

### Per H Börjesson

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#### *Introduction*

Per H Börjesson, often called ‘Sweden’s Warren Buffett’, shares many similarities with the latter; the self-deprecating sense of humour, the legendary annual meetings, the down to earth style, the ambition to educate the general public about investing matters etc.

Mr Börjesson is the founder of Investment AB Spiltan and has been its CEO since 1986. His concentrated, long-term way of investing has generated great returns for shareholders. Historically, Spiltan has been focused on unlisted companies and real estate although the emphasis on listed investments has increased in recent years.

IBTB sat down with Per to discuss a range of topics including investment companies, diversification and sourcing of ideas. We would like to thank him, both for taking so generously of his time on this occasion as well as for being a tireless teacher.

#### **Being a listed investment company**

We started by discussing listed and unlisted investment companies. Technically speaking, Spiltan is unlisted (although shareholders regularly have the opportunity to transact through a market mechanism) but is looking to become a listed company.

Per says that being listed certainly comes with a sense of responsibility when you’re effectively managing other people’s money. He also says that it is part of Spiltan’s DNA given its origins as a private investors club. Mr Börjesson feels that part of the fun is seeing his investors becoming wealthy on the back of Spiltan’s performance, but it also seems to me that the idea of enjoying running a listed company is one Per shares with many other successful investors i.e. the joy that comes from having other investors along for the ride. This reminds me of the final chapter in Lowenstein’s biography on Buffett, ‘Buffett’s Trolley’, which paints a picture of someone who is as focused on bringing his partners along on the journey as he is on building wealth for himself.

There is no evidence of any restrictions from being a public company when looking at Spiltan’s portfolio which is highly concentrated (while being very diversified as we discuss below) and very long-term. The key thing, according to Per, is to have partners and major shareholders (in Spiltan’s case the Börjesson family) that are long-term and enable management to carry out its mission. This brings us back to Tom Russo’s concept of capacity to suffer which refers to a governance structure that enables management to take the long-term view, often as a result of family control.

#### **On ‘serial acquirers’**

Just like in our conversation with Ulf Hedlundh from a few weeks ago, I asked Mr Börjesson about the attractiveness of so-called ‘serial acquirers’ like Indutrade etc.

Per often finds these to be attractive businesses and Spiltan has invested in several of them e.g. Idun Industrier, which listed recently, and Teqnion. In addition, the portfolio includes holdings in privately held investment companies like Berkway AB.

While some investors express concerns about the ability of these serial acquirers to succeed in an environment of higher interest rates and a less buoyant stock market etc, Mr Börjesson has a more positive outlook (although he concedes that valuations in many cases look quite high); for instance, there is a very large number of private businesses still in the hands of entrepreneurs born in the 1940s and this creates a huge pipeline of potential acquisitions in the next few years. Spiltan's strategy differs somewhat from that of the serial acquirers however in that Per and his team are usually looking to acquire minority stakes in businesses run by younger entrepreneurs with a long runway ahead of them.

## **Diversification**

One striking aspect of Spiltan's portfolio is its very high degree of concentration, where the holding in gaming company Paradox accounted for 51 % of NAV as per 13/04/2021. The next largest direct holding accounts for around 3 % of NAV. I asked Per whether the intention is to increase the size of these other positions to reduce exposure to Paradox.

'It's extreme diversification on the one hand and extreme concentration on the other' says Per, referring to the fact that Spiltan has a large number of smaller holdings across different industries while at the same time having a very large holding in Paradox following many years of outstanding share price performance from the latter. Mr Börjesson himself likens this approach to a form of hybrid between Warren Buffett and Peter Lynch, where the latter famously held hundreds of stocks in his Magellan fund (and with significant churn).

'The ambition is to have more investments in the range of SEK 50 - 100 millions' says Per, however he has also resisted pressure to 'clean up' the portfolio by disposing of smaller holdings in various businesses. 'In some cases these have ended up listing on the stock market with significant value creation'.

