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The Kodak Moment

by Will Williams
Chairman, President & CEO

Oftentimes, I begin this interaction with clients by asking, "Do you know what company invented the digital camera?" In most instances, they point to leading technology companies of the past such as IBM, Hewlett-Packard, or Xerox. Once in a while, someone mentions Polaroid, a "nifty fifty" stock from the 1970s. When I keep saying no, they eventually arrive at the right answer— ironically, Eastman Kodak, which invented the digital camera in 1975 (Figure 1).

Like IBM, which invented and released the first personal computer in 1981, or Xerox, which refined and connected the first mouse to a PC in 1983, these were important innovations that were later famously commercialized by other companies.

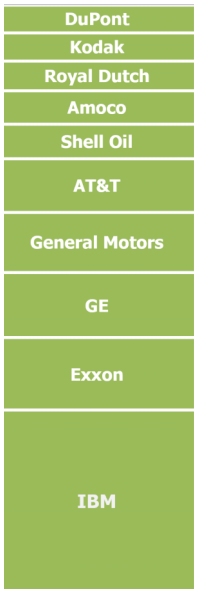
Figure 1

Eastman Kodak engineer Steven Sasson invented the first digital camera in 1975. The New York Times described it as "a Rube Goldberg device" built from a Super-8 lens, a cassette recorder, and dozens of wired circuits. It captured an image in 50 milliseconds but took 23 seconds to record and 30 seconds more to display a 100-by-100-pixel black-and-white photo.

In the case of Eastman Kodak, the digital camera, initially described as the size of a toaster, was set aside and deemed too disruptive to Kodak's main business and cash cow, the analog film business. Eastman Kodak was an iconic American brand, and, by 1985, was among the 10 largest U.S. companies in the S&P 500 Index (Figure 2). It was a staple of DVI portfolios at the time, exhibiting all the characteristics that we look for in an exceptional company: (1) strong and growing cashflow, (2) an attractive dividend yield, (3) dominant product market share, (4) a well-respected management team, and (5) reasonable valuations. Revenues peaked in 1996 at nearly $16 billion in sales, then began to decline as the price point for digital cameras became more attractive and consumers substituted film cameras for digital alternatives. As the common stock price fell, valuations appeared more attractive to investors because reported earnings did not initially decline as quickly as the share price. This is the dilemma a value manager faces: Is this a value trap, in which disruptive innovation permanently harms the company's business model, or merely a temporary setback that management will successfully navigate, ultimately restoring its longstanding competitive advantage?

Figure 2

Top 10 Market Cap Companies in 1985



Sources: Bloomberg, FactSet, Standard & Poor's, J.P. Morgan Asset Management

This is where a seasoned, experienced, and maybe a bit lucky investment team is invaluable. It just so happened that around 2000 many members of the Investment Committee were having children, and we were all amazed by the ease and benefits of digital cameras. It became apparent that this innovative disruption was permanent, and Kodak's wide economic moat and enduring business franchise were in jeopardy (see Figure 3 on page 3).

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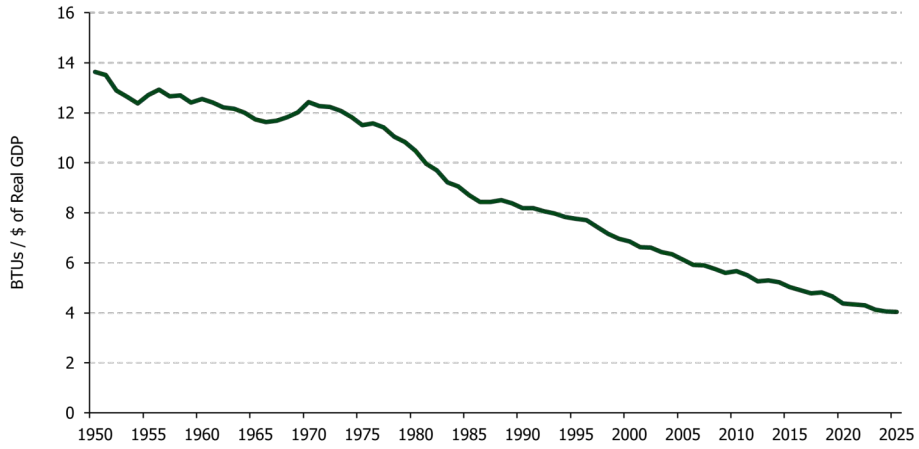
Oil Shocked

by Brian Christensen, CFA
Senior Vice President

The recently coordinated U.S. and Israeli military strikes on Iran have roiled energy markets. Iran's retaliation has included closing the Strait of Hormuz, through which approximately 20 million barrels of oil and refined products are transported daily, accounting for 20% - 25% of global seaborne oil trade. Roughly 80% of these exports are destined for Asian markets. In response, oil prices have spiked, rising nearly 60% since the war began on February 28. In the six prior oil crises dating back to 1973, the Federal Reserve Board notes significant economic impact, with four occurrences leading to recession and lower stock prices. However, its research indicates that a "net oil price increase" does not guarantee a recession, as the economic impact depends on surrounding conditions. The Fed suggests that "conditions matter" and variables in the economy at the time of the oil shock can differentiate outcomes. Five variables were identified:

