

STRICTLY CONFIDENTIAL AND NOT FOR DISTRIBUTION

TRIVARIATE RESEARCH

DOES CASHFLOW MATTER FOR PICKING AI STOCKS?

ADAM S. PARKER, Ph.D., FOUNDER

adam@trivariateresearch.com
646-734-7070

CHANG GE, ANALYST

chang@trivariateresearch.com
614-397-0038

MAXWELL ARNOLD, ANALYST

maxwell@trivariateresearch.com
347-514-1234

RYAN MCGOVERN, DIR. OF RESEARCH SALES

ryan@trivariateresearch.com
973-271-8017

COLIN COONEY, HEAD OF SALES

colin@trivariateresearch.com
617-910-7934

RESEARCH SUMMARY AND CONCLUSIONS

Background: Early in 2023, we created three distinct baskets of stocks with AI exposure- Semis, Software, and “Other.” There are 20 stocks in our Other AI basket, 19 in the AI Software basket, and 10 in the AI Semiconductors group. We then broke those into three free cash flow buckets, high, low, and negative free cash flow. We wondered whether AI price action is at all about current fundamentals and hence, we investigate some key metrics for AI stocks in today’s research.

Since April, AI Semis best: Since the beginning of 2024, we tracked the performance of our three AI baskets, and the rest of the market, which we call non-AI. Performance from early 2024 through liberation day was roughly similar, but since, the Semiconductors basket has massively outperformed.

FCF yields today: “Other AI” companies currently have a median FCF yield of 4.3%, well above the Top 3000 non-AI median at 3%. AI Semis now have significantly less FCF than other categories at 1.7%. We don’t really see the market paying attention to current FCF yield to distinguish stocks, as negative FCF has beaten high or low negative FCF yield. Semiconductors with low free cash flow have strongly outperformed those with high free cash flow, and Software with negative free cash flow (albeit a small sample size) have beaten those with positive free cash flow. Among other AI companies, high and low free cash flow stocks have performed similarly.

Forecasted revenue growth also hasn’t mattered...yet: In general, EV-to-forecasted sales can be related to profit margins and expected growth. Semiconductors have worked because of long-term expected higher growth, at the expense of current FCF attributes. We looked at 12-month forward forecasted revenue growth vs. FCF yield clustered by AI bucket, and don’t see any aggregate relationship. **Hence, we can only conclude that movements in AI stocks are driven by perceptions far out in the future, not by current capital spending and its impact on FCF, or the next year’s revenue growth. Slide 7 shows the highest and lowest FCF stocks have been among the biggest losers.**

AI BASKETS AND FREE CASH FLOW CHARACTERISTICS

Early in 2023, we created three distinct baskets of stocks with AI exposure, Semis, Software, and “Other.” There are 20 stocks in our Other AI basket, 19 in the AI Software basket, and 10 in the AI Semiconductors group. We then broke those into three free cash flow buckets, high, low, and negative free cash flow. The AI Semiconductors basket, equally-weighted, has rallied more than 60% year-to-date, whereas the Software basket is down more than 15%. Our “North Star”, of recommending Semiconductors over Software, has been a great call. Other AI Stocks have appreciated, but slightly less than the S&P500. What is noteworthy however, is that level of free cash flow is anti-correlated with success. Many of the smaller market cap. but more cash-generative software companies have lagged.