## **On discount/premium to NAV**

Mr Börjesson isn't concerned about the market's valuation of Spiltan when it comes to his own shareholding. However, he does care about the discount on behalf of other shareholders who might wish to release cash for other purposes. 'This is one reason we are looking to change our listing' i.e. to improve liquidity. He also says that the high exposure to Paradox is most probably another reason for shares trading at a discount to NAV.

When it comes to opportunities in the unlisted space, Per feels that lack of liquidity etc still means that there are many opportunities to acquire businesses at lower valuations than in the listed space. However, there are important exceptions e.g. in the tech space. In Spiltan's case, Paradox is a great example of a successful investment in a private business that subsequently listed and has created enormous amounts of value for shareholders. However, there are also examples of private investments that have detracted meaningfully from performance.

'We have both cases where we believe the upside is 20x, 30x or 40x and more stable businesses like real estate companies or industrials where there is a very high likelihood that they will double in value every 5 or 7 years'.

## **Sensitivity to valuation levels**

I asked Per where he would place himself on a scale from traditional value investor with a focus on low multiples etc (i.e. Ben Graham) to the 'franchise' approach with a focus on business quality (i.e. Phil Fisher and others).

'It's case of value-based growth'. There are instances where Spiltan has reduced its holding in a company based on valuation levels, e.g. in Swedencare, although in that case shares have continued to perform strongly.

‘That is the most common mistake, to sell good businesses too early’ with reference to a number of examples like Investor’s investment in Alibaba, Öresund’s investment in Klarna etc. This echoes of Peter Lynch and others and is a commonly held view among experienced investors (although it remains unclear to what extent this awareness reduces the likelihood of repeating the mistake).

I asked Per if he is at all concerned that so many market participants have moved in the direction of ‘quality at any price’. ‘Yes, but that’s the zeitgeist’ says Mr Börjesson, referring to ever higher valuations that are often driven up even further by concepts like ESG etc.

### **‘Deal flow’ and ‘idea flow’**

How does the team at Spiltan source its ideas in the unlisted and listed space respectively?

On the private side, much of it comes down to the relationships and networks of Spiltan’s investment managers. Similar to Berkshire, there is also a ‘brand value’ which means that many entrepreneurs looking to sell their business will call Spiltan to discuss a potential transaction. Per estimates that there are 300-400 proposals each year which he will sit down to discuss with his investment managers weekly. The labour intensity of this process also means that one needs a certain size to operate efficiently in the space.

On the listed side, Mr Börjesson says it is sometimes difficult to keep on top of all the new companies coming to market (which has been the case recently for instance). Generally though, there is no formalised screening process or similar but idea generation is a result of Per’s experience and knowledge of the Swedish listed universe.

### **Goals and ambitions**

Interestingly, the team at Spiltan set themselves a goal of 19 % annual returns when the company was founded. While that goal was set in a very different return- and interest rate environment, Per and his colleagues have actually managed to deliver on this. Much of the increase in NAV has come in the last decade, driven by Paradox.

There is a clear ‘barbell’ at work behind these headlines according to Per where on the one hand smaller growth companies can return 30 - 40 % p.a. while more mature real estate and industrial holdings are more in the 10 - 20 % range normally. On top of this, there are some unusual cases like Spiltan Fonder where a SEK 8 mn investment has turned into SEK 360 mn of fair value plus SEK 100 mn of dividends.

To round off our interview, Mr Börjesson returned to Mr Buffett.

‘If you look at Buffett, he has generated 20 % annual returns but now that he has a capital base of \$ 600 bn and a \$ 150 bn cash pile he is no longer able to do that. However, 10-12 % p.a. is great as well; that means you are doubling your money every 6 or 7 years which is extraordinary in itself’. Over time, the tide of the market lifts most boats but as Per points out, high costs, attempts to time the market and lower than optimal allocations to equities over time mean that most investors don’t reap the full benefits. Words that could just as well have come from Mr Buffett himself.