1) **Duration:**
Multi-year shocks force consumers to reduce consumption, industry to reprice manufacturing components, and the Fed to change monetary policy. The 1973 OPEC embargo lasted six months and the Iranian Revolution from 1978 – 1980; both episodes led to recessions. The 1990 Gulf War price shock lasted two months and its economic impact was relatively mild.

Chart 1: *US Energy Consumption per Dollar of Real GDP*



Source: U.S. Energy Information Administration, Federal Reserve Bank of St. Louis

2) **Inflation Conditions:**
The St. Louis Fed found that real energy price increases prior to the four recessions between 1973 and 1991 averaged a relatively modest 17.5%. In each case, inflation was already elevated. Businesses were raising prices aggressively, and consumers were seeking wage increases prior to the oil shock, which drove the economy into recession.

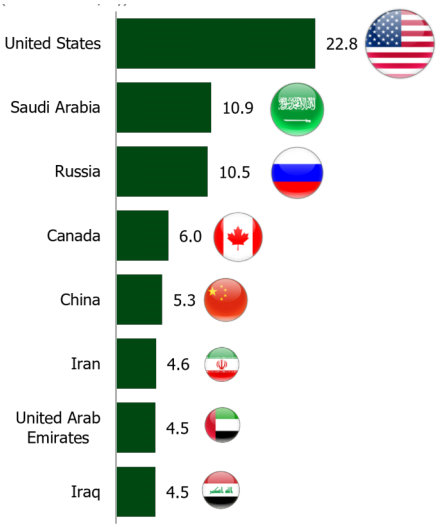
3) **Monetary Policy and Timing:**
The Fed's response to an oil shock can trigger a recession regardless of the shock itself. Policy should remain balanced, and the Fed must maintain flexibility in its monetary policy.

4) **Improved Energy Intensity:**
Energy intensity measures the amount of energy needed to produce one unit of economic output. Chart 1 shows US energy consumption measured as British Thermal Units (BTUs) per dollar of real GDP. In 1949, it took almost 14 BTUs to produce one dollar of real GDP. By the end of 2025, it took about 4 BTUs.

5) **U.S. Net Energy Producer:**
In 1973, the U.S. imported nearly all the energy it consumed. Today, the U.S. is the largest oil producer in the world and a net exporter, resulting in a trade surplus in petroleum products of $58 Billion in 2025 (Chart 2).

Chart 2: *World's Largest Oil Producers*

Production of petroleum and other liquids in 2024 (in million barrels per day)



Source: U.S. Energy Information Administration, Statista

Oil Shocked

Each of these variables is cause for optimism. Clearly, the U.S. is positioned more favorably today given our energy independence, improved efficiency, and positive economic backdrop. However, the risk at a global level cannot be underestimated. The Strait of Hormuz closure has left the energy-intensive economies of Asia and Europe strained with limited reserves. Oxford Economics forecasts that oil prices would have to average $140 per barrel for two months, combined with higher interest rates and weakening consumer confidence, to elevate the risk of recession in the U.S. A short timetable for de-escalation and a durable easing in oil prices is critical to prevent global economic weakness from seeping into the U.S. economy.

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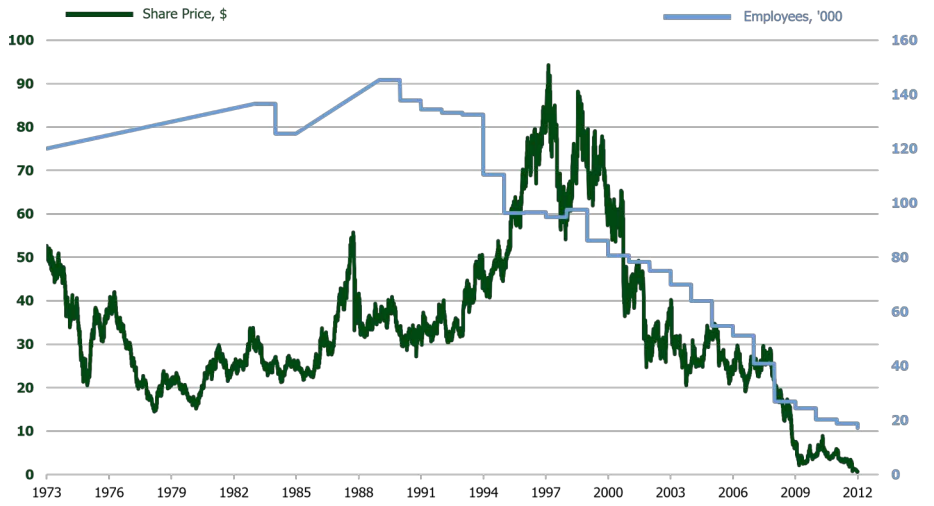
The Kodak Moment *...continued from page 1*

