

Topicus (TOI) Investment Analysis Report

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Executive Summary

Quick Stats

- **Market Cap:** CAD \$8.0B (€5.1B fully diluted)
- **FY2025 Revenue:** €1,552M (25% CAGR FY21-25)
- **FY2025 FCFA2S¹:** €218.7M (14.1% margin, +23% YoY).
- **FCFA2S Multiple:** 23.3x (lowest in company history)
- **Net Debt:** €365.8M (1.67x FCFA2S)

Topicus.com (TSXV: TOI) is a European vertical market software (VMS) consolidator spun out of Constellation Software in 2021. The company acquires small, mission-critical software businesses, primarily serving government, healthcare, and regulated industries across Europe, and integrates them into a decentralized portfolio of 170+ operating groups. We believe the market has mispriced Topicus due to overestimating AI disruption risk and misunderstanding the company's acquisition-driven value creation engine. At 23.3x FCFA2S², the stock trades at its historical trough despite demonstrable resilience in customer stickiness, stable ROIC generation, and multi-decade deal runway in a fragmented market.

Investment Case

The Market Misunderstanding

The market has compressed Topicus's valuation to 23.3x FCFA2S, well below both its own average of approximately 46x. Three specific concerns drove the compression: that generative AI will erode customer retention, that organic growth deceleration signals structural deterioration, and that the current valuation requires multiple expansion to deliver returns. Mark Leonard's September 2025 departure as President of Constellation Software (Topicus' parent company) and AI disruption fears amplified the decline. Each concern is genuine but overstated.

Topicus is fundamentally a capital allocation machine, not an organic growth company. Revenue has compounded at 25% annually from FY2021 to FY2025, driven overwhelmingly by acquisitions. In FY2025, revenue growth broke down as 4% organic and 16% inorganic. Management deploys capital into disciplined acquisitions at 6 to 8 times EBITDA, targets 20% ROIC, and recycles the cash into the next acquisition. The thesis depends on whether the acquisition flywheel can sustain 20%+ ROIC as the company scales.

Why the Acquisition Flywheel Is Durable

European vertical market software is permanently fragmented by local regulation, language, and customer relationships. Private equity cannot economically enter this market at Topicus's deal sizes, leaving the company as often the only serious buyer. In FY2025, Topicus deployed €775 million across 80+ acquisitions while maintaining 20.3% ROIC. The 170+ operating

¹ FCFA2S = Free Cash Flow Available to Shareholders, the company's preferred measure of owner earnings, comparable to conventional free cash flow after all maintenance capex and lease payments. The company reports this metric as it believes standard Free Cash Flow is overly flattering and does not reflect economic realities. We view this reporting as sign of how shareholder friendly the company is.

² See footnote (1).

groups, each running independent M&A pipelines, closed and integrated 80 transactions, proving the decentralized structure scales.

Why Customer Stickiness Survives AI Disruption

The market believes AI will erode switching costs by accelerating competitive product development. This misunderstands the source of stickiness at Topicus. Customer switching costs operate through three distinct channels: operational embedding (retraining cost, data migration cost of €50,000 to €500,000+ per customer), regulatory embedding (compliance sign-off required for systems of record), and asymmetric failure risk (organizations blame vendors for old systems that fail, but blame themselves for new systems). These barriers are structurally independent of product defensibility or software development velocity. AI can accelerate the speed at which a competitor builds a feature. It cannot accelerate the speed at which a school district verifies compliance with education law and GDPR.

Our company-by-company AI disruption analysis of all 170+ operating companies found a portfolio resilience score of 74.2 out of 100. 71.4% of revenue sits in Fortress or Resilient bands where AI displacement is structurally improbable, and only 3.5% of revenue is genuinely vulnerable. Nearly half the portfolio serves government and regulated customers whose switching decisions are driven by compliance requirements, not product features. Our margin stress test shows FCFA2S margin must halve to approximately 14% before the acquisition flywheel is impaired. FY2025 retention rates remained stable, directly contradicting the market narrative. Full methodology and company-level scorecards are provided in the AI Disruption Appendix.

The Real Growth Engine and Path to Returns

Organic growth decline from 7% to 4% reflects portfolio maturation toward equilibrium. The portfolio's customer-type mix is heavily weighted toward sticky, low-growth regulated verticals. When the parent company, Constellation Software (CSI) was at equivalent scale (€1.5 billion in revenue, 2014 to 2015) it showed identical 3 to 4% organic revenue growth. The bull case does not depend on organic recovery. Instead, it relies on a continuation of the company's sustainable acquisition flywheel which we cover in depth in this report.

Valuation and Catalysts

The reverse DCF reveals the depth of the market's pessimism. At the current share price, the market is pricing in approximately 5% total FCFA2S growth. Topicus has historically compounded FCFA2S at 40% annually and should be able to sustain at least 13% even in the most bearish scenario. The gap between the market's implied growth and even the most pessimistic scenario is the margin of safety.

Base case assumptions produce an intrinsic value of CAD \$202 per share (16.0% annualized returns). The bear case (20x deep-trough multiple, operational deterioration) delivers intrinsic value of CAD \$127 (5.7% annualized). The bull case reaches intrinsic value of CAD \$302 (25.7% annualized). The share price as of the date of this report is CAD \$92.07.

Key Risks and Qualifications

The structural risks are ROIC compression as acquisition multiples inflate or deal quality declines at scale, AI disruption manifesting on a 3 to 5 year lag, and governance concentration (CSI controls 50.1% with public shareholders at 13.6%). The cyclical risks are organic growth

fluctuations, execution noise from large integrations (Cipal Schaubroeck, Asseco Poland), and EU AI Act compliance costs (€15 to 30 million one-time in FY2026).

Company Overview

In 1995, Mark Leonard founded Constellation Software in Toronto with less than \$25 million of capital. Over three decades, he built one of the public markets' most remarkable capital allocation track records: approximately 1,000 acquisitions, a 500+ strong portfolio of decentralized operating groups, and total shareholder returns compounding at roughly 34% annually since the IPO. The operating philosophy is deceptively simple: find fragmented markets where localization, regulation, or niche expertise create structural barriers to consolidation. Acquire small, undercapitalized software vendors at disciplined multiples. Decentralize operations to maintain customer relationships and accountability. Deploy free cash flow into the next acquisition. Repeat.

The results speak for themselves. Since its May 2006 IPO at roughly CAD \$17 per share, Constellation has grown revenue from approximately CAD \$100 million to USD \$11.6 billion in FY2025, a roughly 115-fold increase. Free cash flow available to shareholders reached USD \$1.68 billion in FY2025. CAD \$10,000 invested at the IPO would be worth approximately CAD \$1.4 million today, even after the recent drawdown that has compressed valuations across the entire CSI ecosystem. That compounding, sustained over two decades through multiple market cycles, is the operating manual Topicus inherited.

In February 2021, Constellation spun out Topicus.com as a Europe-focused vehicle to apply that proven playbook to a continent where the vertical market software (VMS) opportunity remains more fragmented than North America. VMS refers to specialized software built for a single industry: school administration systems, pharmacy dispensing platforms, municipal tax processing tools, construction scheduling packages. These are not generic enterprise apps. They are purpose-built operational software that customers depend on daily.

Topicus is a capital allocation machine. It creates value by systematically acquiring small, fragmented VMS businesses across Europe, operating them independently to preserve customer relationships, and reinvesting the cash into the next acquisition. The bear case worries that AI will disrupt the growth trajectory and impair the economics of the existing portfolio companies. The bull case recognizes that organic growth is supplementary to the acquisition flywheel. Even if organic growth declines to zero, Topicus can sustain 16% overall revenue growth from disciplined acquisition.

What Topicus Owns

Topicus operates 170+ autonomous subsidiaries organized into three decentralized operating groups across Europe. The company spans roughly 40 vertical markets, generating €1,552 million in revenue in FY2025. No single market, region, or customer segment dominates.

The revenue composition reveals the stickiness of these businesses. Seventy-one percent of revenue is maintenance and recurring fees paid by customers for ongoing system access. Another 24 percent comes from professional services (implementation and customization), and the remaining 5 percent from licenses and hardware. The high maintenance base is not accidental. Topicus acquires software that customers depend on for daily operations. School districts use these systems for curriculum management and staff scheduling. Healthcare providers use them for billing and patient administration. Manufacturing companies use them for supply chain tracking. Once embedded in operations, switching costs become prohibitively high. Customers tolerate price increases and stay for decades. Our company-by-company AI

disruption analysis found that 71.4% of Topicus's revenue (€1,107 million) sits in businesses where structural switching costs are independent of AI capability. The stickiness is driven by regulatory embedding and data migration risk, which AI does not diminish.

The fragmented European VMS market generates consistent acquisition opportunities. In FY2025, Topicus deployed €390 million acquiring and integrating small VMS businesses. The company completed 80+ acquisitions that year alone.

How the Acquisition Flywheel Works

The flywheel is mechanical. Understanding it in sequence explains why Topicus's returns are durable.

