NORDIC INVESTMENT PARTNERS

Roadmap update 3Q 2023

- Waiting for lower inflation
- Alternative sources of proteins

October 2023

Summary

Inflation, though persistent, is anticipated to gradually recede in the coming months. Despite pockets of weakness, economic activity has remained robust over the past three months. The main obstruction is coming from elevated oil prices due to supply shortages and low strategic reserves

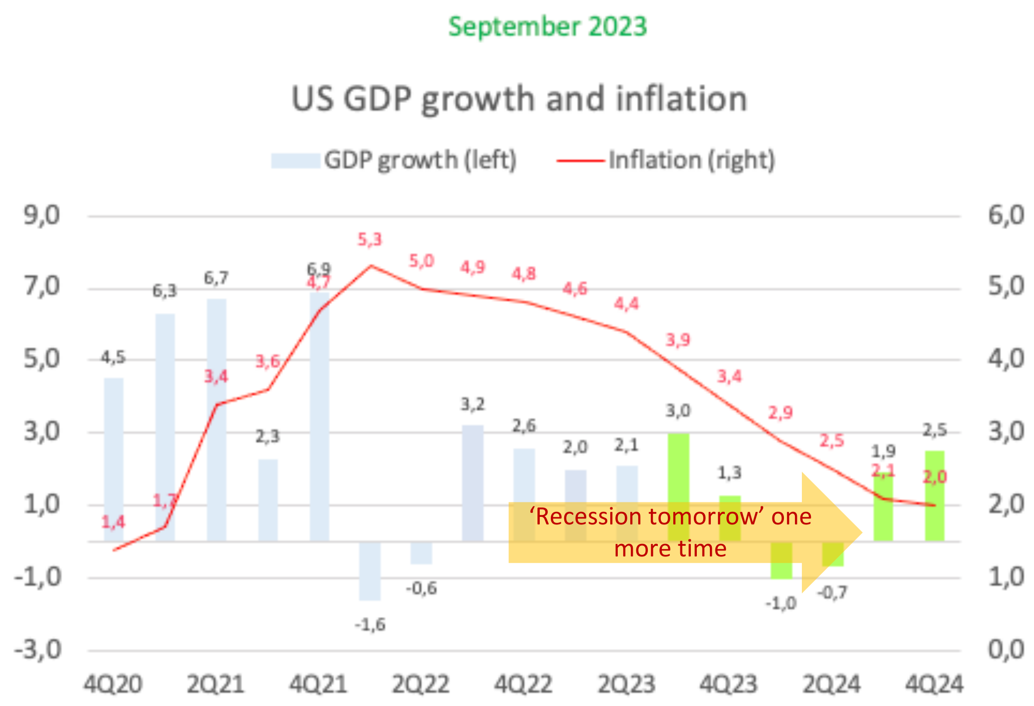
Leading economist see a mild recession in early 2024, which is expected to set the stage for a decline in inflationary pressures.

The next big chapter will likely be neutral to easing by the central banks. This move holds potential benefits, including in alleviating the interest rate burden on government debt. It is worth noting that the current global debt stands at a staggering 367 trillion dollars, a marked increase from 160 trillion dollars in 2015

On monetary policy, Asia continues to lead the way as China grow money supply by 11%. This stands in sharp contrast to the United States' contraction of 4% and a mere 0% change in Europe.

3Q23 corporate performance starts soon. US is expected to show 2% earnings growth, while Europe is expected to see 11% decline

2023 roadmap update after 3Q23



Source: Conference Board

The expectation of 2-3 quarters of activity contraction continues to be pushed forward. In the beginning of 2023 the recession was expected by summer 2023. Now it's pushed forward to 1H 2024

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

Stock market update

The MSCI World in EUR has demonstrated an impressive total return of 10.9% over the course of the first nine months driven by USA and a stronger USD

The performance exceeds the expectations of many investors back in late 2022. At that time the narrative was threat of recession, stemming from tight monetary policies to combat inflation.

Seen in a longer perspective, in figures to the right, stock prices clearly follow earnings. Since the leadership of emerging markets ebbed out in 2012-13, the yellow jersey went to USA. The main reason for US performance is the strong earnings growth in major tech companies.

