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## The Question of Reinvention

Most of you will remember Nokia. The phones were reliable, indestructible, and utterly unpretentious. At its peak, the Finnish company controlled roughly 40% of the global handset market. Then came the smartphone revolution. Apple changed the game, Nokia failed to adapt, and by 2014 its handset business had been sold to Microsoft.

So when Nokia recently appeared as one of Europe's strongest share price performers, up around 140% this year, it warranted a closer look. Following the sale of its handset division, Nokia reinvented itself as a telecommunications infrastructure business. The AI boom introduced a new and urgent problem: data movement. Training and running large AI models requires not just powerful chips, but enormous bandwidth to move data rapidly between computing clusters and data centres. This is where optical networking becomes critical infrastructure. Nokia's acquisition of Infinera Corporation, completed in February 2025, bolstered its positioning in this space just as AI-driven data demand accelerated. The timing proved fortuitous. Nvidia's subsequent investment in Nokia added further market credibility to the strategy.

Yet the investment case is not as straightforward as the share price suggests. AI-related activities still represent a relatively small portion of Nokia's overall revenue. The market is currently searching for the next generation of AI beneficiaries. In some cases, this search is uncovering genuine opportunities. In others, it may be encouraging investors to extrapolate future growth too far into the future.

Nokia's story surfaces two considerations that are directly relevant to our manager research process. First, we look for underlying managers with the analytical rigour to identify companies that are successfully evolving their business models and positioning themselves for long-term relevance. Second, we assess whether managers are maintaining valuation discipline when market enthusiasm runs ahead of financial reality. Markets can quickly reward a compelling narrative long before results reflect it.

As allocators, our role is to partner with managers who can make that distinction consistently. The Nokia of today is a meaningfully different business from the one that lost the smartphone race. Whether Nokia becomes a long-term AI infrastructure winner remains uncertain, but its resurgence is a timely reminder of the importance of distinguishing between genuine adaptation and market enthusiasm.


**Kirsten Campbell** *B.Com*

Investment Analyst

If you have any questions, Kirsten and our team would love to hear from you on investmentteam@seedinvestments.co.za.


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