Step 1: Deal Sourcing. Topicus sources from an addressable pool of 40,000 to 50,000 European VMS targets, accessed through the broader Constellation Software deal-sourcing infrastructure. Business managers cultivate connections with vendors, often for 3 to 5 years before a serious conversation occurs, ensuring a consistent supply of deals that never reach competitive auction.

Step 2: Disciplined Pricing. Topicus deploys capital using strict ROIC hurdle rates. Small acquisitions under €20 million target 20 percent or higher ROIC. Each operating group annually reviews every acquisition against actual performance versus underwriting assumptions. The result is that Topicus acquires European VMS businesses at 6 to 8 times EBITDA. North American equivalents command 9 to 12 times. The discount reflects structural market dynamics: European VMS vendors are small, family-owned, with limited exit options, and private equity funds cannot economically underwrite sub-€20 million deals given their fixed diligence and legal costs (as detailed in Competitive Advantages).

Step 3: Integration Without Integration. Acquired businesses continue operating independently under their own management, brands, and customer relationships. The software is not consolidated into a unified platform. Corporate Topicus facilitates quarterly forums where subsidiary managers learn from each other, but adoption is voluntary. This allows Topicus to continue acquiring at small deal sizes, where multiples are lowest and competition thinnest.

Step 4: Cash Recycling. In FY2025, the company generated €219 million in FCFA2S³ and deployed €775 million acquiring and investing. The gap was funded through moderate leverage and a buildup of cash from previous years. (The company has deployed over 90% of FCFA2S generated in the last three years.) If the average acquisition generates 20 percent ROIC and Topicus's capital cost is approximately 4 to 5%, then deploying all free cash into acquisitions is accretive. The flywheel is self-sustaining.

Financial Performance and Cash Generation

Revenue has grown from €629 million in FY2021 to €1,552 million in FY2025, a 25 percent CAGR. In FY2025 specifically, revenue growth broke down as 4 percent organic and 16 percent inorganic. This split is the business model working as designed.

³ FCFA2S = Free Cash Flow Available to Shareholders, the company's preferred measure of owner earnings, comparable to conventional free cash flow after all maintenance capex and lease payments. The company reports this metric as it believes standard Free Cash Flow is overly flattering and does not reflect economic realities. We view this reporting as sign of how shareholder friendly the company is.

Free cash flow has grown faster. FCFA2S has expanded from €123 million in FY2023 to €219 million in FY2025, a 42 percent annualized growth rate. The margin has improved from 11 percent to 14.1 percent. This cash generation funds the flywheel: every euro of FCFA2S can be redeployed into acquisitions generating 20 percent returns. The balance sheet is conservative: net debt sits at €366 million (1.67 times FCFA2S), providing headroom to accelerate deployment if attractive deals materialize.

Strategic Structure: Decentralization and Permanent Capital

Topicus avoids the integration trap through decentralization and permanent capital. Constellation Software retains 50.1 percent voting control, ensuring capital discipline. Robin van Poelje, founder, holds 29.4 percent through his investment vehicle. Permanent capital means Topicus holds businesses indefinitely, with no fund-life exit pressure, enabling decades of compound growth. The structural advantages this creates over PE and strategic acquirers are examined in depth in the Competitive Advantages section.

Competitive Advantages

Topicus operates a durable, multi-layered competitive moat that is fundamentally structural, anchored not in software defensibility but in the capital allocation model itself. The moat rests on a structural foundation and three reinforcing pillars:

- 1) Foundation: permanent capital and decentralized structure enabling patient deal sourcing and multiple arbitrage,
- 2) Pillar 1: the acquisition flywheel generating disciplined returns at 6 to 8x EBITDA entry multiples,
- 3) Pillar 2: high switching costs locking in customers at the operating company level, and
- 4) Pillar 3: European market fragmentation keeping addressable markets small and accessible.

Even if individual software businesses face pressure from AI or competitive entry, the underlying business model remains durable and replicable.

Permanent Capital and Decentralized Structure: The Foundation

Topicus holds capital indefinitely. Constellation Software controls 50.1% of voting power, ensuring that Topicus's shareholder base remains long-term focused. The company's three operating groups (TSS Public, TSS Blue, and Topicus.com B.V.) manage independent business units with autonomous P&Ls, hiring authority, and customer relationships. General managers are accountable for ROIC, not revenue targets. This combination of permanent capital and radical decentralization has a direct, quantifiable consequence when compared with the Private Equity firms that also acquire private companies.

Private equity (PE) funds operate under explicit time constraints. Capital raised in year one must be deployed by years 3 to 5, returns must be realized by years 5 to 7, and capital must be returned to limited partners by year 7 to 8. This timeline creates cascading incentives: PE managers must exit holdings within a defined window, which means they must achieve high multiple expansion or pass on deals entirely. A business generating 4 to 5% annual organic cash return does not reach the exit multiples PE requires in five years. PE cannot economically underwrite such targets.

Topicus faces no such constraint. A family-owned European software business generating 5% annual cash return is economically unattractive to PE but economically rational for Topicus. Topicus's addressable deal universe is much larger as a result.

Because Topicus can hold subsidiaries indefinitely, it can afford to operate them autonomously rather than integrating them for cost savings. The 170+ operating groups maintain independent brands, management, and customer relationships. A decentralized structure would be inefficient if capital had to be returned within seven years. Under permanent capital, it is precisely the right choice: optimize for long-term cash generation rather than short-term cost reduction.

This structure also creates what we call multiple arbitrage. When Topicus acquires a business at 6 to 8x EBITDA, that EBITDA immediately becomes part of a publicly traded serial acquirer that the market values at a significantly higher multiple. A standalone family-owned VMS company generating €5 million in EBITDA might be worth €30 to 40 million on the private market. The moment Topicus acquires it and folds it into the portfolio, the market capitalizes that same EBITDA stream at Topicus's trading multiple. Even at today's depressed 23.3x FCFA2S, Topicus is valued well above the 6 to 8x entry price. At a normalized 30x multiple, a business acquired for €40 million contributes roughly €100 to 150 million in market capitalization. The market values low-growth, sticky EBITDA far more highly as part of a proven serial acquirer with permanent capital and a 20%+ ROIC track record than it does sitting inside a founder-owned business with no succession plan. This arbitrage is not financial engineering. It is a direct consequence of the structural advantages permanent capital, decentralization, and disciplined deployment create together. Each acquisition simultaneously generates operating returns through the ROIC flywheel and creates value through the re-rating of acquired earnings.

There is a further element that is harder to quantify but equally real: culture. Three decades of Constellation's operating philosophy have produced deep institutional knowledge of how to source, evaluate, acquire, and operate small VMS businesses without destroying them. This culture is embedded in the general managers, in the quarterly learning forums, and in the ROIC-tied compensation structure that self-selects for operators who think like owners.

Pillar 1: The Acquisition Flywheel at Disciplined Multiples

Topicus sources from an addressable pool of 40,000 to 50,000 European VMS targets, accessed through the broader Constellation Software deal-sourcing infrastructure. This database is built through years of direct relationship building by business managers, not through investment banking networks. A typical Topicus relationship spans 3 to 5 years before acquisition. Competition for these targets is minimal because PE funds (with fund-life constraints) cannot maintain year-spanning relationships. Brokers do maintain relationships, but they operate on volume and commission, not on reputation-based, decade-long trust. Topicus, with permanent capital and autonomy to say no to mediocre deals, builds proprietary flow that rarely reaches competitive auction.

This proprietary sourcing enables the price discipline described in the Company Overview: acquisition multiples of 6 to 8 times EBITDA, well below North American equivalents of 9 to 12 times. The discount is structural and durable. It reflects three facts about European VMS markets: they are fragmented by language and regulation (discussed below), vendor founders

are now 55 to 65 years old with limited exit options, and PE firms have minimum ticket sizes of €20 million and above, which excludes most targets.

Return on invested capital validates this discipline. Topicus targets 20 percent or higher ROIC on acquisitions under €20 million and high-teens to low-20s on larger deals. Each operating group reviews actual performance against underwriting assumptions annually and shares learnings across the organization. The rigor is embedded in the culture: underperformance must be explained, and explanations feed future pricing discipline. Small acquisitions under €20 million generate 25 percent or higher ROIC. Larger acquisitions generate 20 percent or higher. These are not outliers or best-case scenarios. They are median outcomes across a cohort of acquisitions.

This level of returns is achievable through a combination of disciplined entry multiples and multiple sources of post-acquisition value creation. When Topicus acquires a €20 million EBITDA business at 6x EBITDA (€120 million deployed), the acquisition itself delivers an initial yield: that €20 million EBITDA stream on €120 million deployed yields 16.7% on a pure multiple basis. Organic growth of 4–5% annually compounds that EBITDA base. Simultaneously, switching costs at the operating company level allow Topicus to increase customer prices by 4–7% annually with minimal churn, expanding margins and adding to cash flow. Operational discipline (maintaining cost structures and reinvesting selectively) sustains this margin expansion. The combination of initial yield on the acquisition price, organic growth of the EBITDA base, and pricing-power-driven margin expansion compounds together to deliver 20%+ returns on the capital deployed. These returns exceed Topicus's permanent capital cost of 4–5%, validating continued deployment at discipline entry multiples.

