

A new year's greeting from Augment



Dear friends,

We've concluded 2023 and saw a broad rally in Q4, boosting the yearly overall stock market performance. OMX Stockholm closed the year with a gain of 14%, while OMX Helsinki closed with a decline of 8%, after being down 18% YTD in October. The slowdown in China and geopolitical tensions have weighed extra heavy on export-exposed Finnish stocks. Champion of the year in the Nordics is OMX Copenhagen, thanks to an exceptional year including *fat profits* from Novo Nordisk. Overall, larger stocks outperformed smaller ones, which also is reflected in the First North index being down 9% for the year. The financing needs of several companies have weighed heavily on the index. The two first trading days of the year were weak. However, considering the improved sentiment at the end of last year, we predict quality micro- and small caps to be winners when looking into 2024.

The narrative surrounding a soft landing has been frequent throughout the year. Weaker GDP growth figures might make the landing hard after all, with risk of (continued) recession in some markets. The narrative regarding interest rates has shifted going into the new year, from *higher for longer* towards *higher for long enough*. The markets are to various extents expecting rate cuts during H1, given the for now tamed inflation and interpreting signals from central bankers. Cuts could be necessary to stimulate potential shrinking economies, as well as being a relief for leveraged firms and consumers. On a similar note, global sovereign debt levels are at all-time highs, including e.g. the U.S. and Italy, and it's difficult to grasp the implications that this might have. We imagine this matter will get significantly more attention going forward. All in all, it's unquestionably tricky knowing how to navigate through these dynamics. Expect sour markets if cuts are delayed and a continued high geopolitical risk. Slightly increasing exposure towards non-cyclical equities with sound net debts could be a simple yet rewarding play.

Investors have chiefly allocated time and capital to current holdings during the past two years. Yet, there is still a lot of dry powder among most investor types, from VCs to private investors. We believe that this, combined with the slightly more risk-on sentiment, will lead to more private placements and directed issues during 2024. Still, terms need to be attractive considering an equity risk premium on top of a risk-free rate at around 4%, being at its highest for many years. For unprofitable companies it's also crucial to demonstrate a very credible plan towards positive cash flows. On our end, we've been meeting a lot of inspiring entrepreneurs and companies, and hope to present an interesting pipeline of upcoming transactions.

We've advised on six rights issues during 2023, with an average subscription rate of 90%. An underwriter has on average yielded 12%, assuming they participated equally in each transaction and subscribed for the same amount in two of the issues that were not guaranteed. This excludes any bridge loan yields and assumes that subscribed shares are held to date. We are pleased with this outcome, especially considering how challenging the year has been for rights issues overall.

The IPO-window is still closed, yet Rusta proved that well run businesses with non-cyclical character can break through. This is the key question for candidates with such attributes: can they obtain the premium they deserve going public at this time? Looking at the two major IPOs on Nasdaq, Arm has performed well, while Instacart is in negative territory. There seems to be plenty of activity planned, with talks of e.g. Reddit and the data security firm Rubrik going to the market 2024. Perhaps this can boost confidence for more activity also in the Nordics during the later part of the year. Regardless of window status, we see plenty of potential reverse takeovers and other alternative listings ahead of us. Also, we foresee an increased buy-out activity, especially if lending possibilities become more favourable.

During the fall, we've established an address in Helsinki – we are happy to now also be able to meet at Sofiankatu 4C. In the past summer we reasoned that we found cyber/data security interesting. We still do and also see many opportunities in gaming and software in general. We are happy to discuss possibilities with entrepreneurs and investors regarding this, or any other interesting ideas.

Wishing you all the best for 2024.

Best,
The team at Augment