NORDIC INVESTMENT PARTNERS

Roadmap update 2Q 2023

The Godot recession, FOMO market and the power of AI

July 2023

Summary

The Godot recession

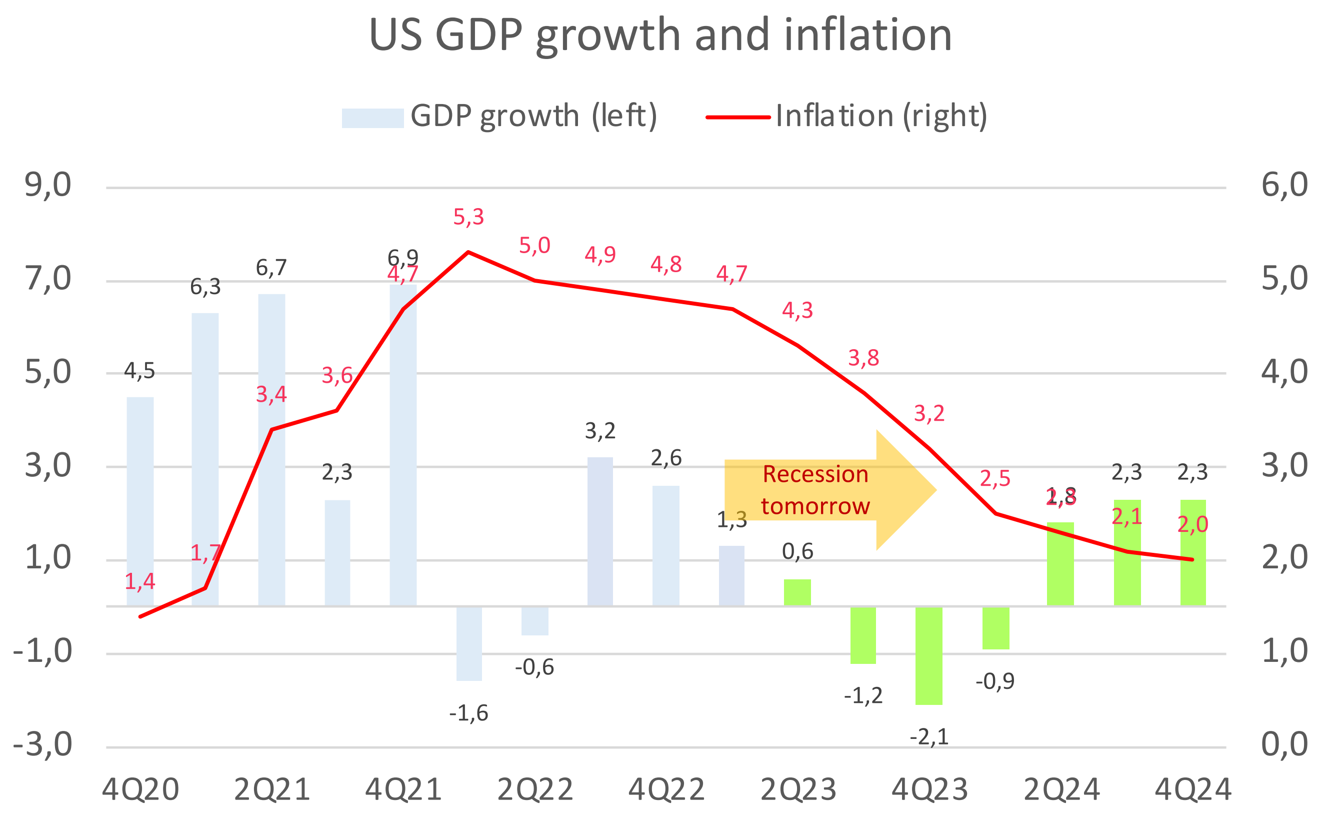
Although inflation reached its peak in 2022 and has been on a downward trajectory since, central bankers remain cautious and continue to apply the brakes. As a result, there is a consensus that a recession may occur, albeit one that is hopefully short-lived. Surprisingly, economic updates indicate a rather robust performance. Even residential property prices stabilizing despite the increased cost of funding.