The flywheel is self-reinforcing. High ROIC on past acquisitions validates the permanent capital model. This validates the reputation as a "permanent home" for founder-owners, which attracts higher-quality targets. Better targets with stronger customer relationships generate higher retention and pricing power, which generates higher ROIC, which validates permanent capital, which enables continued deployment at attractive multiples. Each turn of the cycle reinforces the others.

Pillar 2: Switching Costs at the Operating Company Level

Topicus's operating companies sell mission-critical software to regulated industries. Switching costs operate through multiple channels, and they are high.

Operational embedding: Customers have integrated Topicus software into daily operations over years or decades. Changing systems requires retraining staff, migrating historical data, rebuilding custom integrations, typically measured in months and costing €50,000 to €500,000+ per customer.

Regulatory and compliance embedding: In regulated verticals, Topicus software often serves as the system of record for compliance-critical data. A German school administration system holds student records subject to German education law. A healthcare IT system stores patient histories subject to German healthcare law and data protection requirements. Switching introduces regulatory complexity. A compliance officer cannot simply migrate to a new system without verifying it meets all regulatory requirements. This verification process is lengthy, expensive, and introduces career risk: if the new system fails or proves non-compliant, the compliance officer who chose the switch is accountable.

Asymmetric failure risk: Failure of a legacy system causes disruption. Failure of a new system causes the same disruption plus the organization bears responsibility for choosing to switch. This loss aversion is powerful and creates a durable switching cost that transcends annual license fees.

Professional services lock-in: Many Topicus operating companies provide implementation, training, and customization services. These services deepen customer relationships, accumulate knowledge about the customer's specific workflows and configurations, and create switching costs through that accumulated knowledge. A customer cannot switch to a competitor's off-the-shelf product if that product doesn't accommodate years of accumulated customizations.

The evidence for high switching costs is quantified and consistent. Customer retention rates exceed 90%, with some operating groups reporting mid-to-high 90s. The company maintains annual price increases of 4 to 7% with minimal churn. Software costs are small relative to customer operations at risk: a €5,000 annual license serving a €500,000+ operation creates a switching cost floor far exceeding the software cost. Price elasticity is inelastic below the switching cost threshold. If switching costs were shallow, the first sign of faster competitive development through AI would trigger defections. Instead, the portfolio shows stable retention even as AI discourse intensified through 2024 and 2025.

Regulatory tightening reinforces rather than erodes this advantage. GDPR enforcement is increasing. Data sovereignty requirements are expanding. The EU Data Act will impose additional localization and compliance requirements. Each regulatory wave raises the cost of migration and increases the value of already-compliant systems.

Pillar 3: European Fragmentation

European software markets are fragmented by language, regulation, and culture (detailed in Industry Overview). A French school administration product cannot serve German schools without rebuilding for German curriculum standards, data protection law, and language support. Localization cost is typically €1 to 5 million per market per vertical, depending on product complexity and regulatory requirements. This cost structure keeps vendors small and focused on local markets. A Dutch school administration software company serves perhaps 50 to 100 school districts in a total addressable market of €20 to 50 million annually. Expanding to France would require €2 to 5 million in localization investment. ROI is marginal at best. The vendor remains small, family-owned, and geographically focused.

Global software competitors (SAP, Oracle, Workday) could theoretically enter European VMS markets. They face formidable barriers. Localization cost for a global vendor is €5 to 10 million per market per vertical before any revenue is realized. Switching costs at the customer level mean existing customers prefer local, domain-expert vendors over global platforms. Customer acquisition cost is high in government and healthcare. The ROI for a global vendor does not work: each individual market is €20 to 100 million TAM, localization cost is 5 to 10% of TAM, and payback requires years.

Topicus operates over 170 companies across 40+ verticals in 26 countries. Its advantage is country-specific depth. When Topicus acquires a French school software vendor, it preserves the French team and expertise. What Topicus adds is capital allocation discipline and patient permanent capital. This is precisely why Topicus can acquire in markets where global competitors cannot justify the economics. This structural protection is durable as long as

Europe maintains linguistic diversity, regulatory fragmentation, and commitment to data sovereignty. All three appear permanent.

Moat Interaction and Durability

The four pillars reinforce each other. Permanent capital enables patient deal sourcing, which generates proprietary deal flow at 6 to 8x EBITDA. Lower entry multiples plus high switching costs generate 25%+ ROIC on small acquisitions. High ROIC validates permanent capital, which attracts quality targets. European fragmentation ensures a large universe of small, accessible targets, keeping multiples low.

The moat is actively widening. FY2025 deployment of €775 million exceeds the prior-year run rate of approximately €197 million annually (FY2021 to 2024 average). FCFA2S growth of 23% in FY2025 is outpacing revenue growth of 20%, indicating margin expansion. Regulatory tightening (GDPR expansion, EU Data Act) reinforces both switching costs and fragmentation.

Competitive threats are specific and addressable. Valsoft (Montreal-based) completed 16 acquisitions globally in 2025. Volaris (another CSI operating group) completed 10. Volaris is the more direct competitor: it shares the same permanent capital structure and decentralized philosophy, and it targets similar VMS deals. Competition for specific targets is real, but Topicus's proprietary deal flow and patient multi-year relationship building means overlap is limited. The European VMS market has sufficient fragmentation to sustain multiple acquirers without head-to-head consolidation.

Acquisition multiple inflation is the primary competitive threat. A recent large acquisition, Cival Schaubroeck, was priced at roughly 2.0x revenue (implying 9 to 12x EBITDA), above Topicus's historical 6 to 8x median. However, management has stated (in Q4 2025 earnings) that acquisition multiples have not changed materially. The base of 40,000 to 50,000 available targets is still largely underserved. Acquisition multiples would need to inflate significantly before becoming a binding constraint on ROIC.

Overall durability assessment: the moat is durable on a 5+ year horizon and is not narrowing. The company would need multiple simultaneous pressures (organic growth persistent at 0%, multiples inflating to 12x+, competitor consolidation removing deal flow) to impair the moat meaningfully. No single threat breaks it.

Why This Moat Survives AI Disruption

The implicit risk in the Topicus thesis is that AI disrupts the software products underlying customer relationships. The evidence says the moat survives.

Our company-by-company analysis of all 170+ operating companies scored each business across four dimensions: switching cost resilience (40% weight), AI replaceability (30%), market structure (20%), and revenue quality (10%), using multiple independent AI models cross-validated against human review. The portfolio-level AI resilience score is 74.2 out of 100.

The risk band distribution is concrete. Seventeen companies representing €247 million in revenue (15.9%) scored as Fortress: businesses where AI displacement is structurally impossible because regulatory mandates and deep operational embedding make the software irreplaceable. Another 68 companies representing €860 million (55.5%) scored as Resilient: core functions protected, with AI more likely to enhance the product than replace it. For example, PharmaPartners (score 87.2) carries patient safety liability that makes migration

unthinkable. Together, 71.4% of revenue sits in the Fortress or Resilient bands. Only 3.5% of revenue (€55 million across 13 companies) is genuinely vulnerable.

Customer-type segmentation reinforces the picture. Government and public sector customers (20% of revenue) score 80.4. Regulated private sector (29% of revenue) scores 81.1. Unregulated private sector (31% of revenue) scores 63.7, the most exposed segment, but still above meaningful switching-cost protection thresholds.

AI can accelerate the speed at which a competitor builds a feature. It cannot accelerate the speed at which a customer audits a new vendor for regulatory compliance, reduce the training cost for staff who have used Topicus's system for years, or eliminate the asymmetric failure risk that makes compliance officers averse to switching.

Our company-by-company analysis's key conclusion: AI is more likely to be an ARPU enhancer than a competitive threat. The credible AI-era risk is pricing power erosion and margin compression, not customer displacement. Stress testing found that FCFA2S margins would need to fall from the current 29% to approximately 14% before the acquisition flywheel is materially impaired. At 22% FCFA2S margin (a substantial compression), the flywheel remains intact.

We have appended the full report on our Topicus company-by-company AI disruption analysis to this write up. We encourage you to read this for additional context. We used a variety of AI models heavily (alongside human judgement) for data enrichment and scoring the 170+ portfolio companies. We think it is important for readers to be aware of the methodological limitations of this approach. We believe the analysis to be 'directionally accurate' rather than precisely correct.

Management & Capital Allocation

Topicus operates as a capital allocation machine under founder-led stewardship. The question that matters is whether the people making deployment decisions have proven they can compound shareholder value through disciplined acquisition. The founder of Topicus, Robin van Poelje, owns 29.38% of the company through Joday Holdings. Constellation Software retains 50.1% voting control. Together, insiders and aligned shareholders control approximately 85% of the company, with public shareholders holding 13.6%. This ownership structure eliminates agency risk. Management's wealth moves with shareholder wealth.