I am sharing my "Kodak Moment" story because one of the fundamental questions in today's market is the debate surrounding artificial intelligence (AI) and its future impact upon various industries and their dominant companies. We are still early in 2026, but the market is clearly trying to identify the winners and losers caused by AI-driven disruption. Will the software industry, for example, be permanently impaired by this new technology? At DVI, we are still largely in the camp that AI is a tool to be leveraged, and U.S. corporate earnings forecasts for 2026 and 2027 suggest broad economic benefits for companies that embrace it.

Figure 3

Eastman Kodak Historical Trends



Sources: FactSet, The Economist, Rochester Business Journal

David Vaughan often remarked that clients pay us to be "long in the tooth," to learn constructively from past investment mistakes, and to avoid repeating them. He also reminded us to approach every new year with humility rather than hubris, frequently citing Warren Buffett's observation that investing is simple, but the execution part is really challenging. For DVI, 2026 is off to a solid start and there is much to be thankful for, but we always recognize we have much more to accomplish on behalf of our valued clients.

Steady Leadership, Continuity for Clients

A few weeks ago, DVI shared news about a multi-year leadership transition plan designed to strengthen the firm for the long-term while keeping our clients' day-to-day experience our highest priority. DVI has built enduring relationships grounded in trust and transparency, and our goal is to effectively communicate the intentional nature of how we manage our business.

Two DVI leaders you know well—Brian Christensen and Pat Smarjesse—will transition from their current management roles into Senior Partner positions beginning in January 2027. This shift in responsibilities gives Brian and Pat even more dedicated time for client-facing work as they introduce seasoned DVI Relationship Managers to their existing client relationships. This transition will be highly collaborative and is intended to give clients ample time to build trust and confidence in the new team of investment professionals while continuing to benefit from the deep institutional knowledge of the advisors they already know and trust.

Beginning in January 2027, Brian Christensen (center) and Pat Smarjesse (right) will transition to Senior Partner positions at DVI.

Beyond 2027, Brian and Pat will continue to play meaningful roles at DVI, continuing as shareholders, mentors and culture carriers, sharing their professional experience and expertise to benefit our next generation of DVI leaders.

At the same time, DVI has further highlighted the depth and breadth of its leadership bench. Recent human capital announcements include new members of the Executive Committee—Erin Duvall (Chief People Officer), Steve Hinrichs (Senior Vice President & Chief Investment Officer), and Glenn Maxey (Chief of Staff & Senior Portfolio Manager)—as well as several newly appointed Managing Directors across Relationship Management, Investment Research, and Accounting. Together, these leaders reflect a thoughtful blend of long-tenured DVI professionals and individuals who bring valuable experience from other well-respected firms.

For DVI's clients and professional partners, the implications are straightforward: the DVI client experience should continue to feel best-in-class, responsive, and familiar. You can expect proactive communication as roles evolve, a consistent institutional-grade investment process led by a strong and experienced investment committee, and a team-based service model. Our focus remains the same—delivering peace of mind to clients and strategic partners who rely on us, now and in the years ahead.

Deep Bench, Strong Team

NEW EXECUTIVE COMMITTEE MEMBERS:

- **Erin Duvall, Chief People Officer**
  Erin leads DVI's human capital strategy, advancing the people, culture, and career development initiatives that support our long-term growth.
- **Steve Hinrichs, Senior Vice President & Chief Investment Officer**
  Steve joined the firm in 1998 and has long been a key leader on the Investment Committee.
- **Glenn Maxey, Chief of Staff & Senior Portfolio Manager**
  Glenn brings years of investment banking and portfolio management experience to his expanded role, helping connect firmwide strategy with day-to-day client and investment decisions.

NEW MANAGING DIRECTORS:

- **Mike Flaherty, Relationship Management**
  Mike leads DVI's Financial Planning Committee and is one of our most experienced relationship managers.
- **Ryan Sewell, Relationship Management**
  Based in Winter Park, Ryan brings more than 20 years of advisory experience, helping our clients navigate complex planning needs while deepening DVI's presence in Central Florida.
- **Pierce Timko, Investment Research**
  Pierce combines rigorous research experience with client-facing insight, leading DVI's investment research efforts from the Winter Park office.
- **Mitch Zippay, Accounting**
  Mitch oversees DVI's accounting and financial operations, drawing on broad industry experience to support the firm's stability and operational excellence.

DVI
David Vaughan Investments

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