In recent quarters, the period of economic softness in the United States has been consistently postponed, now projected to materialize around Christmas 2023 and extend into the winter of 2024. After that an acceleration is expected i.e only 9-12 months from now

When it comes to global economic growth, China and India emerge as the largest contributors in 2023 and 2024, maintaining a satisfactory pace overall.

While monetary policies in the United States and Europe remain restrictive, China has the foot on the speeder, which in turn could lead to Asian financial markets outperformance.

2023 roadmap update after 2Q23



Source: Conference Board

July 2023 - *The roadmap is for inspiration and education only. Read the disclaimer in the end of this slide deck*

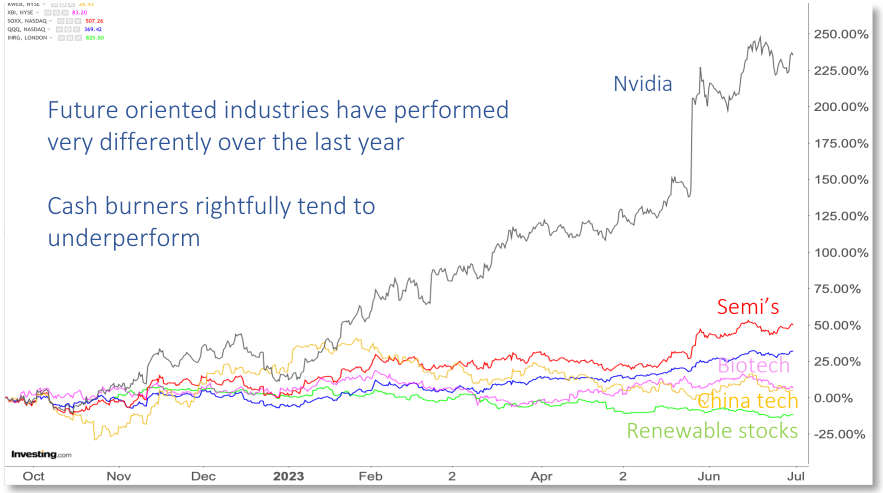
Stock market update

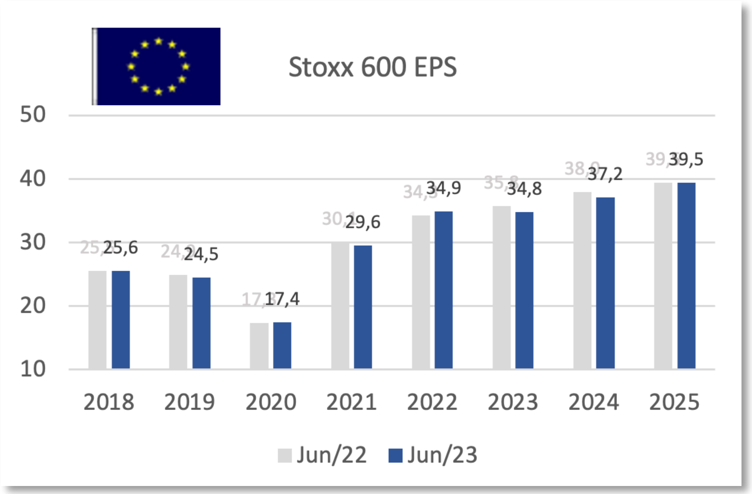
The year 2023 has proven to be much more favourable than initially anticipated by most investors. In the long term, stock prices closely follow the trajectory of cash flows and earnings. However, in the short term, stock prices can exhibit a level of independence while still conveying important messages to investors.

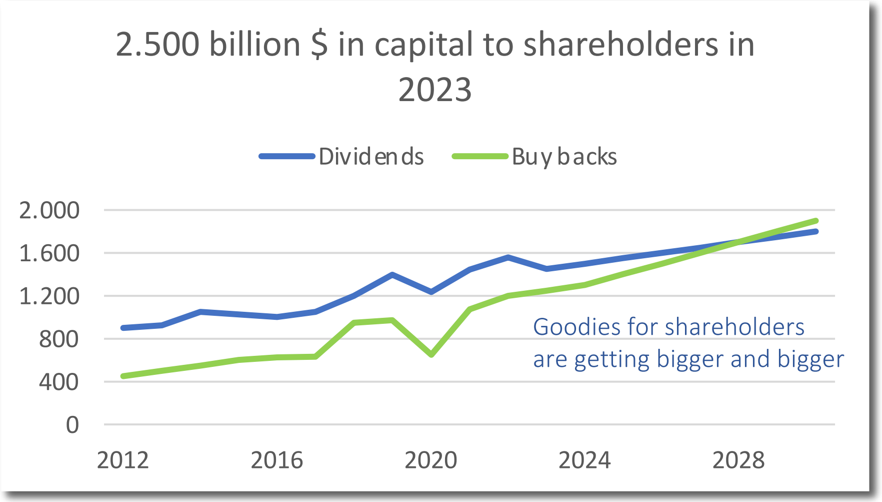
Many stock market commentators are currently discussing the possibility of a bubble in AI stocks and related sectors. Their arguments find support in the outstanding performance of a dozen AI-related stocks that have largely driven the market's success in 2023. However, it is plausible that we are standing on the brink of a period characterized by robust productivity growth fuelled by advancements in AI technology. This growth would likely extend beyond AI-specific companies and positively impact all digitally-driven enterprises.

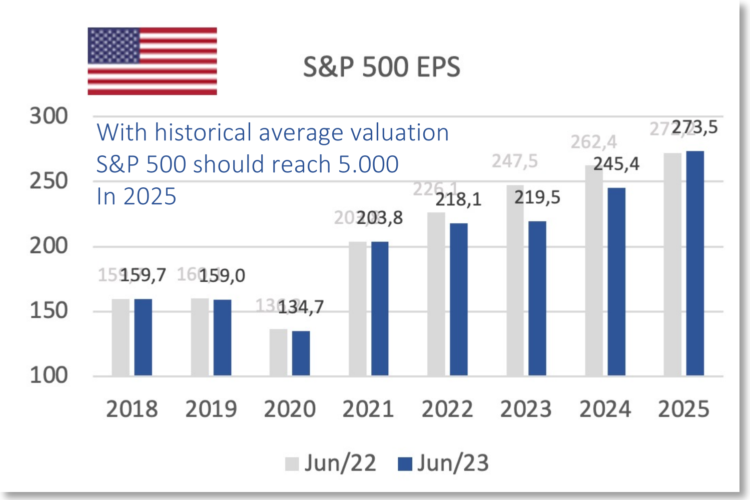
If this scenario materializes, the market is not being driven solely by the Fear of Missing Out (FOMO), but rather by a significant increase in future cash earnings. Consequently, the return of capital to shareholders is expected to reach an impressive $3 trillion annually by 2028, if not earlier. To put this into perspective, that amount equates to the GDP of France.

2Q 2023 pitstop









Will the bull continue to run?

The performance of the stock market in 2023 has taken experienced investors and high-paid market commentators in investment banks by surprise.

Despite expectations of a difficult first half due to tightening monetary conditions (excluding China), stocks are defying the theory and instead experiencing a positive trend.