Management Credibility and Alignment

Robin van Poelje founded TSS Stelselwerk, the original Dutch education software business, in 2006. He led it through organic growth and in 2013 guided its acquisition by Constellation Software. Since the Topicus spinoff in January 2021, he has served as CEO and chairman. His personal stake has grown to approximately €2.35 billion at current valuations. A founder who built a business for 15 years, sold it to a demanding parent, and then leads a spinoff for six years without exit demonstrates belief in the model.

His alignment is reinforced by structure. Constellation retains 50.1% voting control through a super-voting share, functioning as a governance anchor against short-termism. The senior team reflects this inherited discipline. Jamal Baksh, CFO, brings 22 years of tenure at Constellation Software, ensuring capital allocation decisions are vetted through CSI's established

framework. Han Knooren, CEO of TSS Public, has served in that role for 11 years, signaling operational stability.

Compensation Structure and Incentive Alignment

The compensation structure is unusual and worth examining carefully. Management's bonus is directly tied to Return on Invested Capital (ROIC) less a 5 percent risk-free-rate hurdle. Unlike typical share-based compensation with option vesting tables, this structure directly penalizes management for deploying capital at inadequate returns. Van Poelje and other executive officers must reinvest 75 percent of after-tax bonuses back into company shares, held in escrow for four years. The combination is exceptional: management cannot celebrate an acquisition at 6 times EBITDA and then collect a bonus check divorced from realized returns. ROIC must persist for four years before they access personal capital. Management is relying on the acquisition flywheel generating sustainable ROIC, not on option-grant vesting tables to generate personal wealth. If the flywheel breaks, compensation breaks, meaning management are very aligned with shareholders.

Capital Allocation Track Record

Strategic intent matters less than realized returns. The best evidence for Topicus's capital allocation discipline is the track record of its parent, Constellation Software. Since its 2006 IPO, CSI has compounded total shareholder returns at approximately 34% annually, transforming a sub-\$25 million business into a \$75 billion+ enterprise through disciplined serial acquisition. CSI has completed roughly 1,000 acquisitions over three decades while maintaining consistent ROIC above 20%. That track record is the operating manual Topicus inherited.

Topicus's own record since the February 2021 spinoff confirms the discipline has transferred. Revenue has grown from €629 million to €1,552 million (25% CAGR). FCFA2S has expanded from €123 million in FY2023 to €219 million in FY2025, a 42% annualized growth rate. ROIC has remained above 20% throughout, with smaller acquisitions (under €20 million) consistently generating 25%+. Over the last five years, Topicus has completed over 200 acquisitions while maintaining entry multiples at 6 to 8x EBITDA. There is no evidence of multiple creep into 9 to 10x territory, the inflation that typically precedes acquisition-driven value destruction. Management has financed this growth through internally generated cash flow and modest leverage (1.5 to 1.7x), with zero equity dilution since the 2021 listing. The combination of CSI's three-decade track record and Topicus's five-year execution since spinoff provides strong evidence that the capital allocation discipline is structural, not dependent on any single individual.

Acquisition Deployment Trajectory

The full trajectory: €100 million in FY2021 (early post-spinoff), €50 million in FY2022 (conservative), €132 million in FY2023, €153 million in FY2024, and €390 million in core VMS in FY2025. That acceleration from €50 million to €390 million over three years occurred without general multiple expansion. The FY2025 core VMS deployment rate of approximately 65 to 70 percent of free cash flow is sustainable over time, particularly as the free cash flow base itself grows through compounding acquisitions.

Governance Structure and Transparency Gaps

The dual-class structure preserves capital allocation discipline against short-term pressures. CSI's super-voting share prevents activist pressure to return capital via dividends or buybacks.

However, the governance structure creates visibility gaps. Topicus provides minimal board composition disclosure. There are no shareholder letters, contrasting with CSI's detailed annual letters. These gaps mean minority shareholders are relying on CSI's oversight and the company's track record rather than independent board authority. This is qualified trust rather than absolute trust. Van Poelje and Baksh have proven they can execute. The qualification is that governance transparency lags the proven capital allocation discipline.

Industry Overview

The European software market is structurally fragmented on the supply side while consolidating on the buyer side. This mismatch creates sustained opportunity for disciplined acquirers. Understanding the market landscape requires examining three layers: the total addressable market and its secular tailwinds, the persistent fragmentation of the vendor base, and the small cohort of consolidators competing to capture the opportunity.

The European enterprise software market reached €170.44 billion in 2024 and is expected to grow to €180.34 billion in 2025, expanding at a compound annual growth rate of 5.82% through 2033. Within that universe sits vertical market software (VMS): a fragmented subset with approximately 40,000 to 50,000 European vendors, mostly small and family-owned.

The Persistence of Fragmentation

The European VMS vendor base is profoundly fragmented. Thousands of vendors operate regionally or nationally, typically generating between €2 million and €50 million in annual revenue. Approximately 70% to 80% are family-owned or founder-controlled, and typical EBITDA margins range from 20% to 35%: sufficient to generate founder wealth but not enough to fund multinational consolidation. Fragmentation is structural. Language barriers, regulatory variation by country, and strong network effects in local markets create persistent costs for cross-border expansion. A software vendor headquartered in the Netherlands and serving Dutch construction firms faces material friction expanding into Spain or Poland: different languages, different labor regulations, different industry practices, different compliance requirements. The friction is high enough that many vendors simply don't attempt it.

This is the supply-side condition. Many of these vendors face succession challenges as founders approach retirement. A Dutch school administration software company with €5 million in EBITDA, family-owned for two decades, has limited paths to independent growth. The private equity route is uneconomical at this deal size. An IPO is impractical. Selling to a strategic acquirer often means platform consolidation and job losses. The result is a seller's market in terms of deal availability but a buyer's market in terms of pricing.

The demand side tells a different story.

Consolidator Landscape and Buyer-Side Asymmetry

A small number of highly capitalized acquirers are systematically consolidating the VMS universe. The major players are Topicus (€1.55 billion in revenue, approximately 170 operating

groups), Visma (€2.7 billion in annual recurring revenue, PE-backed by Hg Capital, 42 acquisitions in recent years), Roper Industries (diversified U.S. conglomerate), Halma (U.K. listed, safety and environmental software), Lifco (Swedish conglomerate, permanent capital model), and Addtech (also Swedish, industrial software focus). These six organizations have the capital, operational bandwidth, and acquisition infrastructure to acquire targets that would be too small or regionally constrained to expand independently.

This creates a fundamental asymmetry. Thousands of fragmented targets exist in the market, each constrained by language, regulation, or geography from independent cross-border growth. Simultaneously, only five or six capable, well-capitalized acquirers are competing for them. The fragmented side cannot consolidate itself. The consolidated side has pricing power.

The typical acquisition target generates €2 million to €50 million in annual revenue with 20% to 35% EBITDA margins. Acquirers pay 6 to 8 times EBITDA for high-quality VMS vendors in Europe. This pricing reflects both the quality of the targets and the structural imbalance in negotiating leverage. A vendor with €5 million in EBITDA, family-owned for two decades, has limited paths to independent growth; a buyer with €1.5 billion in revenue can absorb it and extract value.

Not all acquirers operate identically. Topicus exemplifies the decentralized, permanent-capital approach: acquire with the explicit intention of holding indefinitely, operate each subsidiary with significant autonomy, reinvest cash. Visma, by contrast, is pursuing platform consolidation: it acquires VMS vendors but integrates them toward a shared SaaS technology platform, centralizing infrastructure and standardizing features. Visma is backed by Hg Capital, a PE investor with a 7 to 10 year exit horizon. Asseco Poland operates a parallel model to Topicus: decentralized acquisitions, Eastern and Central European focus, approximately €1.2 billion in revenue. Topicus holds a 9.99% stake in Asseco. The diversity of models creates optionality for sellers but indicates that no single consolidation approach has dominated: multiple models can coexist.

Structural Tailwinds and Headwinds

Three factors actively pull capital into VMS consolidation. First, regulatory compliance creates sustained, multi-year software spending cycles. GDPR, DORA, and CSRD together represent €3 billion to €5 billion in compliance-adjacent spending through 2027. This spending favors integrated solutions from vendors with established domain expertise. Second, digital transformation at 10.4% CAGR is a decades-long process. Legacy systems embedded in specific industries require software solutions tailored to those industries' workflows. The 40,000 to 50,000 small vendors currently serving those industries are natural acquisition targets. Third, private equity exit pressures have shifted M&A dynamics. Public software multiples compressed from 14.6x EV/EBITDA in the second half of 2024 to 8.7x in 2025. PE-backed targets require exit multiples of 10 to 12x to meet return requirements. This compression reduces the attractiveness of VMS targets to PE buyers, reallocating dealflow toward permanent-capital acquirers like Topicus who are indifferent to exit multiples because they don't exit.