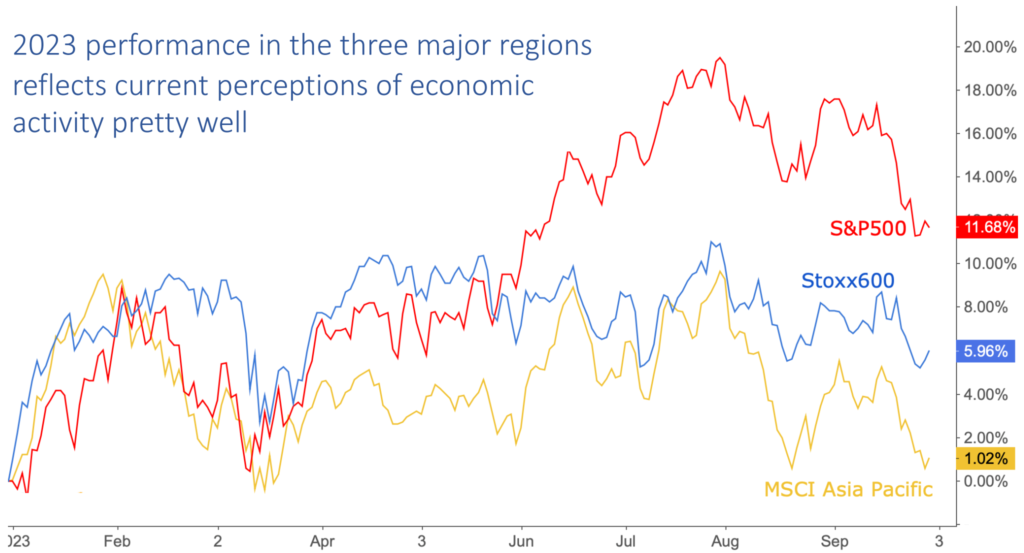
USA has grown earnings by 7% per year since 2005 i.e. including the Great Financial Crisis in 2008. In the same timespan Europe as grown earnings 2.5% per year.

The long-term effect of the difference between 7% and 2.5% earnings growth is simple; USA is 63% of MSCI World AC and Europe 16%. Asia and RoW is 21%

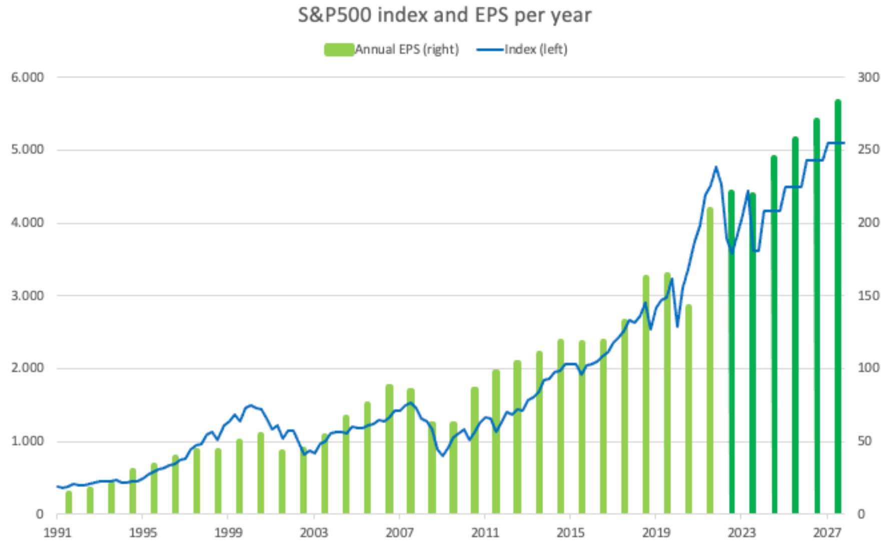
All global stocks are valued at 109 trillion $

3Q 2023 pitstop

2023 performance in the three major regions reflects current perceptions of economic activity pretty well