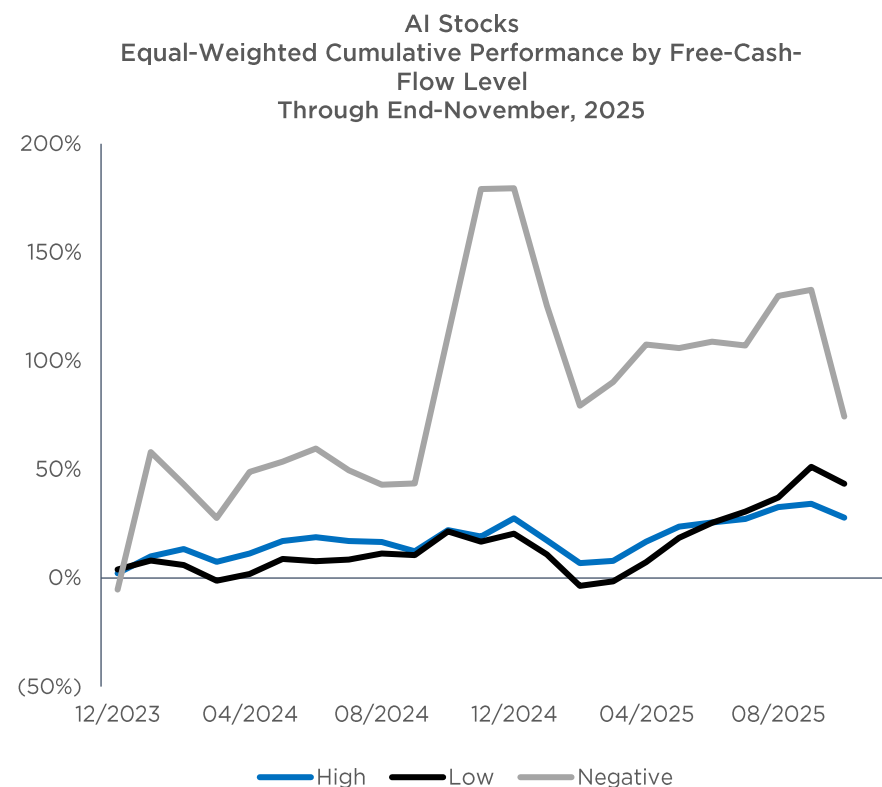
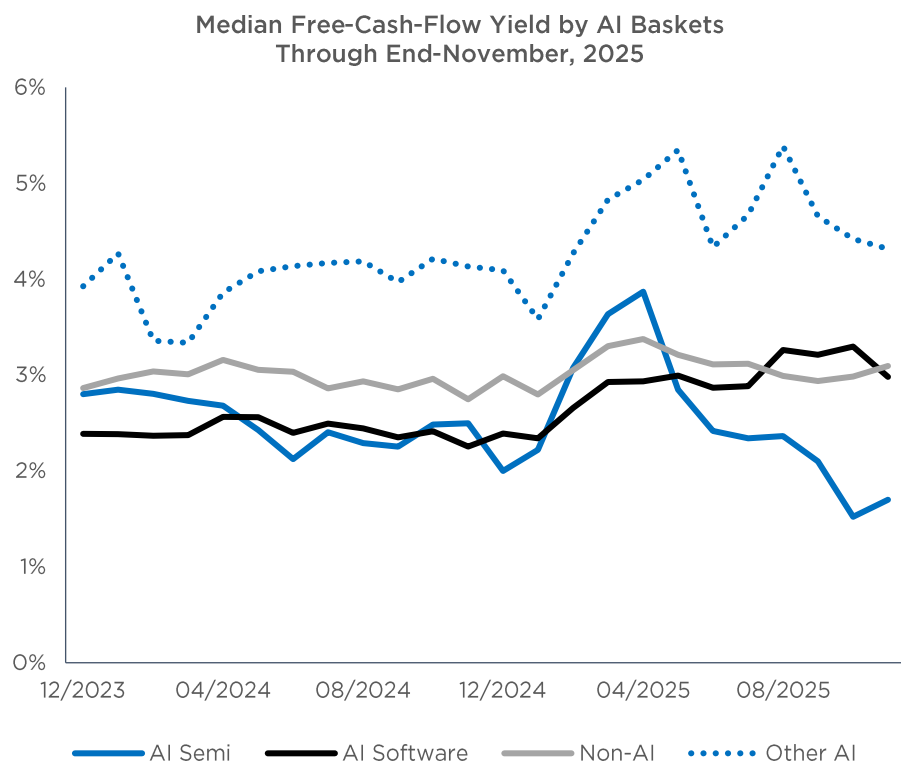
AI Basket Info
As of End-November, 2025

Basket	Total Count	High FCF	Low FCF	Negative FCF	Median Market Cap. (\$Bn)	Median Company-Specific Risk	Median Beta	Equal-Weight 2025 Performance
AI Semiconductors	10	2	7	1	198.45	53.5%	2.07	63.8%
AI Software	19	9	6	3	7.43	63.5%	1.37	(15.1%)
Other AI	20	13	7	0	27.95	59.7%	1.38	12.1%

Source: Trivariate Research

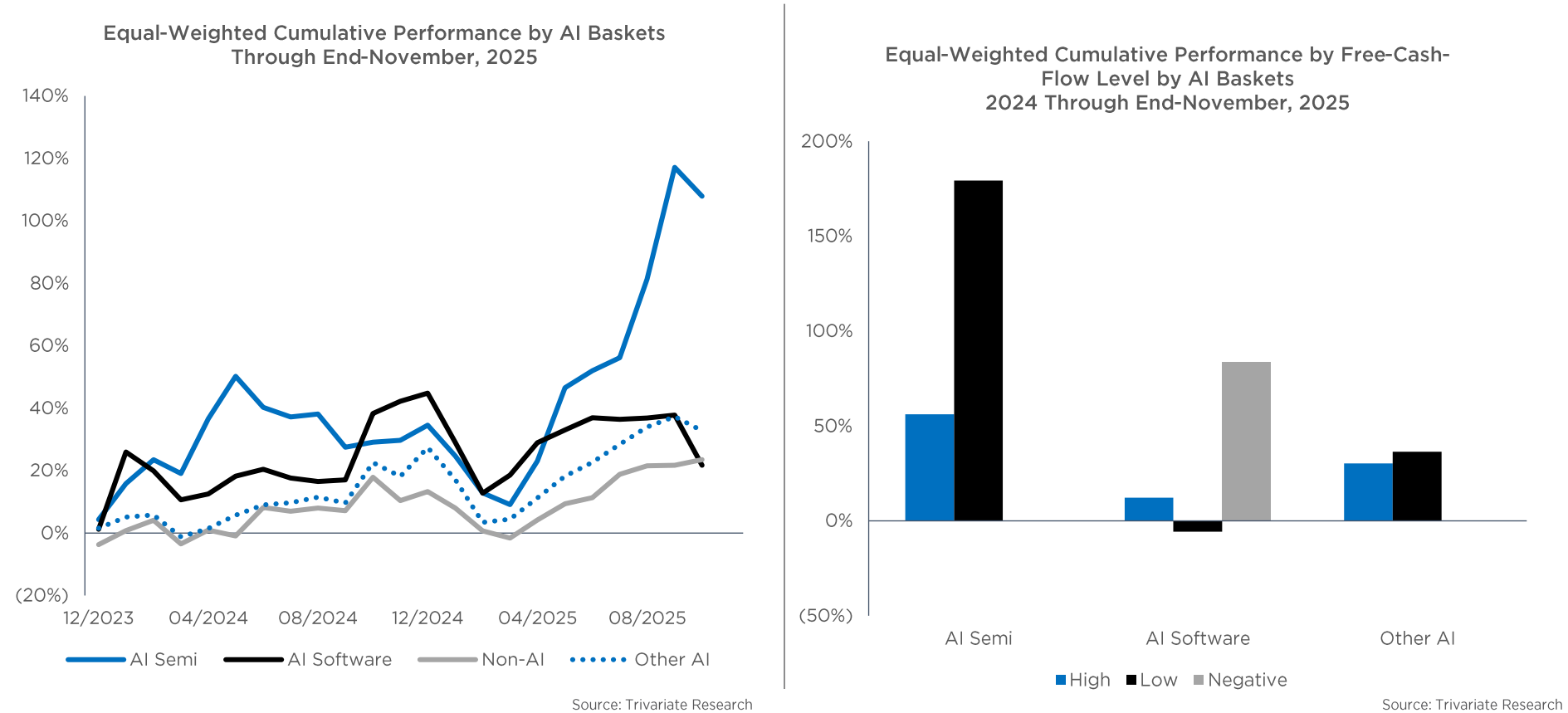
INVESTORS HAVE NOT CONSIDERED FCF A RELEVANT VARIABLE

“Other AI” companies currently have a median FCF yield of 4.3%, well above the Top 3000 non-AI median at 3%. AI Semis now have way less FCF than other categories at 1.7% (left). We don’t really see the market paying attention to current FCF yield to distinguish stocks (right), as negative FCF has beaten high or low negative FCF yield.



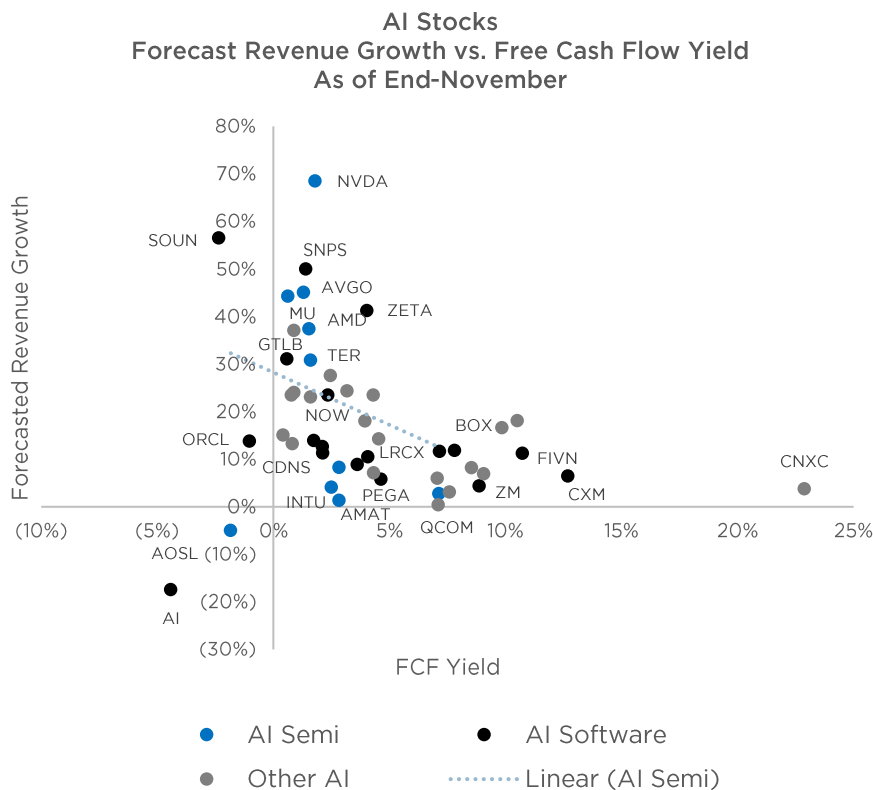
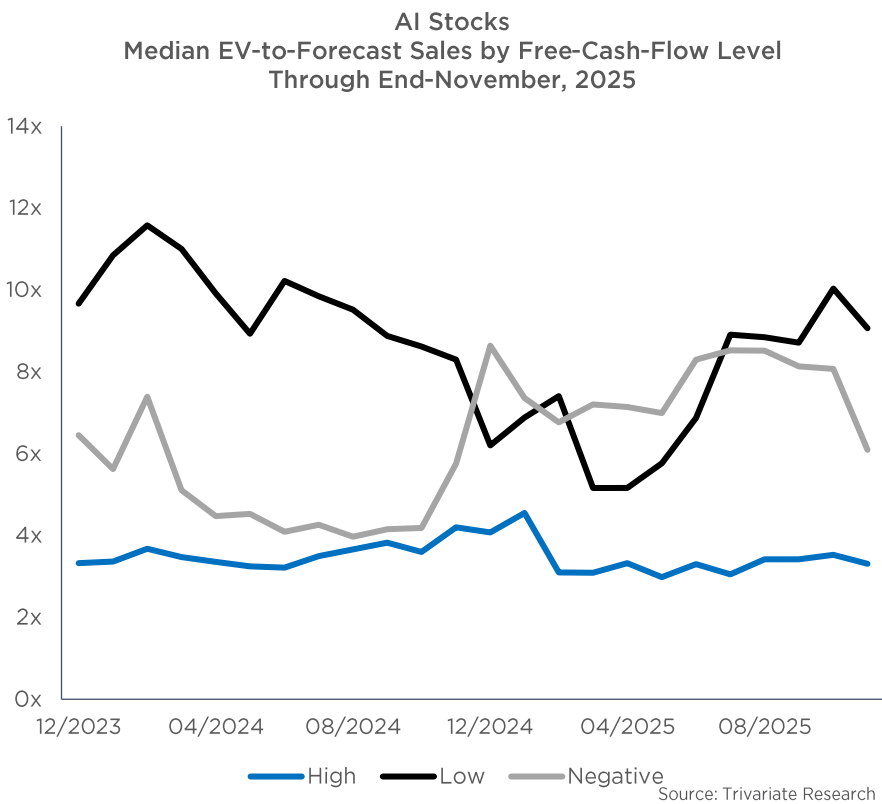
SEMICONDUCTORS HAVE BEEN THE BEST AI AREA SINCE APRIL

Since the beginning of 2024, we tracked the performance of our three AI baskets, and the rest of the market, which we call non-AI (left). Performance from early 2024 through liberation day was roughly similar, but since, Semiconductors have massively outperformed. Semiconductors with low free cash flow (right) have strongly outperformed those with high free cash flow, and Software with negative free cash flow (albeit a small sample size) have beaten those with positive free cash flow. Among other AI companies, high and low free cash flow stocks have performed similarly.



REVENUE GROWTH EXPECTATIONS DON'T MATTER EITHER

Obviously, valuation on EV-to-forecasted sales can be related to profit margins and expected growth, but among all AI stocks clearly high FCF has not resulted in changes to the multiples (left). Semiconductors have worked because of long-term expected higher growth, at the expense of current FCF attributes. We looked at forecasted revenue growth vs. FCF yield (right) clustered by AI bucket, and don't see any aggregate relationship. Hence, we can only conclude that movements in stocks are perceptions far out in the future, not current capital spending and its impact on FCF, or the next year's revenue growth.



THE HIGHEST AND LOWEST FCF YIELD STOCKS HAVE MANY LOSERS

At the stock level, we show that all but MongoDB (MDB) are down from highs, and many stocks, whether with negative FCF (i.e., AI) or positive and high FCF (i.e., WIX) are down meaningfully from levels earlier this year.

Top and Bottom 10 FCF yield AI Stocks
As of December 3rd, 2025

Ticker	Company	Market Cap. (US\$ Bil.)	Basket	CSR	Beta	FCF Yield	FCF Yield vs. History	2025 High Date	% From 2025 High
CNXC	Concentrix Corporation	2.30	Other AI	63.1%	0.99	22.4%	98.1%	03/26/2025	(42.1%)
CXM	Sprinklr, Inc.	1.90	AI Software	63.7%	1.14	11.8%	93.6%	03/11/2025	(17.5%)
FIVN	Five9, Inc.	1.60	AI Software	48.8%	2.05	10.3%	99.3%	02/04/2025	(52.2%)
DELL	Dell Technologies Inc.	89.56	Other AI	65.0%	1.90	9.8%	53.7%	10/27/2025	(19.0%)
WIX	Wix.com Ltd.	5.62	Other AI	76.7%	1.13	9.8%	99.3%	01/27/2025	(58.4%)
ZM	Zoom Communications Inc.	25.36	AI Software	61.4%	0.92	8.8%	84.9%	01/27/2025	(3.4%)
COUR	Coursera, Inc.	1.39	Other AI	69.3%	1.03	8.6%	93.8%	08/05/2025	(34.2%)
G	Genpact Limited	7.79	Other AI	58.6%	0.64	8.3%	97.7%	02/12/2025	(17.7%)
NTAP	NetApp, