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# TRIVARIATE RESEARCH

## 10 POINTS ON CAPITAL USE AND ITS CONSEQUENCES

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## BACKGROUND AND RESEARCH SUMMARY

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While most CEOs would likely state they want to be good stewards of capital over their careers, there are only a handful of needle moving decisions they can make – including capital spending / R&D, buybacks, lever up or down, dividends, or deals. While we regularly study these decisions, we wanted to holistically evaluate the big picture trends in today’s note, as we believe that management teams often follow what they think the market will reward in the short-term, even if it isn’t necessarily the best long-term decision. In evaluating the trends, we have 10 points:

**Point 1: Technology operating cash flow is at highs. 10 of 11 sectors are forecasted to have above average operating cash flow growth, with the exception being Energy (off a high base).**

There is no question that Technology operating cash flow is cyclical, but the sector’s growth of 32.5% is the highest it has been in 25 years. The Healthcare sector’s 15% year-over-year cash flow from operations growth, 64<sup>th</sup> percentile vs. the sector’s own history, was not rewarded.

**Point 2: Median company’s buyback are at highs.** We compared the major categories of capital spending, net buybacks and indicated dividends over time as a % of operating cash flow. On a dollar basis, capital spending has materially risen. But, for the median company, **net buybacks are at an all-time high of 15.5% of operating free cash flow.**

**Point 3: The market likes high capital intensity now.** For years, the most capital-intensive stocks lagged. But for a confluence of reasons, the strength of hyper-scalers, the “guaranteed return” for select Utilities, the higher Oil prices, and the demise of select Software, the highest quintile of capital spending-to-sales has strongly outperformed the lowest quintile over the last year.

**Point 4: Capital intensity is only high for mega-caps.** As a % of operating cash flow, the capital spending is middling for large- and mid-caps, but at a post Financial crisis high for mega-caps.

## RESEARCH SUMMARY

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**Point 5: The median company's capital spending to operating cash flow is near 25-year lows.** The result, at least for the median company, is we do not expect any increasing depreciation burdens on cost of goods sold. That typically is a positive, as gross margins and multiples are correlated.

**Point 6: Capital spending dollar growth has hit bubble levels.** While it is obvious there isn't a broad-based capital spending or capital intensity boom, the concentration in the growth universe, both trailing and forecast growth is extreme. **The last 12-month's growth in capital spending dollars, at 60.6%, was the highest since October of 2000.**

**Point 7: Technology buybacks vs. dividends are historically wide.** The median net buyback as a percentage of operating cash flow dollars is at an all-time high in Technology at 44%. At the same time, dollar weighted dividends will be at more than a 20-year low at 12%.

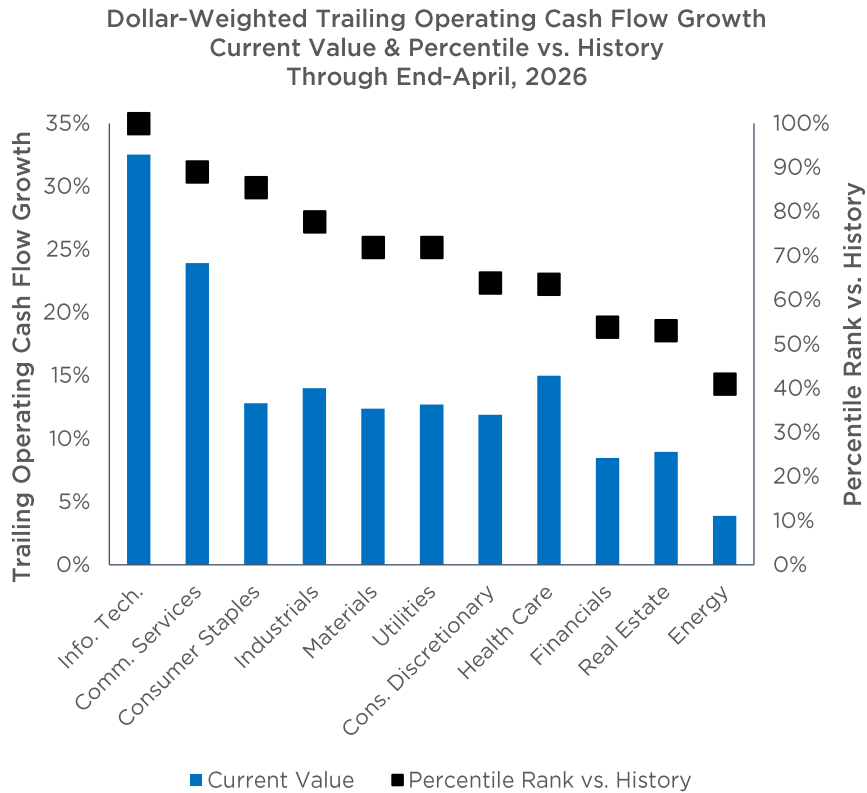
**Point 8: The median stock's dividend \$ growth is low.** The indicated dollar growth in dividends is not expected to change much vs. the last three years, across mega-/large, mid-, and small-caps. Overall, the median company's indicated dollar spend growth is 3.8% for mega-caps, and less than 2% for mid- and small-caps.

**Point 9: M&A as a percentage of forecasted CFO is at a 25-year low:** We looked at the trailing 12-month transaction values compared to the forecasted operating cash flow of the top 2000 US equities over time. The total value is at a 25-year low at 21.6%. For the median stock it is 13%.

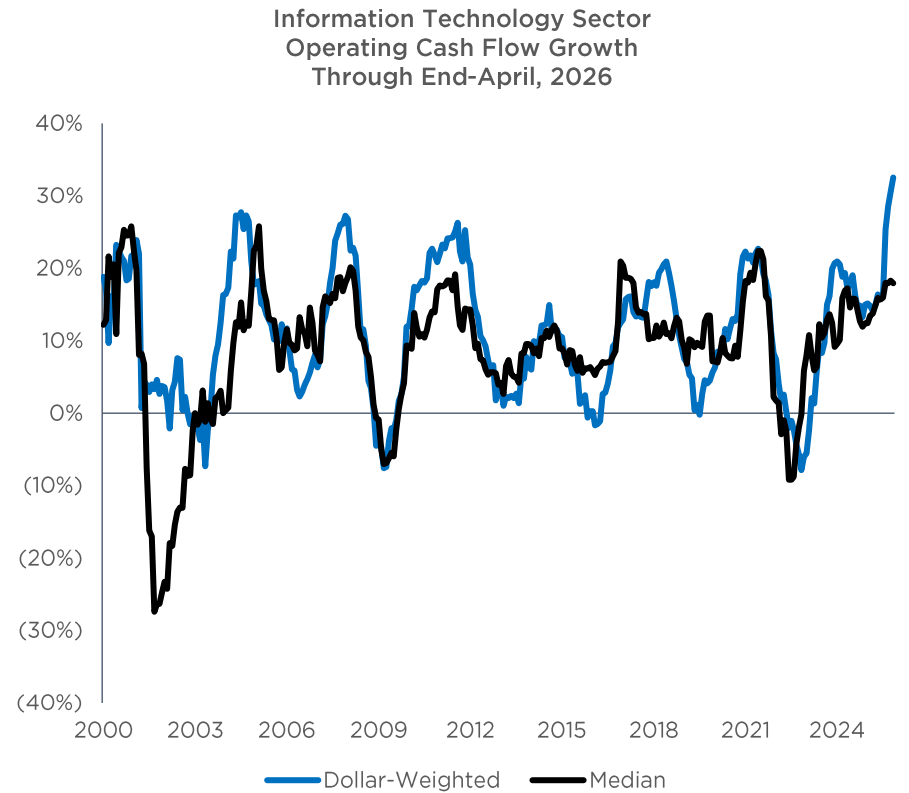
**Point 10: The median small cap. has some interest expense burden.** YoY net debt growth has started to rise on a dollar basis for the top 2000 US equities. The 8% growth is much higher than the indicated dollar growth in dividends, for example. But, for the median company, net debt growth is only 4%, which is near average. Comparing interest expense on this debt to operating cash flow, both mega-/large-cap. ,and mid-cap ratios look normal, but small caps, at 17.6% are elevated.

# POINT 1: TECHNOLOGY OPERATING CASH FLOW GROWTH AT HIGHS

We looked at the trailing 12-month growth in cash flow from operations, both level, and percentile rank vs. history (left). Energy is the only one of 11 sectors forecasted to have below its long-term average operating cash flow growth over the next 12 months. The Technology sector's growth of 32.5% is the highest it has been in 25 years (left). The Healthcare sector's 15% year-over-year cash flow from operations growth, 64<sup>th</sup> percentile vs. the sector's own history, was not rewarded. There is no question that Technology operating cash flow is cyclical, but the dollar-weighted growth hasn't been higher in over a quarter century (right).



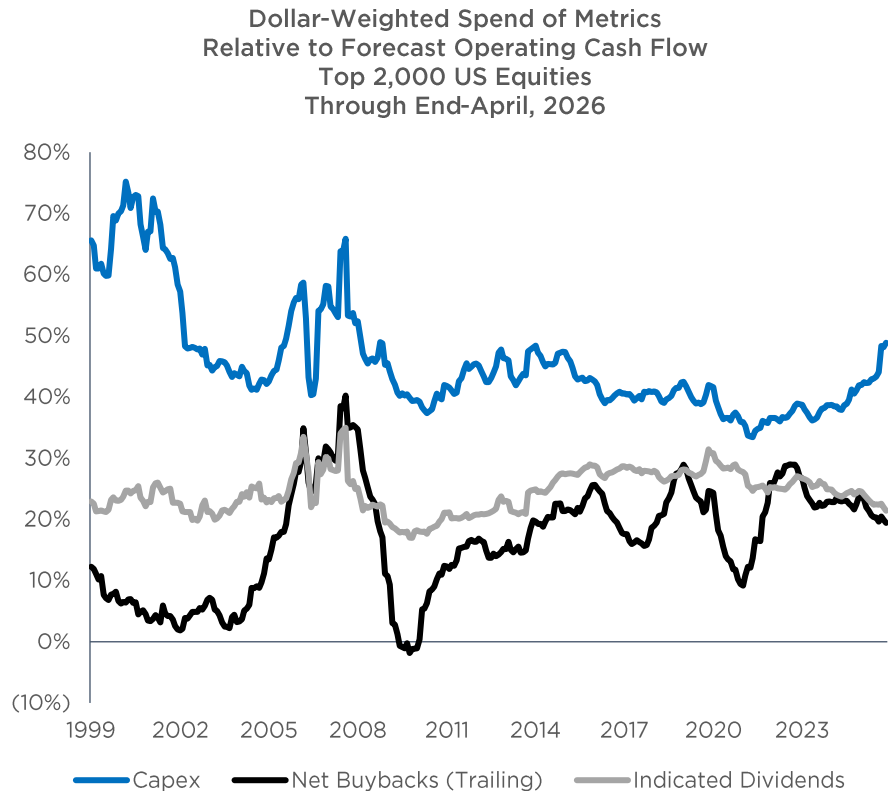
Source: Trivariate Research



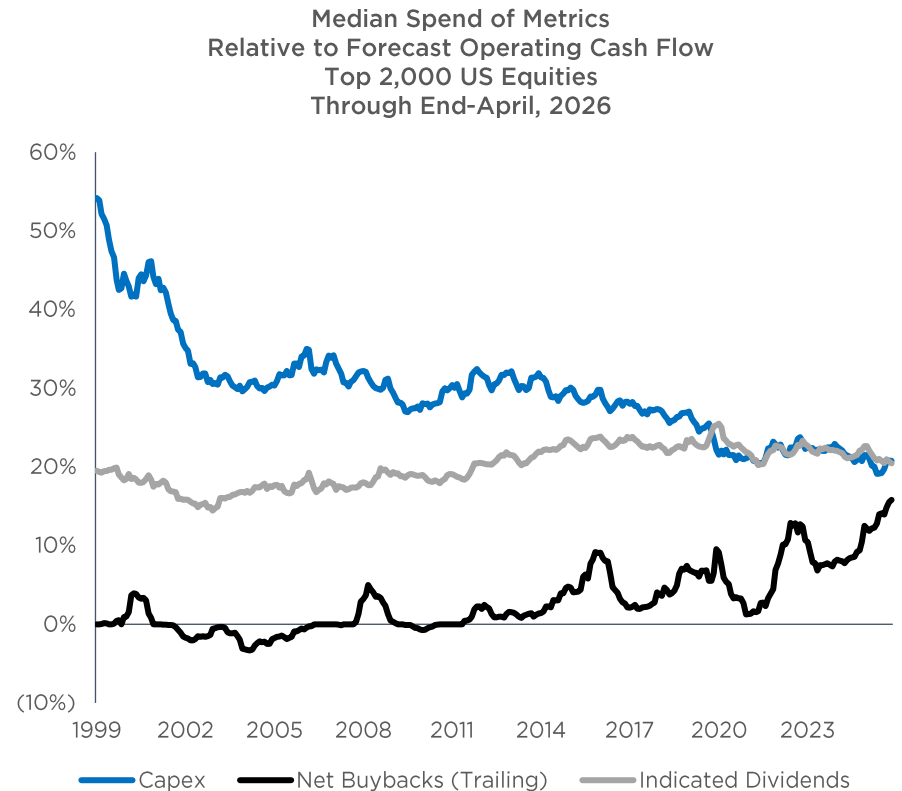
Source: Trivariate Research

## POINT 2: MEDIAN COMPANY'S BUYBACK SPEND AT ALL-TIME HIGHS

We compared the major categories of capital spending, net buybacks and indicated dividends over time as a percentage of operating cash flow. On a dollar basis, obviously capital spending has materially risen, while dividends and buybacks have modestly dipped (left). But, for the median company, net buybacks are at an all-time high of 15.5% of operating free cash flow (right).



Source: Trivariate Research



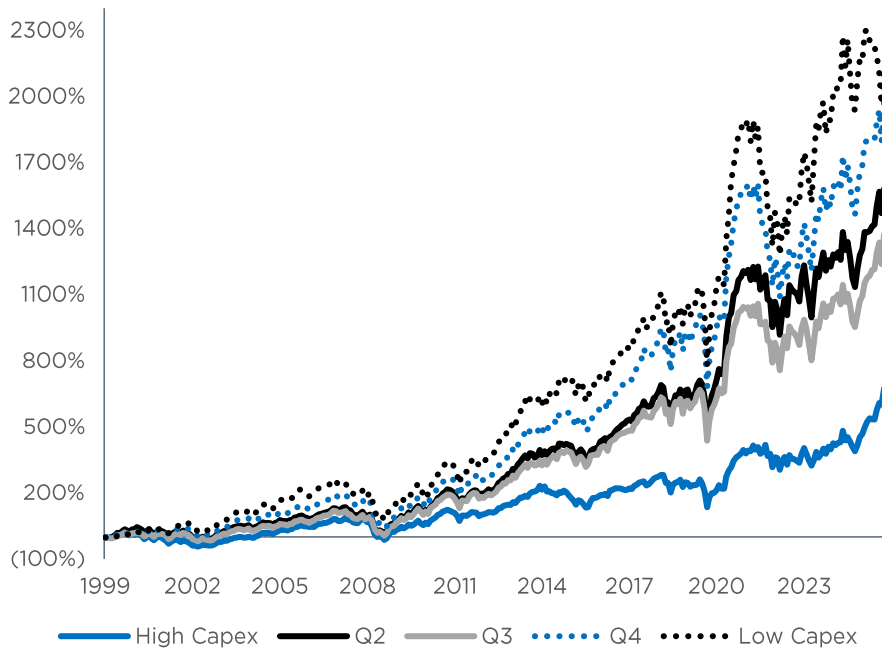
Source: Trivariate Research

Note: Trailing 4Q capex & operating cash flow numbers are used when consensus forecasts are unavailable.

# POINT 3: THE MARKET LIKES HIGH CAPITAL INTENSITY NOW

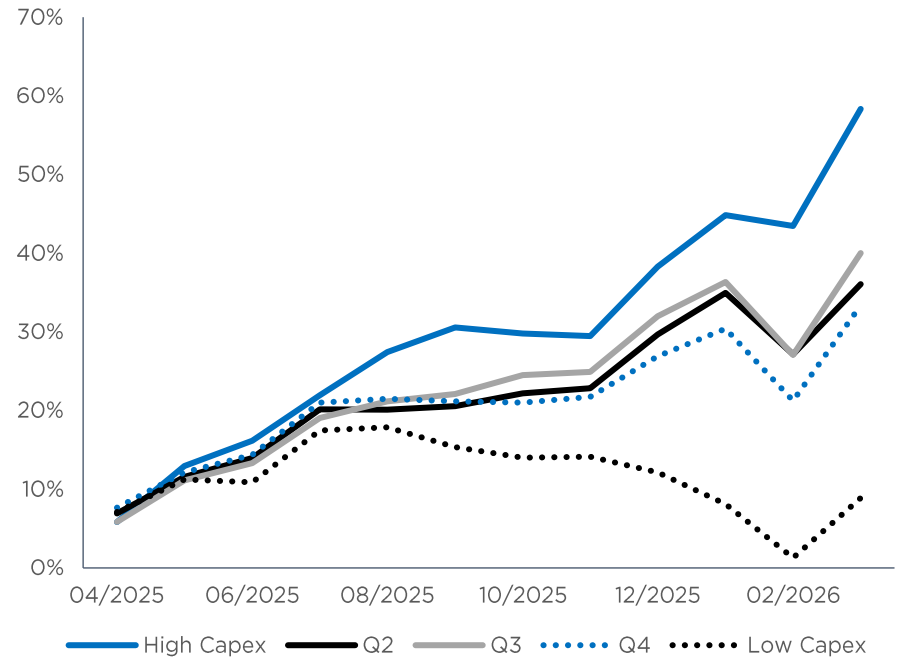
There is no question that over the long-term the market has preferred low capital intensity to high capital intensity (left), though there have been exceptions like Energy, Utilities, and Cable / Media. However, over the last year, the best performing quintile has been high capital intensity (which includes many hyper scalers and Energy), and the worst performing quintile has been low capital intensity (in part because of the Software sell-off).

Cumulative Total Return, Rebalanced Monthly  
by Capex-to-Sales Quintile  
Top 2,000 US Equities Ex. Fins., Real Estate, & Biotech.  
1999 to End-April, 2026



Source: Trivariate Research

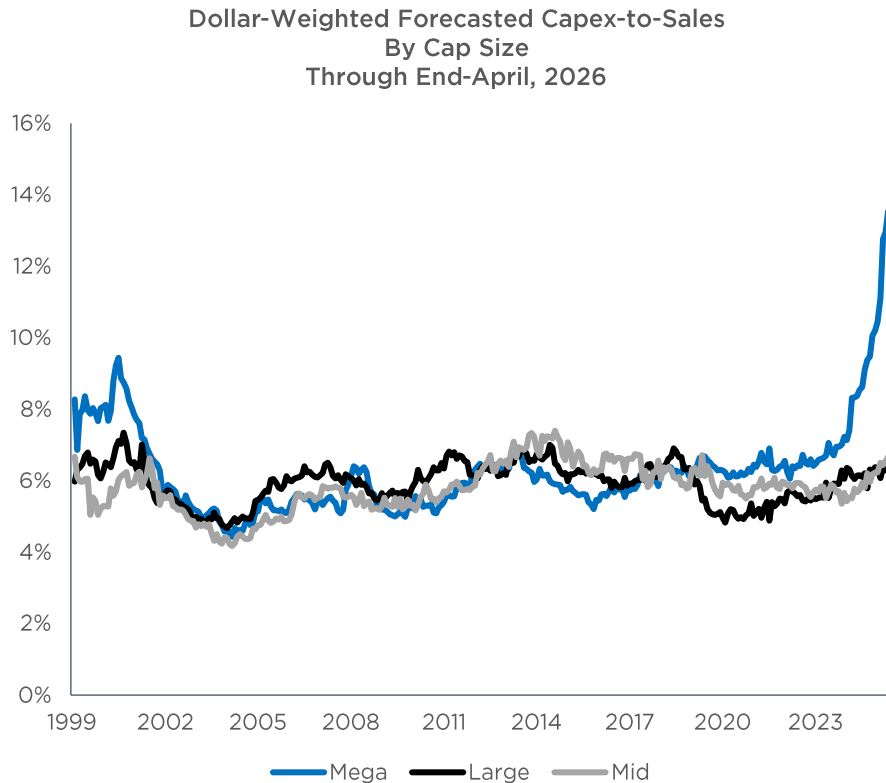
Cumulative Total Return, Rebalanced Monthly  
by Capex-to-Sales Quintile  
Top 2,000 US Equities Ex. Fins., Real Estate, & Biotech.  
End-April, 2025 to End-April, 2026



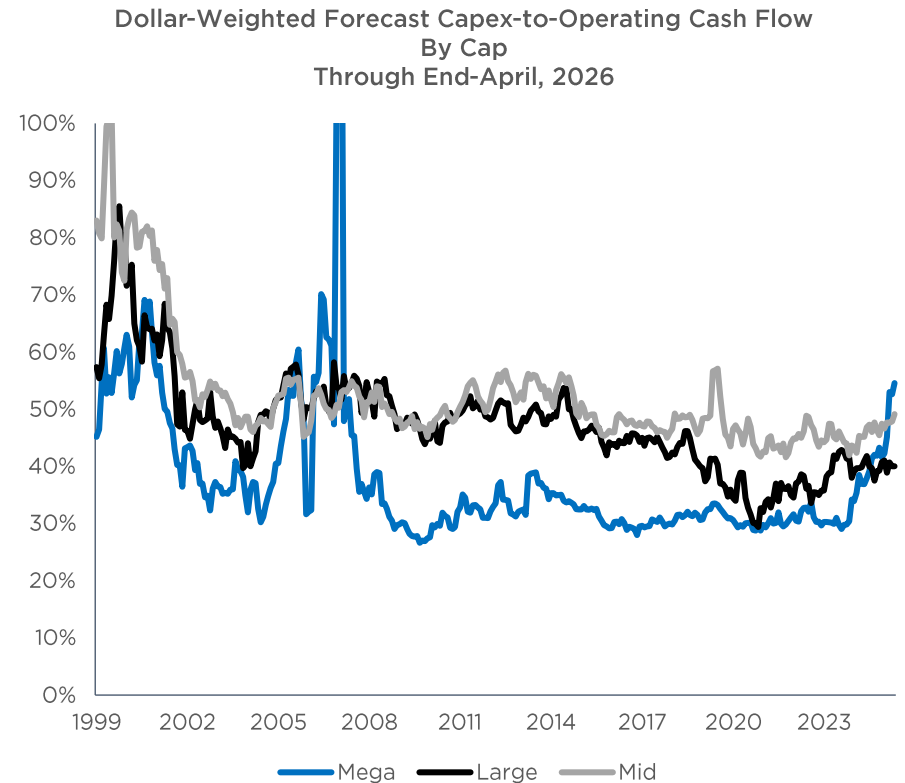
Source: Trivariate Research

## POINT 4: CAPITAL INTENSITY IS ONLY HIGH FOR MEGA CAPS

Capital intensity is “normal” on a total dollar basis for the large- and mid-cap universes (left), but the hyper scaler dollar spend has the mega-cap total forecasted capital spending dollar growth at multi-year highs. Capital spending to sales is forecasted to be nearly 14% for the mega-caps over the next 12 months. As a percentage of operating cash flow, the capital spending is relatively middling for large- and mid-caps, but at a post-Financial crisis high for mega-caps (right).



Source: Trivariate Research

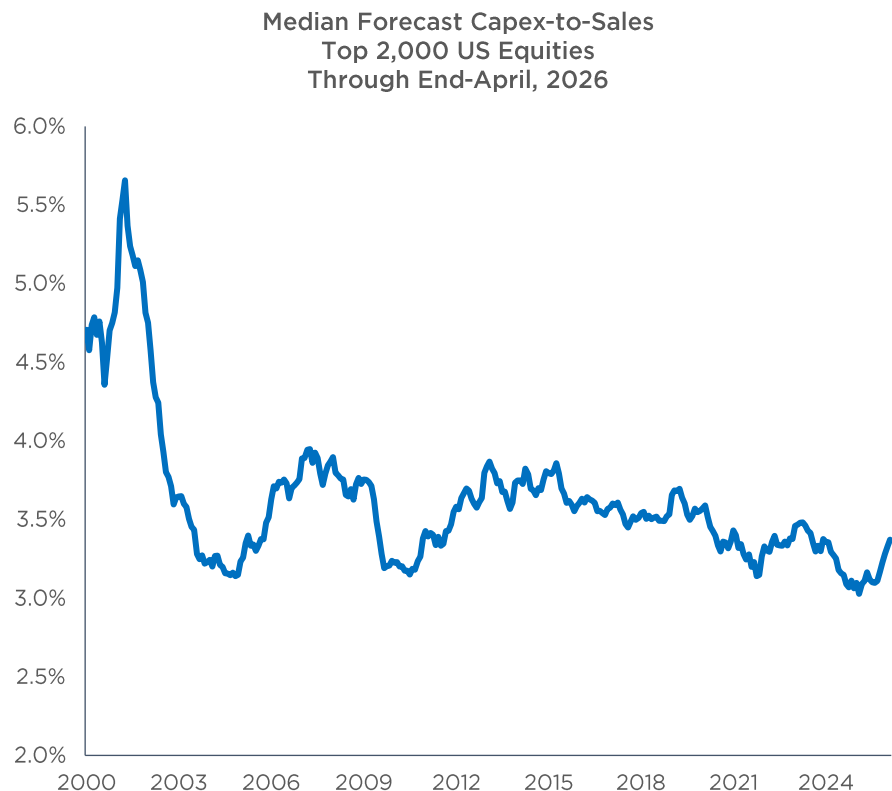


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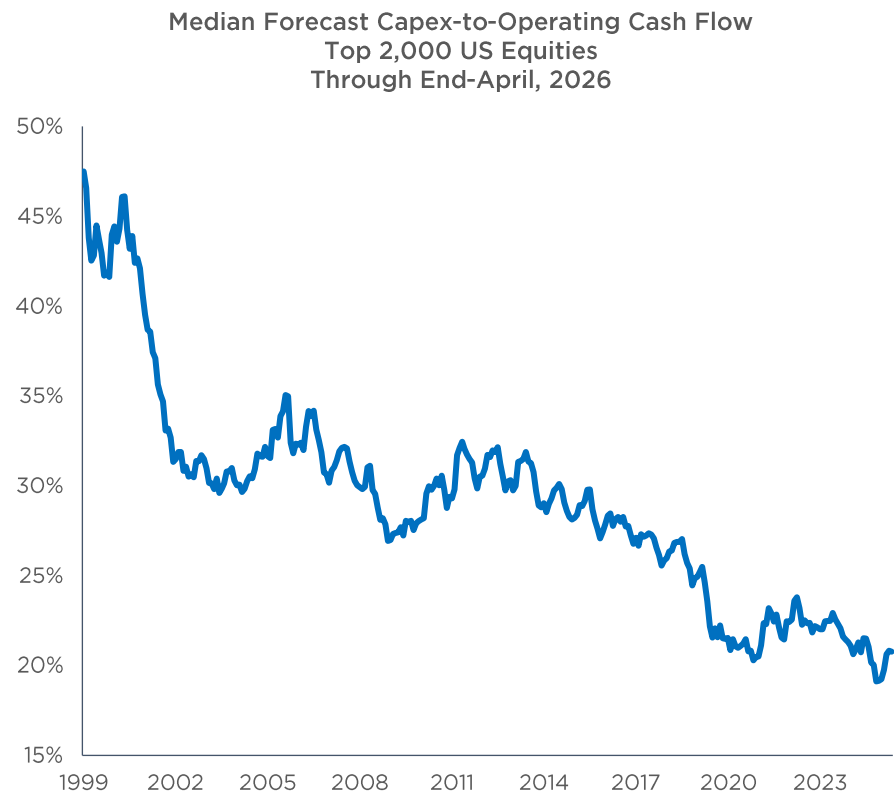
Note: Trailing 4Q capex, sales, & operating cash flow numbers are used when consensus forecasts are unavailable.

## POINT 5: MEDIAN CAPEX TO CFO IS VERY LOW...

In fact, for the median company, forecasted capital intensity for next year is higher, but at 3.3%, quite low vs. history (left). As a percentage of operating cash flow, there has been a 25-year trend for the median stock among the Top 2000 US equities to have less capital intensity, with next year's forecast below 21%, quite low vs. history. The result, at least for the median company, is we do not expect any increasing depreciation burdens on cost of goods sold (right). That is typically a positive, as higher gross margins and higher multiples are often correlated.



Source: Trivariate Research

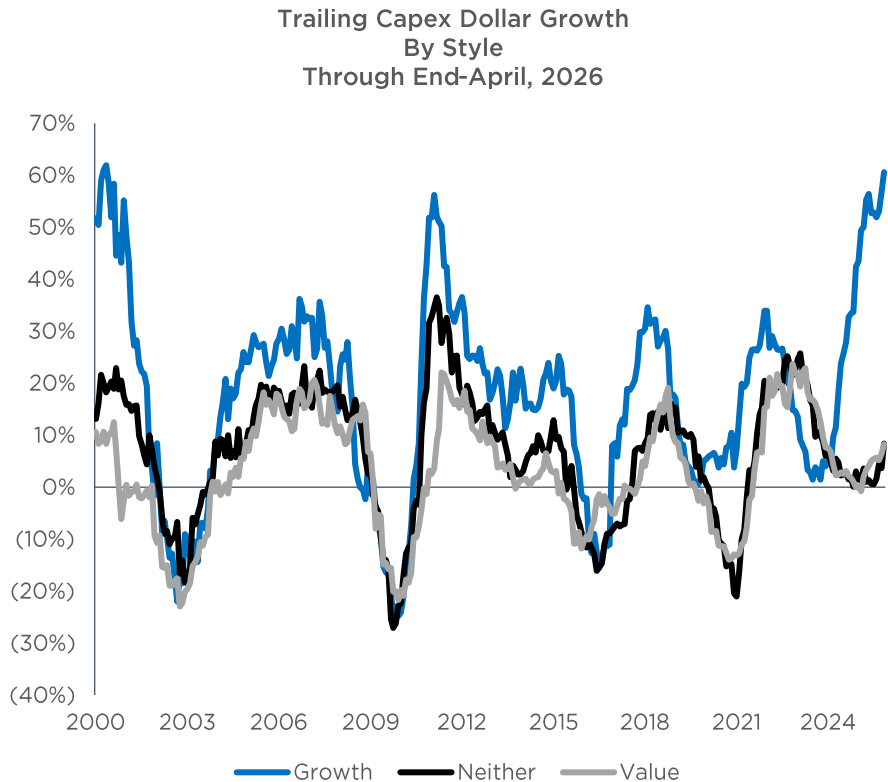


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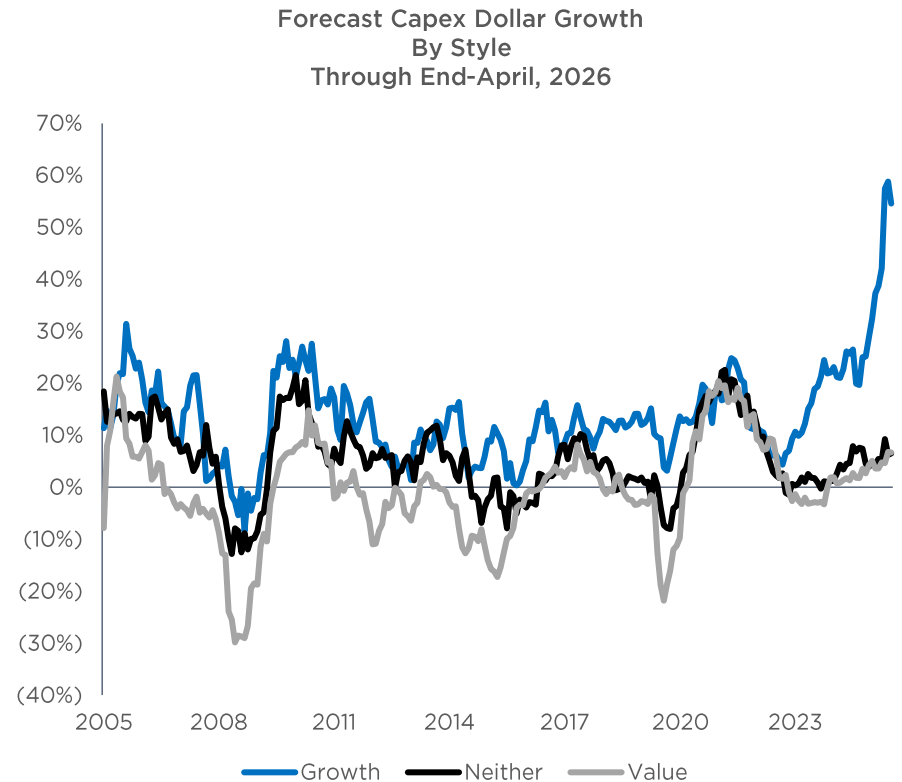
Note: Trailing 4Q capex, sales, & operating cash flow numbers are used when consensus forecasts are unavailable.

## POINT 6: ...BUT CAPEX DOLLAR GROWTH HAS HIT BUBBLE LEVELS

While it is obvious there isn't a broad-based capital spending or capital intensity boom, the concentration in the growth universe, both trailing (left) and forecasted growth in capital spending (right), is extreme relative to history. The last 12-month growth in capital spending dollars, at 60.6%, was the highest since October of 2000.



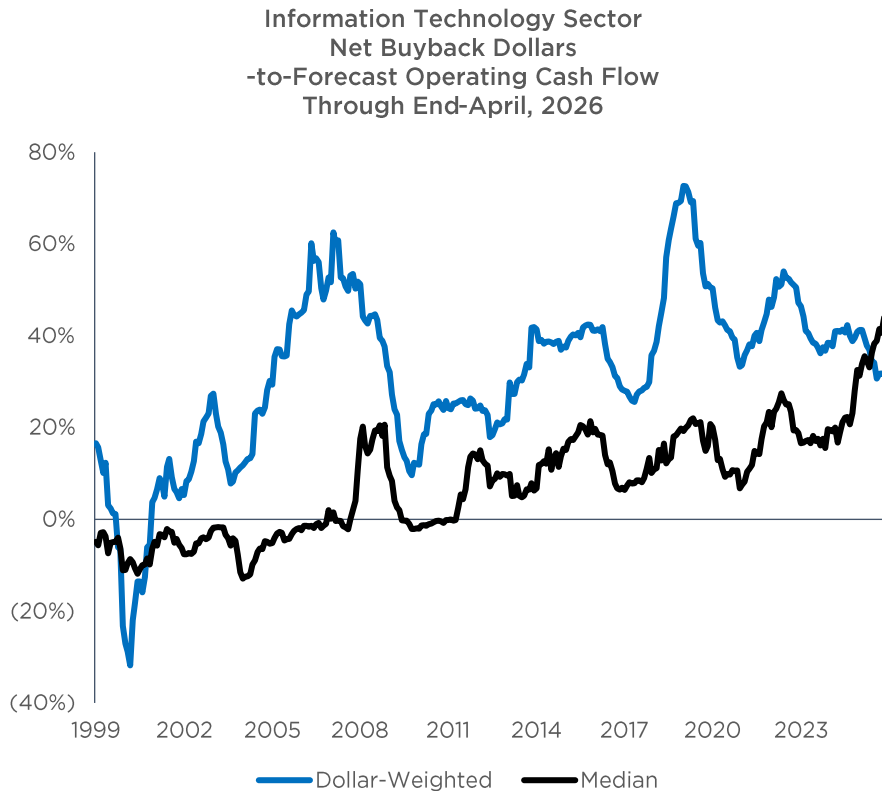
Source: Trivariate Research



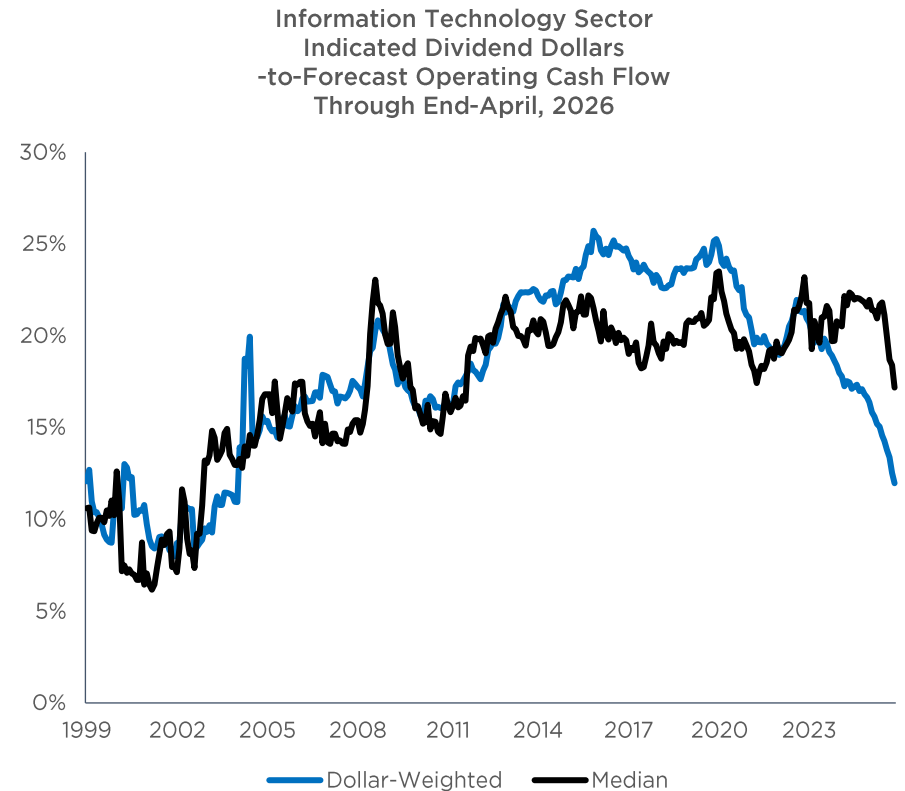
Source: Trivariate Research

# POINT 7: TECH. BUYBACKS OVER DIVIDENDS ARE HISTORICALLY WIDE

The median net buyback as a percentage of operating cash flow dollars is at an all-time high in Technology at 44% (left). At the same time, dollar-weighted dividends will be at more than a 20-year low at 12% of the consensus bottom-up forecasted operating cash flow (right).



Source: Trivariate Research

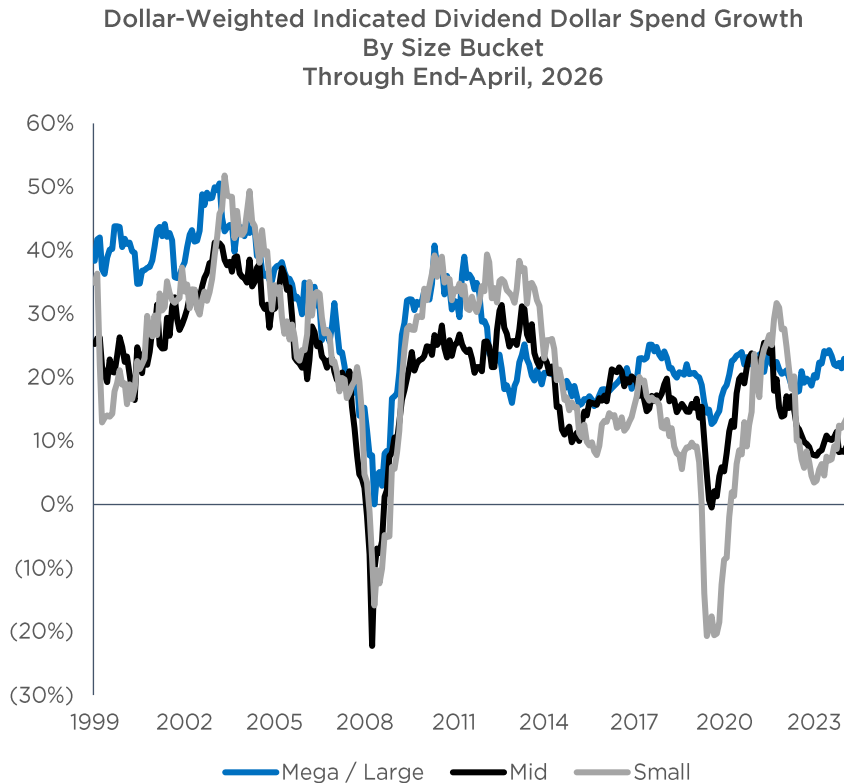


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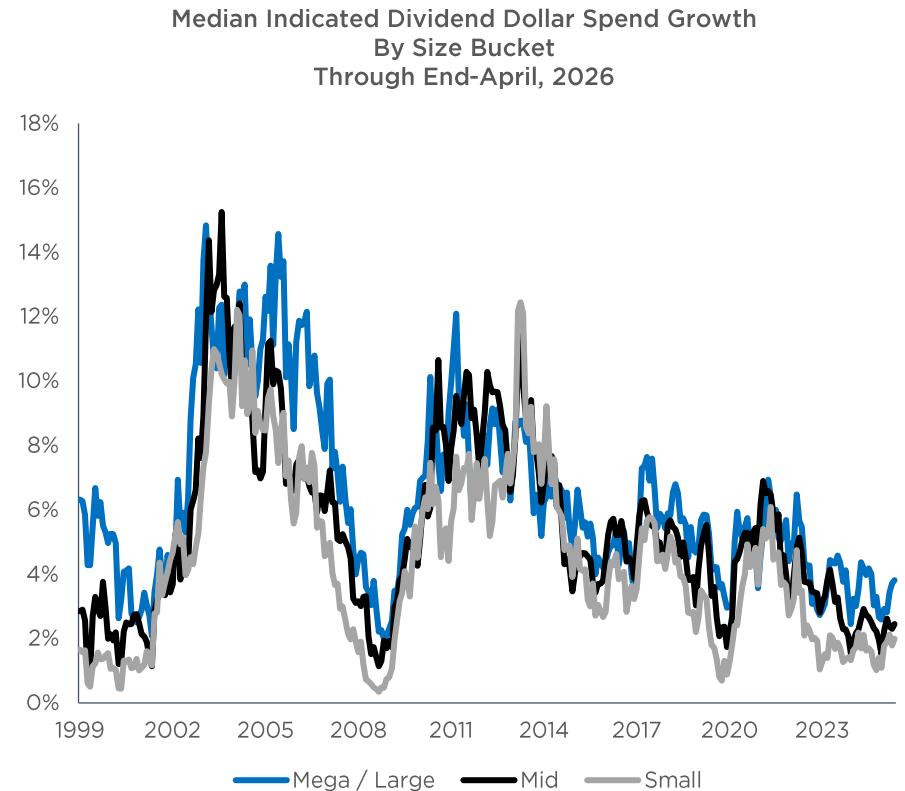
Note: Trailing 4Q operating cash flow numbers are used when consensus forecasts are unavailable.

## POINT 8: MEDIAN STOCKS' DIVIDEND GROWTH IN \$S < 4%

The indicated dollar growth in dividends is not expected to change significantly vs. the last three years, across mega-/large, mid-, and small-caps (left). Overall, the median company's indicated dollar spend growth is 3.8% for mega-caps, and less than 2% for mid- and small-caps (right).



Source: Trivariate Research



Source: Trivariate Research

## POINT 9: M&A AS A % OF FORECASTED CFO IS AT A 25-YEAR LOW

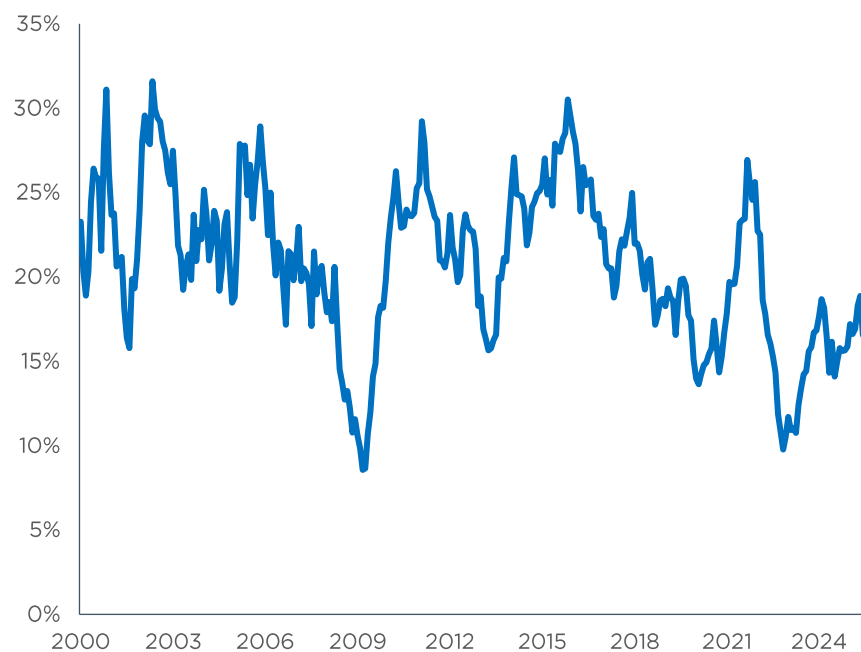
We looked at the trailing 12-month transaction values compared to the forecasted operating cash flow of the top 2000 US equities over time. The total value is at a 25-year low at 21.6% (left). For the median stock it is also low, at 13% (right).

Total Trailing 12-Month M&A Transaction Value  
to Forecast Operating Cash Flow  
Top 2,000 US Equities  
Through End-April, 2026



Source: Trivariate Research

Median Trailing 12-Month M&A Transaction Value  
to Forecast Operating Cash Flow  
Top 2,000 US Equities  
Through End-April, 2026

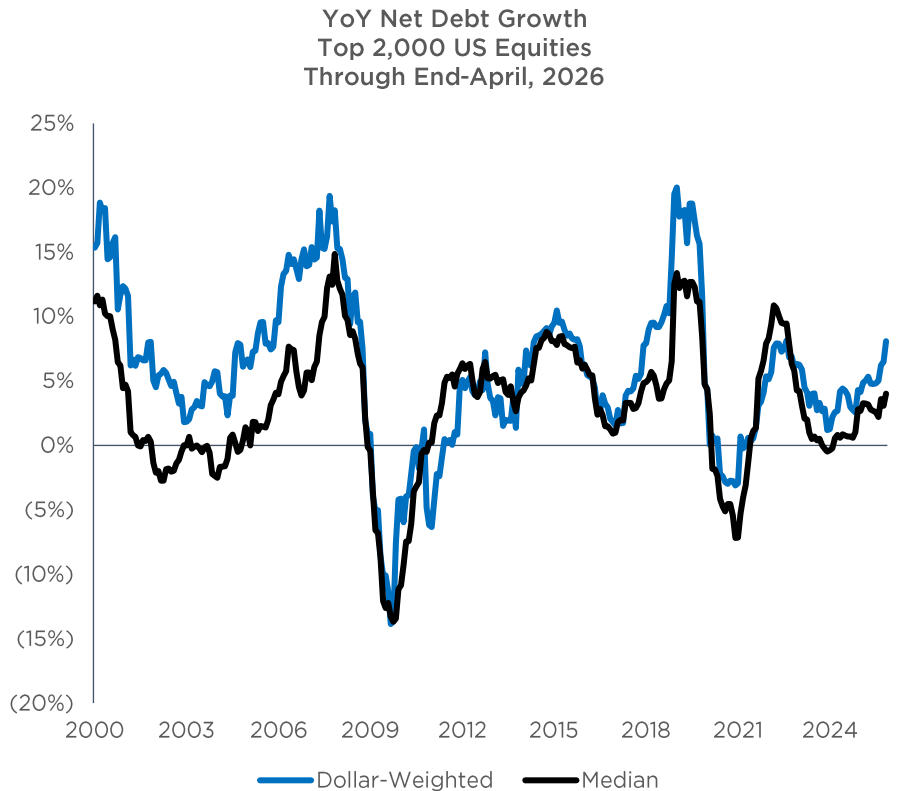


Source: Trivariate Research

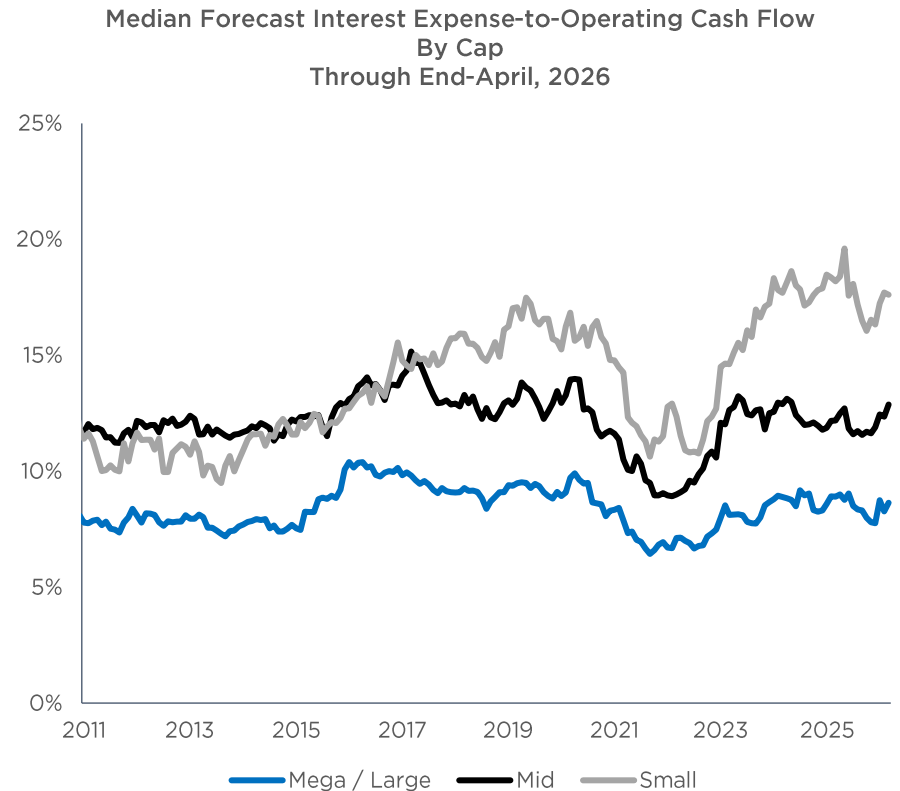
Note: Trailing 4Q operating cash flow numbers are used when consensus forecasts are unavailable.

# POINT 10: THE MEDIAN SMALL CAP HAS SOME INTEREST BURDEN

Year-over-year net debt growth has started to rise on a dollar basis for the top 2000 US equities (left). The 8% growth is much higher than the indicated dollar growth in dividends, for example. But, for the median company, net debt growth is only 4%, which looks more average than noteworthy. Comparing interest expense on this debt to operating cash flow, both mega-/large-cap. and mid-cap ratios look normal, but small caps are elevated at 17.6% (right).



Source: Trivariate Research



Source: Trivariate Research

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