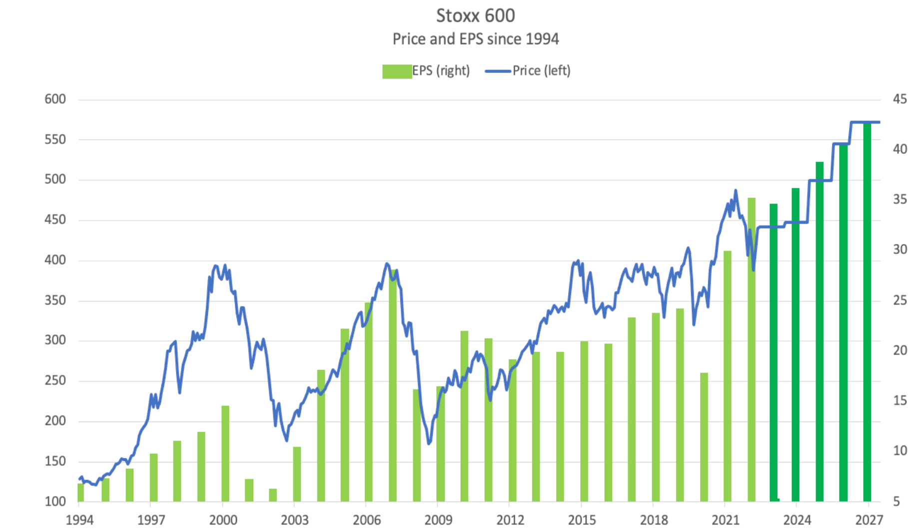


USA /S&P500
EPS CAGR 2005-2023: 6.9%



Source: I/B/E/S

Europe /Stoxx600
EPS CAGR 2005-2023: 2.5%



Source: I/B/E/S

3Q23 company updates to surp

The 2023 performance with Meta, NovoNordisk, Tesla and Nvidia providing very high returns have pushed stock indices higher. The top performers have all shown strong sales and earnings growth

The 2023 rally is narrow i.e. low participation from most companies/stocks. A good illustration of this is S&P500, which is up 12% in 2023. However, S&P500 equal weighted is unchanged.

Some parts of the stock market such as companies related to renewable energy is down 50% this year. And the Covid-19 vaccine makers Moderna and Pfizer are down 40%. These companies have seen sales and earnings declines or came from high valuations not supported by fundamentals

4Q23 performance will depend on the 3Q23 operating updates. Expectations are low, so we could be in for another round of upside surprises like the last 4 quarters

Roadmap 2023 found here: link

Updated roadmap 2023 with realized prices in 3Q 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

Productivity roadmap

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.

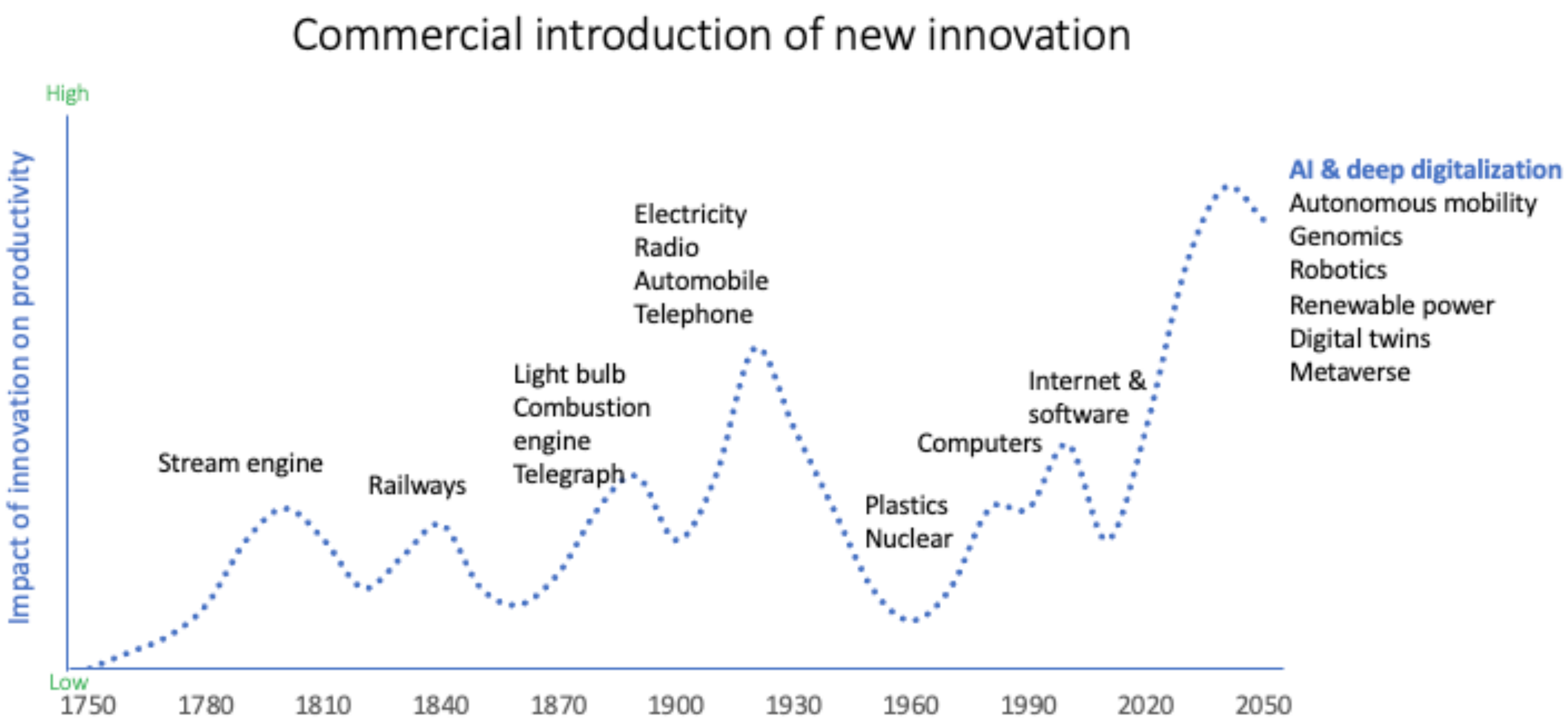
There's however a very big lump of productivity growth coming from agriculture that I have not spent much time on

A McKinsey study from 2015 concluded the biggest productivity jump could come from much better farming and agriculture practices in emerging markets. Link

A subset of this is proteins. So, this quarterly update will give a quick intro to protein sources of the future; plant- and Ocean based proteins. Both are relatively small segments in 2023, but very likely to get much more attention in the coming decades

It's just for inspiration and not investment advice, so do your own research

Heading straight into the biggest productivity transformation in humans' history



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

Proteins

Proteins are part of a healthy diet

Americans and Europeans are on 3.000+ calories ‘diets’ with 105 gram protein per day. Asia is moving up from 80 grams to 100 grams and other parts of the world are on track for diets with 100-110 grams of protein every day

With the current protein sourcing from animals, vast amounts of grassland is needed for feed for the animals. It’s unsustainable for a world with 10 billion people. Current consumption per year is 65 billion chickens and 550 million cattle

Plant based proteins is one solution and in addition it has low CO2 footprint
Another protein solution is using the biggest part of Earth surface; the Oceans

Salmon farming is a relatively small industry with 25bn € in revenues. The global salmon industry farm aprx 600 million salmons per year of 5-6 kilo a piece

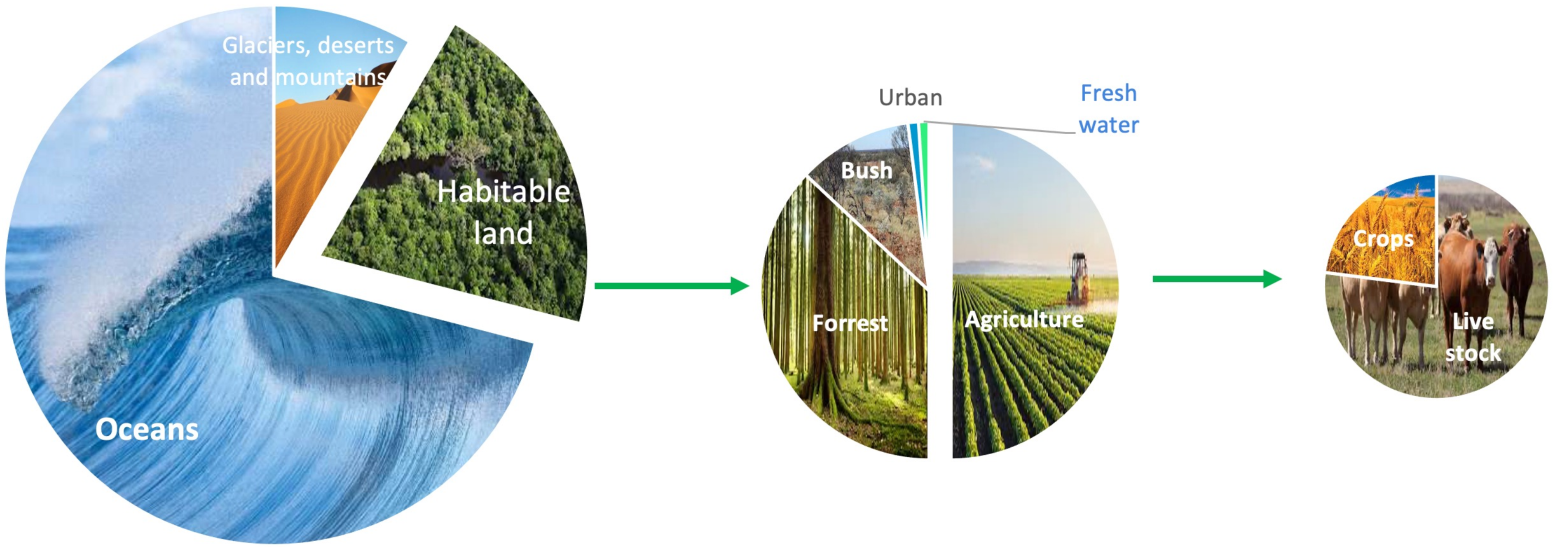
Humans use 8% of Earth surface to make animal-based proteins

A good steak, roasted chicken or crispy pork roast is the favourite protein for many people. We’re 8 billion people on earth and likely to be 10 billion in only 30 years. If all are to have proteins as today, we need one or two more Earths

We could also source proteins from plants or the Oceans.

2% of Earth surface produce 67% of proteins as plant-based proteins. And 8% of the surface produce 33% of proteins as animal-based proteins. That’s unsustainable as we will run out of land

Earth surface per category



Source: Own design based on data from www.ourworldindata.org

Bakkafrost 548 NOK

I’ve attended Cyprus Value since 2018. It’s a really cool (actually warm) investor conference in Cyprus in September and hosted by Sophocles. Attendees pitch an investment idea just like at Nordic Value

This year I pitched Bakkafrost, a Faroe Island salmon farmer, with 4-5% global market share.

Due to lower harvest volumes in Bakkafrost Scottish operations current performance has made the stock price decline to levels that could be an attractive long term entry point


Cyprus Value conference location

Don’t look at the mosquito in the windshield. Look at the road ahead

Bakkafrost was founded in 1968 in Faroe Islands and today it’s a fully integrated salmon producer from fish-feed to end-user band. Sales are estimated at 8.5bn DKK in 2023 and company guides for 10-11% sales growth towards 2028 as they expand operations with a 6.3bn DKK investment program.

Bakkafrost salmons are partially grown on-land. The industry release baby salmon (smolt) into the Ocean nets at 100-150 grams. Bakkafrost release them into the Ocean when they are 500 grams. The larger fish need fewer months in the Ocean nets and hence less exposed to illness and diseases than the smaller smolt that need more time in the Ocean. Once they are 5-6 kilo they are slaughtered and processed into the final consumer product.

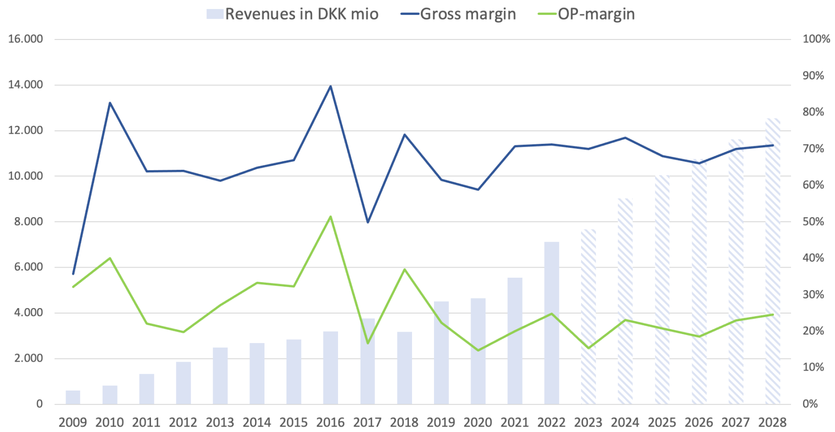
In 2019 Bakkafrost bought Scottish Salmon. It’s a 100-150-gram smolt releaser and in 2022-23 it has experienced slow growth in biomass. The 2023 operating results are expected to be negative. That will be fixed going forward. Bakkafrost investment program is among others aimed at making the Scottish operating into a 500-gram smolt release strategy

So short term trouble and yet long term the run-way looks good

Bakkafrost is is expected to see 30% annual growth in EBIT from 2021 to 2026 and it’s valued at 10x EV/EBIT24 and yields 4.5%. It’s listed in Oslo in NOK and all reporting is in DKK

Bakkafrost stock price and forward revenues

Bakkafrost key financial metrics



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

Since September 2023 I work with Coeli Global (link) a Swedish investment fund with 15% annual return (3% annual outperformance) since inception in 2014.

Reach out for more

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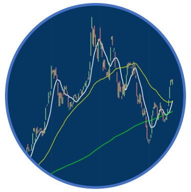
Key investment view towards 2035

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 there will be clusters of new industries emerging over the next decades that offers growth and profitability just as the smartphone industry has done over the past 20 years.



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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