Offsetting these are three constraints. Artificial intelligence poses a long-term threat to per-seat software licensing if agentic AI systems compress the number of human users required for a given process. Our AI disruption analysis (detailed in Competitive Advantages) found that government and regulated private sector customers (49% of Topicus revenue combined) score above 80 out of 100 on AI resilience, structurally containing this risk for nearly half the portfolio.

Second, the pool of high-quality acquisition targets is finite and slowly shrinking as consolidators acquire the better-positioned vendors. Third, macroeconomic headwinds (rising interest rates, PE pullback from 53% to 45% of European M&A volume) introduce short-term friction, though lower PE competition is actually a tailwind for permanent-capital players.

The net effect: the European VMS market sits at an inflection point where secular tailwinds outweigh cyclical headwinds. The asymmetry between thousands of fragmented vendors and a handful of disciplined consolidators remains the dominant characteristic. At current acquisition rates, the 40,000 to 50,000 vendor universe provides over a decade of runway before target scarcity becomes a binding constraint. This asymmetry is likely to persist for 5+ years and potentially much longer given the structural nature of European fragmentation.

Investment Thesis

The market has mispriced Topicus due to overestimating the severity of AI disruption and misunderstanding the company's value creation engine. At 23.3x FCFA2S, the stock sits at the lowest multiple in the company's history, well below both its own average of approximately 46x and CSI's 10-year average of approximately 37.5x. The stock reflects a collapse in sentiment rather than a collapse in fundamentals. The core bull case is straightforward: the acquisition flywheel that generates returns remains intact even under stress scenarios, the customer stickiness that protects acquisition economics is structurally independent of AI disruption, and the European VMS fragmentation that sustains deal flow is permanent. If this thesis holds, Topicus is fairly valued at 23.3x with base case returns of 16.0% annualized, and materially cheap if the market re-rates as AI fears ease.

Market Consensus: Three Concerns Depress Valuation

The current valuation reflects two concrete market worries that are genuine and worth taking seriously before rebuttal.

First, the market believes AI will disrupt VMS faster than the industry narrative admits. The concern is specific: if generative AI reduces switching costs by enabling faster competitive product development, then the 90%+ retention rates and 4 to 7% pricing power that Topicus assumes will erode. A customer choosing to migrate to an AI-powered alternative becomes rational when the switching cost advantage narrows.

Second, organic growth deceleration from 7% in FY2023 to 4% in FY2025 is read as evidence the portfolio is aging structurally. The market treats 4% organic as the beginning of a deterioration curve toward the 1 to 2% baseline of mature government and education verticals. If inorganic deployment tightens or ROIC compresses simultaneously, the floor for returns could indeed become uncomfortably low.

Each concern deserves a direct rebuttal grounded in evidence from the body sections.

Detailed Rebuttal: Why Consensus Misreads the Thesis

Concern 1: AI Disruption Risk

The company-by-company AI disruption analysis (detailed in Competitive Advantages) provides the empirical foundation for rebutting this concern. The portfolio scores 74.2 out of 100 on AI

resilience, with 71.4% of revenue in Fortress or Resilient bands where AI displacement is structurally improbable. Only 3.5% of revenue is genuinely vulnerable.

The market's AI worry assumes switching costs are rooted in product defensibility. The evidence says otherwise. Switching costs at Topicus operate through regulatory embedding, operational embedding, and asymmetric failure risk. These barriers are structurally independent of AI-driven development velocity. AI cannot accelerate the speed at which a customer audits a new vendor for regulatory compliance or reduce the training cost for staff who have used Topicus's system for years.

A counterargument: customers in less regulated verticals face genuine choice. Our analysis quantifies the exposure: government and regulated private sector customers (49% of revenue combined) score 80.4 and 81.1 respectively on AI resilience. The credible risk to Topicus is pricing power erosion and margin compression, not customer displacement. The stress test shows the acquisition flywheel remains intact at 22% FCFA2S margins and only breaks at approximately 14%, a level requiring catastrophic deterioration across the entire portfolio.

Concern 2: Organic Growth Deceleration

The market reads 7% to 4% organic decline as a warning signal. This misunderstands the value creation model.

Topicus is an acquisition flywheel, not an organic growth company. FY2025 revenue decomposes as 4% organic plus 16% inorganic. Inorganic growth has historically, and will continue to be, the main driver of total growth for Topicus. The company intentionally prioritizes acquisition deployment over organic growth acceleration. Organic decline is predictable given the portfolio's heavy weighting toward government and regulated verticals (49% of revenue) with structurally low organic growth of 1 to 3% but very high switching costs.

The bull case does not depend on organic recovery. Even if organic falls to 2%, the flywheel delivers 16% total FCFA2S growth at 20% ROIC and 70% deployment. The mathematics are mechanical. FY2025 proved this: FCFA2S grew 23% despite organic at 4%.

The real risk is whether the acquisition flywheel can continue generating 20% ROIC at scale. Decentralization and ROIC maintenance at twice current scale are untested. This is a fair vulnerability. But it is an untested risk, not a proven failure. FY2025 delivered 20.3% ROIC across 170+ operating groups. CSI has maintained similar ROIC across 500+ subsidiaries for decades.

The market is pricing in an assumption that FY2026 data will be negative: that churn will rise, pricing will compress, or margins will deteriorate. This assumption is testable within 12 to 18 months. If FY2026 results show stable churn (90%+ retention), stable pricing (4 to 7% annual increases realized), and stable margins, the market's assumption is falsified. At that point, re-rating from 23.3x toward 30x is a mechanical consequence of proving the market wrong.

The company also has a multi-decade acquisition runway. The 40,000 to 50,000 target universe in European VMS is vastly larger than deployment capacity even at twice current scale. The market will not hold a depressed valuation forever if the company keeps executing. Either AI fears are validated through earnings deterioration (and the bear case applies), or they are refuted through earnings stability (and the base/bull cases apply). The waiting period is 12 to 24 months.

Risks

The acquisition flywheel thesis rests on three pillars: disciplined capital allocation, ROIC expansion via consolidation, and sufficient deal flow to deploy growing free cash. The foundation faces material stress at specific points. Each risk is classified as structural (capable of permanently impairing the flywheel over a 5 to 10 year horizon) or cyclical (affecting 1 to 2 year share price but not long-term value creation).

AI Disruption of Vertical Market Software (Structural)

The market's primary fear is that AI accelerates feature development velocity, reduces switching costs by enabling faster competitive product development, and erodes the 90%+ retention rates and 4 to 7% pricing power that underpin the flywheel. This fear is the dominant driver of the current 23.3x FCFA2S trough multiple.

The AI disruption analysis (detailed in Competitive Advantages) found a portfolio resilience score of 74.2 out of 100 with 71.4% of revenue in Fortress or Resilient bands. The margin stress test shows FCFA2S margin must halve before the flywheel is impaired. FY2025 data provides initial falsification: customer churn has remained stable, pricing has held, and margins show no deterioration.

Our assessment is that AI risk is real but directionally overpriced by the market. The risk that deserves monitoring is whether falsification proves temporary and AI disruption manifests on a 3 to 5 year lag. Key monitors: customer churn by vertical, pricing realization rates, and competitive win/loss data.

Acquisition Economics Under Pressure (Structural)

The clearest structural risk to the flywheel is valuation inflation in the target market. Bears point to the Cival Schaubroeck acquisition by Topicus at roughly 2.0x revenue, implying approximately 10.2x EBITDA, well above the 6 to 8x range that has historically underpinned Topicus's discipline.

Future target quality may decline incrementally as deployment scales. As the company's FCF grows, Topicus has two options to move the needle: acquire larger targets or increase the volume of small transactions completed. Larger targets command higher multiples. Higher multiple acquisitions may yield lower ROIC. Increasing the volume of small transactions completed is the better option but becomes more challenging to do as each deal requires a fixed amount of work. That said, Constellation has adopted this approach successfully as it has scaled all the way to CAD \$50 billion market cap.

This risk is structural because sustained ROIC compression permanently reduces the compounding rate. However, Topicus controls its own bid discipline. If private market multiples compress, management can refuse overpayment.

Margin Compression and Regulatory Headwinds (Mixed)

EU AI Act compliance introduces near-term margin pressure. Current estimates place one-time FY2026 compliance costs at €15 to 30 million and ongoing annual costs at €8 to 15 million. Applied across 170+ operating groups, this represents distributed friction rather than concentrated risk. Under a stress scenario where compliance costs consume €20 million in FY2026, EBITDA margin compresses from the FY2025 baseline of 26.3% to approximately

25.0%. This 130 basis point hit, combined with concurrent pricing pressure in lower-resilience verticals, could produce material cumulative margin compression.

This margin erosion arrives when free cash flow is most constrained. FCFA2S FY2025 stood at €218.7 million; the immediate €20 million compliance cost would reduce that to roughly €199 million in FY2026. Deeper compression to 22% - 23% reduces FCFA2S to approximately €180 to 190 million by year-end FY2027. Margin compression narrows deployment capacity at the moment the acquisition cadence is accelerating.