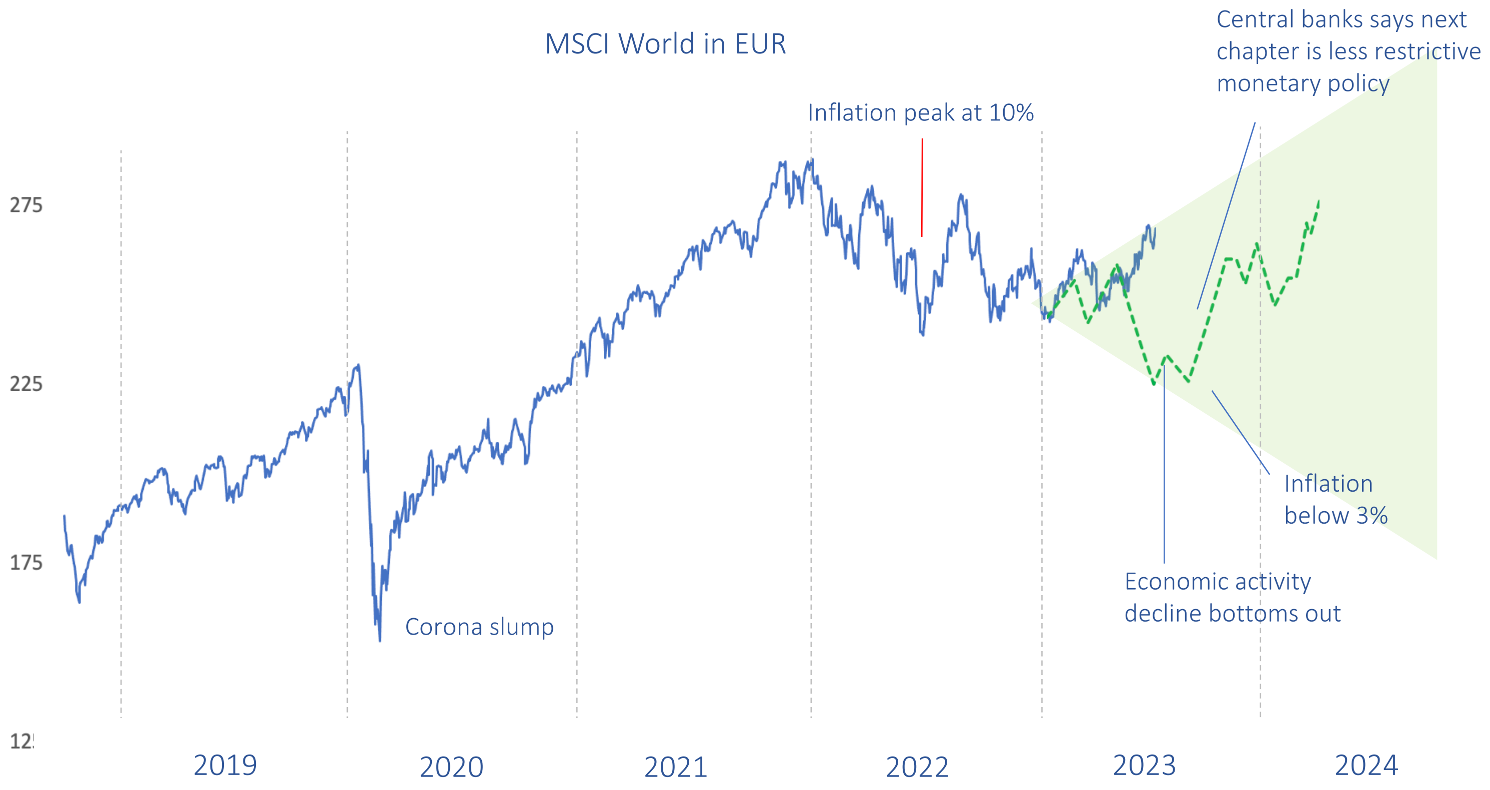
Opinions among forecasters vary, with some predicting a substantial 25% dip just ahead while others believe we are entering a new era of significantly higher productivity.

The positive market conditions cannot be solely attributed to share buybacks and investor FOMO. There seems to be a deeper message from "Mr. Market" that we should pay attention to. It is possible that algorithms (AI systems used for financial data analysis) are signalling a new robust period driven by the contrast between human scepticism and AI rationalism.

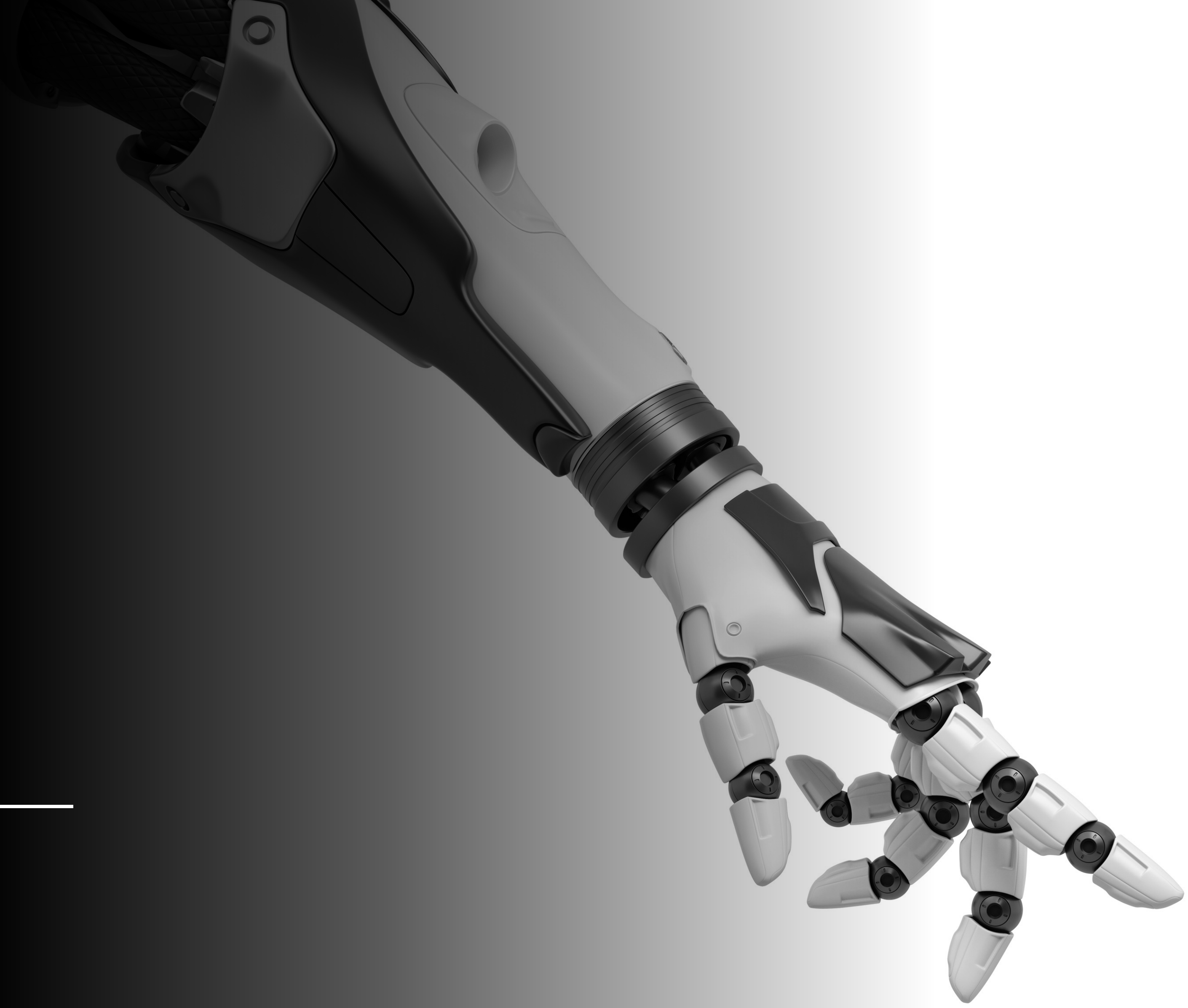
Roadmap 2023 found here: link

Updated roadmap 2023 with realized prices in 2Q 2023

Thesis for 2023: Consensus earnings growth 2023 is expected to be 0-4% and it’s normally 2%-point too high. Including recession years like 2001, 2008 and 2020 estimates are 7% too high going into any given year. If there’s no deep recession in 2023 estimates are roughly correct. The performance estimate for 2023 is the green dotted line



Updates on selected investment themes



Singularity reaching out

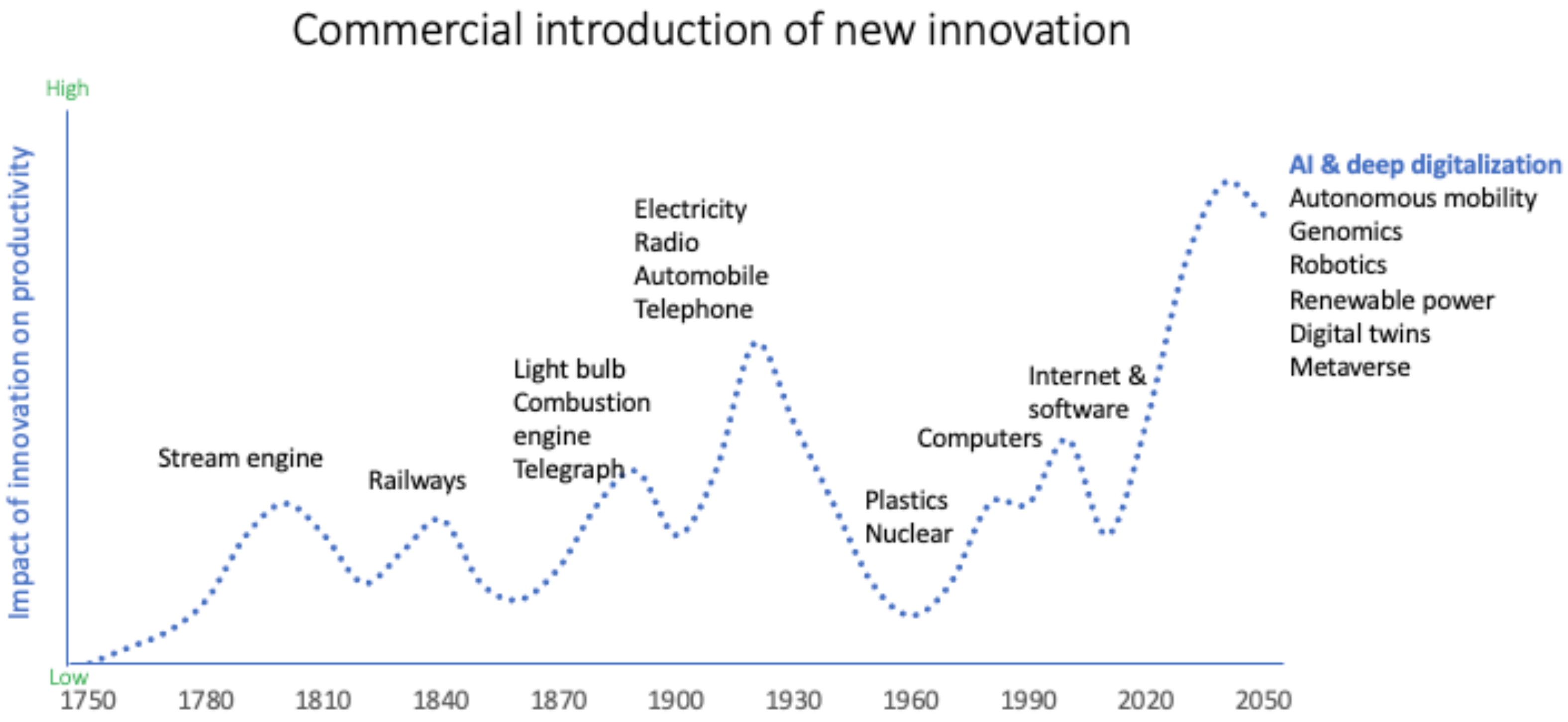
Artificial intelligence to broaden out

Over the past 5-6 years, I have consistently emphasized the significance of digitalization as a key theme. Its impact will be profound, revolutionizing human interactions and enhancing productivity.

In the near future, I envision a scenario where I can simply send this quarterly update to an AI service provider, instructing it to update it and add some extra special content. Within milliseconds, the AI will return the updated version, allowing me to review and send it.

With the advent of the Internet of Things (IoT), the proliferation of digital devices, and the ability to analyze vast amounts of data in mere seconds, the world is poised for transformative change. The items listed on the right side of this page are just the beginning. As the boundaries continue to expand, we should anticipate the introduction of regulatory measures. Be prepared to witness and experience remarkable developments in the years to come.

Heading straight into the biggest productivity transformation in humans' history



Own design inspired by history charts, books, findings on web and future surveys

Leadership

I'm currently spending time to get some perspective regarding the transformative impact of digitalization on the corporate landscape. To illustrate this shift, let's consider the traditional corporate structure, which resembles the organization of Napoleon's armies. At the top, you have the general (CEO) along with close support staff, followed by division generals, officers, sergeants, and foot soldiers. It's the foot soldiers that actually make the results

In a digital world, the foot soldiers (could also be a chatbot or IoT messenger) represent the interface between the company and its customers. This is where the primary value is generated. A lot of that interaction is rule based and with AI you can design interaction, transfer of value/payments and corrective action at speeds unheard of in the past.

So once the AI organization system is designed who needs middle managers and executive teams?

Are CEO's a dying race?

With the capabilities of AI to optimize resource allocation within a company, the role of generals will evolve into reviewing and adjusting AI programs periodically. As a result, middle managers and division generals will have fewer responsibilities. This paradigm shift means that traditional corporate careers may no longer attract top talent. Already, software coders are embracing nomadic work arrangements, and I anticipate that more segments of the workforce will move in that direction. Yet, I rarely hear about this challenge on the quarterly update calls from listed companies and hardly anyone write about it in their Annual Reports.

In summary, AI driven digitalization will redefine the corporate structure, placing a greater emphasis on machine learning AI driven customer interface and ressource optimization. This transformation will eventually reshape traditional career paths and facilitate the rise of new work models across various industries. And with good AI it could also lead the much higher profitability and cash flows for the first movers.

Hexagon Composite 28 NOK

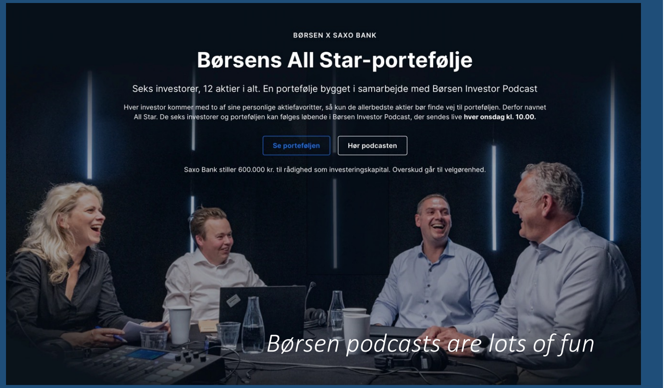
I am a participant in the Børsen Investor podcast, where we provide commentary on current financial news, analyze investment opportunities, and manage a portfolio comprising 12 companies known as the Børsen All Star portfolio. Any profits generated from the portfolio, which is sponsored by Saxo Bank, are directed towards charitable causes.

During the second quarter of 2023, I sold Simcorp, resulting in a gain of 40%. The proceeds was invested in Hexagon Composite

Podcast in Danish found here:

21 June 2023 – Hexagon and Alibaba update

14 June 2023 – 2023 picks outperform



Børsen podcasts are lots of fun

Finally showing the cash flow

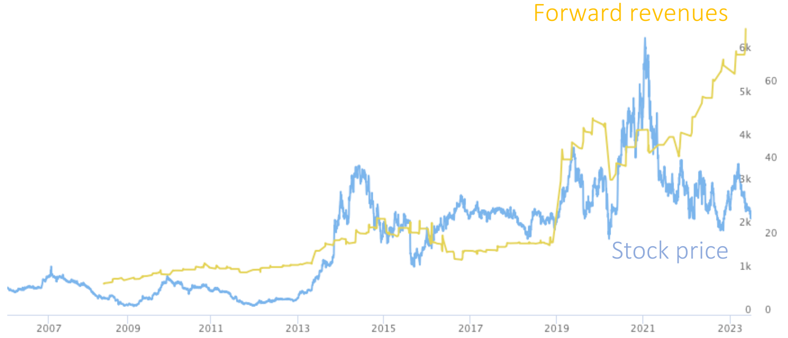
Hexagon Composite is a Norwegian company specializing in the production of high-pressure gas-cylinders made from composite materials.

Over the past five years, the investor journey with Hexagon Composite has resulting in a negligible overall return. The stock price closely mirrors the cash flow, which has remained relatively stagnant despite a significant increase in sales from 1.5 billion NOK to 5.0 billion NOK since 2018.

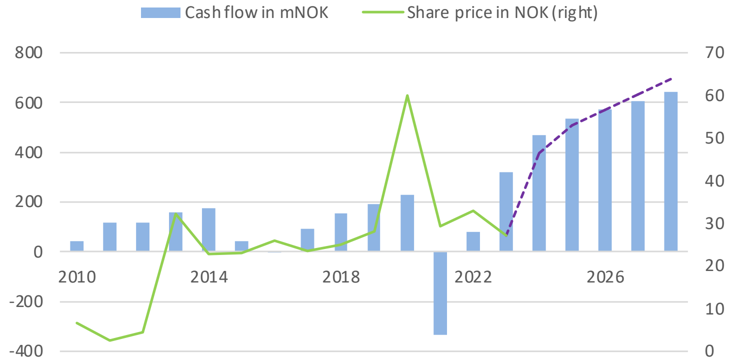
The primary factor contributing to the poor cash flow is the aggressive expansion of Hexagon Purus, the hydrogen storage tank subsidiary. However, in July 2023, a portion of the Purus shares will be distributed to Hexagon Composite shareholders, and Purus will no longer be consolidated. This strategic move will unveil the solid underlying cash flows of Hexagon Composite, providing visibility to investors. Some may argue that this is merely a cosmetic maneuver, but the counterargument suggests that Composite shareholders should be relieved of the financial burden associated with Purus' cash burn.

Only time will reveal the true outcome, but if the forward cash flow projections prove accurate, the stock price will eventually align accordingly.

Hexagon Composite stock price and forward revenues



Hexagon Composite



One more thing

Nordic Investment Partners makes investment analysis that can be used for asset allocation and form investment decisions. This information is shared on web-page, a few individuals as well as Nordic Value Conference and similar events

This deck is not investment advice and remember take a look at the disclaimer on next page

NIP's research and analysis can also be used by listed companies in their strategic considerations and external profiling

Reach out for more

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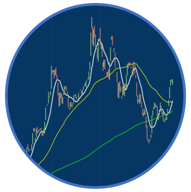
Key investment view towards 2035

Economic pace since 2010 have been highly dependent on fiscal and monetary stimulus provided in the aftermath of the 2008 crisis. The stimuluses have created imbalances such as government debts. Unsustainable government debt levels will likely continue as policy makers are not motivated to think long term. Some regions do however run large surpluses and more than enough to finance the government deficits elsewhere. A shift of global power is happening at glacial speed.

Global economic growth has been declining from 6% in 1960s to around 3% in 2020s. Productivity and population growth points towards lower economic growth in the coming decades. The underlying growth in global affluence will however continue and with Emerging Markets will be in the lead as those economies grow double the speed of advanced economies.



There's nothing wrong with modest GDP growth, but many investors have been accustomed to 8% annual earnings growth, while the realistic forward growth towards 2035 is more likely to be around 4%. Dividends of 2% comes on top. Annual swings are likely to remain in the 15-20% interval, so the occasional declines will continue, but recoup times will be longer

In an investment world with that overall outlook, I have since 2017 focused on identifying companies and business clusters with unique multi-year structural growth drivers and then invest in these when growth/profitability/valuation triangulation justifies it; so called GARP investing. This investment approach has been rewarding in the past and is expected to be so in the future too. The strategy avoids long term sun-set industries despite some of them are deep value from time to time.

The traditional business and inventory cycle still applies, so from period-to-period growth and inflation will change. In a world with evermore data and analytics the efficiency of eco systems will likely reduce the magnitude of economic swings as end-to-end value chains reduce slack and inefficiency. Risks of financial mis-allocation of capital is the same as humans tend to run in flock

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