The near-term component (one-time compliance costs, initial pricing adjustments) is cyclical and should normalize within two to three years. The structural component would emerge only if AI-enabled competitors permanently erode pricing power in lower-resilience verticals. Our analysis suggests this affects at most 31% of revenue (unregulated private), which still scores 63.7 on switching-cost resilience. For this risk to become structural, competitive pressure must overcome deeply embedded switching costs across multiple verticals simultaneously.

Execution Risk at Scale (Cyclical)

FY2025 deployment of €775 million represents 354% of free cash flow, covering the Cival Schaubroeck acquisition (largest in TOI's history), Asseco, and smaller add-ons. Integration risk scales directly with deployment size and complexity. CSI's experience is instructive: Q2 2025 net income declined 68% quarter-on-quarter during peak integration of its largest acquisition. That decline was temporary and reversed within quarters. But during the dislocation, the market punished the stock.

Cival Schaubroeck's complexity (multi-country operations, diverse customer bases, platform architecture requiring consolidation) introduces execution risk beyond typical add-ons. A margin miss of 200+ basis points versus guidance during integration would reinforce bear-case narratives about quality decline and overpayment. This is cyclical because large integrations create 6 to 12 month margin volatility that the market tends to overpunish. The company's track record suggests successful integration, but the scale of FY2025 activity means the margin of error has narrowed. Investors should expect 1 to 2 quarters of noisy results and resist the urge to sell into temporary integration dips.

Valuation

Topicus creates value through two engines: organic growth from its existing €1.55 billion revenue base, and acquisition-driven growth powered by reinvesting free cash flow at 20% ROIC. At that return rate, every €100 million deployed adds approximately €20 million of annual FCFA2S. We value Topicus by modelling out how FCFA2S grows under different return ROIC and reinvestment rates. We then discount this future free cash flow back to its present value to estimate intrinsic value. We anchor this with reverse DCF and supplement with relative valuation to Constellation Software, Lumine, and other serial acquirers.

Operating Assumptions

Organic Growth (2026 to 2030): We assume organic growth stabilizes at 3% in the base case. This reflects a modest continuation from FY2025's 4%, acknowledging that organic declined from 7% in FY2023. At Topicus's €1.5B+ scale, Constellation Software's trajectory at equivalent revenue shows organic growth typically settles at 3 to 4%. The bear case assumes 2% (further

deceleration if customer churn accelerates); the bull case anchors at 4% (organic stabilizes without deterioration).

Acquisition ROIC (2026 to 2030): Topicus achieved 20.3% average ROIC over three years. We assume this persists in the base and bull cases, and compresses to 18% in the bear case. Private VMS acquisition multiples in Europe have remained stable at 6 to 8 times EBITDA through 2024 and 2025, with no evidence of inflation despite record deal volumes.

Reinvestment Rate (2026 to 2030): FY2025 saw €775 million deployed (€390 million in core VMS acquisitions plus €385 million for the Asseco Poland stake). Excluding Asseco, the core VMS deployment rate of 65 to 70% of FCFA2S is consistent with historical norms. We assume 70% reinvestment in the base case, 65% in the bear case (reflecting potential constraints if margin compression reduces FCFA2S generation), and 90% in the bull case. The bull case 90% deployment reflects management’s demonstrated willingness to deploy aggressively when opportunity permits, as evidenced by FY2025 total deployment reaching 3.5 times FCFA2S.

Discount Rate: 9.5%, reflecting a long-term equity return expectation.

Terminal Multiple: we use a terminal multiple to account for all of the future cash flows beyond the five-year forecast period in our DCF. Both Topicus and CSI currently trade at approximately 23x FCFA2S, well below their historical averages (TOI approximately 46x excluding 2022, CSI approximately 37.5x over the past decade). Our base case uses a terminal multiple of 30x FCFA2S (38% below CSI’s own 10-year median). The bear case uses 20x (a deep trough below today’s 23.3x). The bull case uses 38x (a re-rating toward the lower end of historical norms).

It’s important to note that the terminal multiple is the single most important assumption in the DCF and accounts for 85% of the final intrinsic value. One way to read this result is the DCF is essentially modelling how the market sentiment towards Topicus will evolve over the next five years.

Scenario Analysis

	Bear	Base	Bull
Organic Growth	2%	3%	4%
Acquisition ROIC	18%	20%	20%
Reinvestment Rate	65%	70%	90%
Total FCFA2S Growth	13.7%	17.0%	22.0%
FY2030 FCFA2S	€416M	€479M	€591M
Terminal Multiple	20x	30x	38x
Per Share (CAD)	\$127	\$202	\$302
Annualized Return	5.7%	16.0%	25.7%

Base Case (CAD \$202, 16.0% annualized): FY2025's €218.7 million FCFA2S grows to €479 million by FY2030. The base case embeds a re-rating from 23.3x to 30x, reflecting a mid-cycle environment where AI fears have partially subsided.

Bear Case (CAD \$127, 5.7% annualized): Genuinely pessimistic: Topicus permanently trades at a multiple it has never sustained while simultaneously experiencing operational deterioration. Even so, the investment produces a positive nominal return because the flywheel continues generating real cash flow growth regardless of market sentiment.

Bull Case (CAD \$302, 25.7% annualized): Organic stabilises at 4%, management deploys 90% of FCFA2S, and sentiment normalises toward historical ranges. A 38x terminal multiple (approximately 20.7x screener P/FCF) remains below both TOI's and CSU's long-term averages.

Reverse DCF: What Is the Market Pricing?

At CAD \$92.07 per share with 83.2 million basic shares outstanding, Topicus trades at 22.3x FCFA2S. Working backward at a 9.5% discount rate and 23.3x terminal multiple, the market is pricing in approximately 5% total FCFA2S growth. Topicus has historically compounded FCFA2S at 40% annually and should be able to compound FCFA2S at 13-22% in the next five years. The current price implies the market expects a dramatic and permanent decline in the growth rate.

Re-Rating Catalysts and Timeline

The base case assumes a normalized 30x terminal multiple, reflecting partial recovery from today's trough. Current 23.3x reflects the combined impact of Mark Leonard's departure and market fear that AI will disrupt VMS business models. FY2025 and early FY2026 data suggest the AI fear is overblown: customer churn has remained stable, pricing has held, and margins show no deterioration. As this evidence accumulates over 12 to 18 months, market sentiment should shift. While waiting for re-rating, the acquisition flywheel continues compounding at 13 to 17% annually. The investor earns the compounding return regardless of whether re-rating occurs.

Conclusion

Topicus is a capital allocation machine that has been mispriced due to overestimation of AI disruption risk and misunderstanding of the acquisition flywheel's return mechanics. At 23.3x FCFA2S, the stock sits at its historical trough, well below both its own average of approximately 46x and CSU's 10-year average of approximately 37.5x. Two events drove the compression: Mark Leonard's resignation as CSI President in September 2025 for health reasons (Topicus and CSI's share prices tend to move in lockstep) and the narrative that AI will disrupt vertical market software. The core thesis is mechanical: acquire small European VMS businesses at 6 to 8 times EBITDA, preserve sticky customer relationships (90%+ retention, 4 to 7% pricing power), and redeploy cash at 20% ROIC. This compounds regardless of whether organic growth accelerates or moderately declines. The 40,000 to 50,000 European VMS target universe ensures multi-decade runway.

The flywheel's durability rests on two pillars demonstrated throughout this report. First, customer stickiness is rooted in regulatory embedding and migration risk, not product defensibility. The AI disruption analysis (detailed in Competitive Advantages) confirms this:

portfolio resilience of 74.2 out of 100, with 71.4% of revenue in structurally protected bands where switching costs are independent of AI capability. Government and regulated private sector customers (49% of revenue combined) score above 80 on AI resilience. FY2025 showed stable retention and 23% FCFA2S growth despite organic at only 4%, operationally falsifying the market's primary concern. The margin stress test shows the flywheel remains intact at 22% EBITDA margins and only breaks at approximately 14%, a level requiring catastrophic deterioration across the entire portfolio.

Second, management's capital discipline ensures acquisition returns remain attractive at scale. Topicus acquired at 6 to 8 times EBITDA in FY2025 while competitors paid 10 to 12x. Deployment tripled from €132 million in FY2023 to €390 million in core VMS in FY2025 without observable multiple expansion. CSI has maintained similar discipline across 500+ subsidiaries for three decades. The permanent capital structure means Topicus faces no exit pressure, no fund-life constraints, and no incentive to overpay. The reverse DCF confirms the depth of the market's pessimism. At current levels, Topicus appears to offer asymmetric risk-reward.

The market is pricing in an assumption that FY2026 data will be negative: that churn will rise, pricing will compress, or margins will deteriorate. This assumption is testable. Investors should monitor two catalysts over 12 to 18 months: FY2026 results confirming stable retention (90%+), pricing (4 to 7% annual increases realized), and margins; and visible evidence across quarterly earnings that the AI disruption narrative is proving overblown. If these catalysts materialize, re-rating from 23.3x toward 30x is a mechanical consequence of proving the market wrong. If they fail, the bear case applies.

The company also has a multi-decade acquisition runway. The 40,000 to 50,000 target universe in European VMS is vastly larger than deployment capacity even at twice current scale. The market will not hold a depressed valuation forever if the company keeps executing. Either AI fears are validated through earnings deterioration (and the bear case applies), or they are refuted through earnings stability (and the base or bull cases apply). The waiting period is 12 to 24 months. At this price, the bet against the market is attractively positioned.

Appendix: AI Disruption Resilience Analysis

Executive Summary

This appendix presents the full methodology and findings of our company-by-company AI disruption resilience assessment of Topicus’s approximately 170 European VMS companies. The portfolio scores 74.2 out of 100 on our revenue-weighted framework, with 71.4% of revenue in the Fortress or Resilient bands. Only 3.5% of revenue faces meaningful AI vulnerability. The sections below detail how we arrived at these figures, the scoring framework, portfolio-level results, and individual company scorecards for the ten largest holdings.

Our Approach

The research was structured in four layers, each building on the previous and each stress-tested before proceeding to the next.

Quality control: adversarial review

At every stage of this research, we applied a combination of human judgment and AI-driven adversarial review to identify weaknesses in the methodology. An adversarial review works by prompting an AI model to adopt the perspective of a bearish short-seller and systematically attack the analysis, looking for confirmation bias, data quality problems, logical gaps, and alternative interpretations. Throughout this report, where we describe refining a methodology or correcting an earlier assumption, the phrase “during adversarial review” refers to this structured stress-testing process. The adversarial review document is available as a separate companion deliverable.

Layer 1: Portfolio classification

All 170 companies were classified across six dimensions (vertical market, software category, customer type, deployment model, primary switching cost driver, and source confidence) using two independent AI models (Gemini and ChatGPT). Claude reconciled disagreements using primary source research. Cross-model agreement ranged from 60% (switching cost driver) to 83% (vertical), and all disagreements were manually resolved.

Layer 2: Switching cost audit

In Layer 1, each company was assigned a primary switching cost type (workflow embedding, integration complexity, regulatory lock-in, data gravity, contractual, or training/certification). We initially attempted to score switching cost resilience based on these types alone, for example assigning higher scores to “regulatory lock-in” than to “workflow embedding.” However, the largest category, “workflow embedding” (80 companies, 47% of the portfolio), was too ambiguous to have explanatory value: a clinical records system mandated by medical certification and a cloud-based scheduling tool both received the same label.

During adversarial review, this was identified as a critical weakness. The label told us the type of moat but not its strength. To address this, we went a layer deeper: all 80 workflow-embedding companies were independently scored by three AI models (Gemini, ChatGPT, Claude) on a 1–5 switching difficulty scale. Each model researched the company independently and scored it without seeing the others’ results. This produced a continuous score (mean: 3.71) that differentiated between companies far more effectively than the categorical label. For the remaining 90 companies with more specific switching cost drivers (regulatory lock-in, data

gravity, etc.), we used an algorithmic score calibrated against the audit results. See The AI Disruption Scoring Framework section below for the full scoring methodology.

Layer 3: Revenue estimation

Topicus does not disclose individual company revenues. We estimated FY2025 revenue for all 170 companies using four methods, prioritized by data quality:

Confidence Tier	Cos.	Revenue	Method
HIGH	6	€246m	Statutory filings from national registries (Belgian NBB, Danish CVR, French Pappers, Norwegian Proff.no, Polish WSE, UK Companies House), grown to FY2025 using Topicus’s reported organic growth rates.
MEDIUM	11	€352m	Headcount proxy: employee count (from LinkedIn/company websites) multiplied by revenue-per-employee benchmark (€150–200k, Topicus group average ~€170k). Used for Dutch 403-exempt companies where statutory accounts are not individually filed.
LOW	86	€429m	Acquisition signal: estimated revenue at time of acquisition (acquisition price ÷ average revenue multiple of ~0.8x EV/Revenue, a typical Topicus deal multiple), then grown forward at average organic growth rates. Acquisition prices inferred from quarterly aggregate consideration data and deal context.
VERY LOW	68	€525m	Residual allocation: total reported revenue (€1,552m) minus Tiers 1–3, distributed across remaining companies by acquisition vintage and geography. Individual estimates are placeholders and should not be cited as facts.

Statutory filings were always used where available (highest quality). Where filings were unavailable, headcount proxies were preferred over acquisition signals. Residual allocation was used only as a last resort. The four confidence tiers track reliability: only 16% of revenue has been independently verified.

Layer 4: AI disruption scoring

Each company received a composite AI resilience score (0–100) combining four dimensions: Switching Cost Resilience (40% weight), AI Replaceability (30%), Market Structure (20%), and Revenue Quality (10%). These weights reflect our judgment that switching costs are the primary practical defense against AI displacement, followed by whether AI can technically replicate the software function, then market dynamics, and finally revenue mix. Customer type feeds directly into the Market Structure dimension (Dimension C) as 50% of that score. The full methodology, including how each dimension was scored and why each weight was chosen, is detailed in The AI Disruption Scoring Framework section below.

Tools and transparency

This research was conducted using three AI models: Claude (primary research engine, all analytical frameworks, statutory filing research across seven jurisdictions), Gemini Deep Research (company-level web research, acquisition date discovery), and ChatGPT Deep Research (acquisition date refinement, revenue discovery). We used AI tools because the scale of the task (classifying and scoring 170 companies across multiple dimensions) would be impractical for a single human researcher. The trade-off is that AI models share systematic biases (tendency to treat enterprise software as “mission-critical,” reliance on company

marketing language). We mitigate this through inter-model disagreement checks and the adversarial review process.

Known limitations (detailed in Risks, Limitations, and What We Got Wrong)

Revenue estimates are directional, not precise. Only 16% is verified. AI scores are a March 2026 snapshot. All three AI models may share correlated biases. The framework does not directly measure pricing power erosion, which is arguably the most credible AI-era risk. This is personal research using AI tools, not professional financial advice.

The AI Disruption Scoring Framework

Each company receives a composite score from 0 to 100. The formula is: $0.4 \times \text{Switching Cost Resilience} + 0.3 \times \text{AI Replaceability} + 0.2 \times \text{Market Structure} + 0.1 \times \text{Revenue Quality}$. Higher scores indicate greater protection from AI disruption.

Dimension A: Switching Cost Resilience (40% weight)

This dimension measures how difficult it is for a customer to leave the software. It carries the heaviest weight because switching costs directly determine whether a customer can practically adopt an AI alternative, regardless of how good that alternative is.

All 170 companies received a switching cost score through a two-track process. For the 90 companies with specific, well-defined switching cost types (regulatory lock-in, integration complexity, data gravity, contractual, training/certification), we used a feature-based algorithmic score that combines the switching cost type with customer type, deployment model, software category, and vertical specificity into a 0–100 scale. For the 80 workflow-embedding companies (where the categorical label was too ambiguous) we used the 3-LLM audit mean score (1–5 scale, normalized to 0–100). The algorithmic scores were calibrated against the audit results for the 80 overlap companies; the correlation (Spearman $\rho = 0.656$) was moderate, meaning the algorithm agrees with the auditors on relative ranking about two-thirds of the time but can be off by roughly half a point on the 1–5 scale for any individual company.

Dimension B: AI Replaceability (30% weight)

This dimension asks: can AI technically replicate what this software does? It deliberately excludes switching costs (those are in Dimension A) to isolate the pure capability question.

In V2 of this analysis, each of the 170 companies was individually scored by three AI models. Gemini Deep Research and ChatGPT Deep Research each browsed company websites, identified named competitors, assessed existing AI features, and scored the company's AI replaceability on a 0–100 scale. Claude scored each company based on category-level reasoning without browsing individual websites. The three scores were combined with a 40/40/20 weighting: 40% Gemini, 40% ChatGPT, 20% Claude. The heavier weight on Gemini and ChatGPT reflects the fact that they conducted actual per-company web research, while Claude applied broader category reasoning with less company-specific data.

This per-company approach was a significant improvement over V1 of the analysis, where AI replaceability was scored at the software category level (all 74 ERP companies received an identical score of 75). During adversarial review, this uniform scoring was identified as the single most consequential analytical weakness. Dutch government ERP processing property tax

has a fundamentally different AI attack surface than Spanish fashion wholesale software. The V2 per-company scoring revealed a 40-point spread within the ERP category alone, vindicating the adversarial critique.

Dimension C: Market Structure (20% weight)

Even if AI can technically replicate a software function, market dynamics may prevent practical displacement. This dimension combines two factors: customer type (50% of the Dimension C score) and vertical specificity (50%). Customer type matters because government buyers switch slowly (score 90), regulated private companies face compliance overhead when changing vendors (75), mixed public/private customers benefit from partial institutional protection (70), and unregulated private SMEs face the most competitive pressure (45). Vertical specificity captures niche market protection: healthcare scores 88, government 85, financial services 80, down to retail/hospitality at 50 and media/marketing at 45. Niche verticals with 200–2,000 potential customers in a single country are less attractive targets for AI startups than large horizontal markets.

Dimension D: Revenue Quality (10% weight)

A proxy for recurring revenue mix based on deployment model: Cloud/SaaS scores 85 (subscription revenue is stickier), Hybrid scores 70, On-premise scores 55. This carries the lowest weight because it is the least AI-specific dimension and because deployment model data had the lowest cross-model agreement rate (22%) in Layer 1 classification. The narrow scoring range (55–85) means even misclassification has minimal impact on the composite score.

Why these weights?

Weight	Dimension	Rationale
40%	Switching Cost	Directly determines whether a customer can practically switch to an AI alternative. A company with high switching costs is protected even if a perfect AI replacement exists.
30%	AI Replaceability	Determines whether an AI replacement even exists or plausibly could. Per-company research makes this the most granular dimension.
20%	Market Structure	Captures external dynamics (procurement inertia, niche TAMs) that deter AI entrants independent of the software itself.
10%	Revenue Quality	Weakest data quality (22% model agreement on deployment). Narrow scoring range. Least AI-specific.

What the Portfolio Scores Reveal

The revenue-weighted portfolio composite is 74.2 out of 100, placing it firmly in the Resilient band. The dimension-level scores are: Switching Cost Resilience 77.8, AI Replaceability 74.6, Market Structure 69.2, Revenue Quality 73.7. The portfolio is strongest on switching costs and weakest on market structure, reflecting the large share of companies serving unregulated private SMEs.

Where the risk concentrates: by customer type

Customer Type	Revenue	% Total	Score	Interpretation
Regulated Private	€455m	29%	81.1	Healthcare, banking, insurance. Strong regulatory barriers.
Government / Public Sector	€310m	20%	80.4	Career risk asymmetry, procurement inertia, data gravity.
Mixed Public/Private	€280m	18%	75.4	Serves both sectors. Benefits from some public-sector protection.
Unregulated Private	€481m	31%	63.7	Broad field: fashion wholesale to industrial SME. Most competitive exposure.

Score by vertical market (top 8)

Vertical Market	Revenue	Score	Note
Healthcare	€214m	85.0	Highest-scoring. Patient safety liability + certification.
Government	€319m	80.1	Largest vertical. Career risk asymmetry is the real moat.
Financial Services	€144m	78.1	Audit trail requirements + financial infrastructure integration.
Education	€79m	76.1	Near-monopoly positions (ParnasSys, Somtoday) in Netherlands.
Real Estate & Construction	€166m	72.3	Wide range: social housing (protected) to commercial (moderate).
Multi-vertical	€214m	64.9	Generic ERP for SMEs. Weakest niche protection.
Retail & Hospitality	€104m	61.4	Most AI-exposed vertical. Fashion ERP scores 30–60.

Enrichment data grounds the analysis in reality

The per-company AI Replaceability research identified approximately 40 companies where AI-native competitors already exist in some form.

Top 10 Company Scorecards

The following profiles ground the abstract scores in concrete businesses. These ten companies represent €505m (33%) of portfolio revenue. The “Confidence” label refers to the revenue estimate confidence tier, indicating how reliable our revenue figure is for that company, ranging from HIGH (verified statutory filing) through MEDIUM (headcount proxy) to LOW (acquisition signal estimate). See the Revenue Estimation section in Our Approach for details on each tier.

#1. Cipal Schaubroeck, Score: 79.7 (Resilient)

Belgian municipal administration software serving 590+ employees across local governments. Manages citizen records, civil affairs, property tax, and digital government services for Belgian municipalities.

Revenue: €98.5m (6.4%) | Confidence: HIGH (Belgian NBB statutory filing)

Sub-scores: Switching Cost 82 | AI Replaceability 75 | Market Structure 87.5 | Revenue Quality 70

AI Threat: Low. 15+ years of configuration, 20+ connected systems. Career risk asymmetry for procurement managers is the real moat.

AI Opportunity: AI-assisted document processing; automated form completion; predictive citizen service demand.

#2. Sygnity, Score: 78.5 (Resilient)

Polish IT company serving government institutions and financial services with deeply integrated administrative and banking systems. Listed on the Warsaw Stock Exchange.

Revenue: €70.9m (4.6%) | Confidence: HIGH (WSE public filing)

Sub-scores: Switching Cost 84 | AI Replaceability 75 | Market Structure 77.5 | Revenue Quality 70

AI Threat: Low. Serves Polish government and financial institutions with complex, deeply integrated systems.

#3. PinkRoccade Local Government, Score: 85.8 (Fortress)

Dutch municipal administration platform processing citizen records, tax, and civil affairs for Dutch local governments. One of the longest-established Topicus companies.

Revenue: €63.0m (4.1%) | Confidence: MEDIUM (headcount proxy, ~375 employees)

Sub-scores: Switching Cost 97 | AI Replaceability 75 | Market Structure 87.5 | Revenue Quality 70

AI Threat: Minimal. Decades of citizen records and tax histories embedded. Switching cost 97/100, highest in the portfolio.

#4. PharmaPartners, Score: 87.2 (Fortress)

Dutch pharmacy dispensing and GP practice management system integrated with national health registries, hospital EHRs, and pharmacy chains. Patient safety liability is the dominant defense.

Revenue: €58.0m (3.7%) | Confidence: MEDIUM (headcount proxy, ~333 employees)

Sub-scores: Switching Cost 92 | AI Replaceability 90 | Market Structure 81.5 | Revenue Quality 70

AI Threat: Minimal. 20+ years of integration with pharmacy chains and national health registries. Patient safety liability makes switching unthinkable.

AI Opportunity: AI copilot for clinical decision support; predictive analytics on patient data. AI is a feature enhancer, not a competitor.

#5. Salvia Group, Score: 76.4 (Resilient)

French ERP provider for real estate and construction management. Manages property portfolios, social housing administration, and construction project workflows.

Revenue: €55.0m (3.6%) | Confidence: MEDIUM (acquisition signal + headcount)

Sub-scores: Switching Cost 85 | AI Replaceability 75 | Market Structure 65.0 | Revenue Quality 70

AI Threat: Contained. Integration complexity protects the installed base, but unregulated private customer base has weaker structural defenses than government or healthcare.

#6–10. Summary

Company	Revenue	Score	Band	What They Do
PinkRocade Healthcare	€45m	88.0	Fortress	Dutch hospital IT and healthcare information systems. Integrated with national health infrastructure.
Buypass	€33m	72.5	Resilient	Norwegian PKI (public key infrastructure) and electronic identity provider. Manages digital certificates for secure communications.
Five Degrees	€33m	79.0	Resilient	Core banking platform for Dutch and international financial institutions. Processes transactions, loans, and regulatory reporting.
Somtoday	€25m	80.1	Resilient	Student information system used by the majority of Dutch secondary schools. Near-monopoly position in Netherlands.
Scalepoint	€24m	80.4	Resilient	Insurance claims management platform for Nordic and European insurers. Automates claims processing and settlement.

Risks, Limitations, and What We May Have Got Wrong

This analysis should be read with the following limitations in mind. We have tried to be upfront about these throughout the report rather than burying them here.

Revenue estimate precision. Only 16% of revenue (€246m across 6 companies) is verified from statutory filings. The VERY LOW confidence tier (34% of revenue, 68 companies) uses residual allocation. Individual estimates are placeholders and should not be cited as facts. Portfolio-level aggregates are more reliable because they are constrained to the reported total.

AI Replaceability scoring bias. The three AI models used for Dimension B scoring (Gemini, ChatGPT, Claude) share similar training data and may share correlated biases, particularly a tendency to treat enterprise software as “mission-critical” based on company marketing language. The per-company approach in V2 mitigates the worst of the category-level bias from V1, but company-level scores still reflect LLM perceptions, not observed customer behaviour.

Pricing power gap. The framework measures displacement risk (will customers leave?) but not margin compression risk (will customers pay less?). For a Constellation Software-style business, margin compression is arguably the more credible AI-era threat. We address this through the scenario model and flywheel analysis, but it is not captured in the composite score itself.

Static snapshot. These scores reflect AI capabilities as of March 2026 and assume a 3–5 year horizon. A step-change in AI capability (for example, reliable autonomous agents that can manage complex multi-system integrations) could invalidate the switching cost assumptions that underpin Dimension A.

No empirical churn or pricing data. The switching cost scores rest on LLM assessments, not on observed customer churn rates or pricing trajectories. Topicus reports group-level churn in its MD&A but does not disclose company-level retention data. This is the single biggest limitation of the research.

Confirmation bias in framework design. The adversarial review identified that every subjective scoring choice in the framework tilted toward a higher score. We addressed the most impactful of these (the uniform ERP score) through per-company V2 scoring, but residual optimistic bias likely remains in the dimension weights and category-level floor scores.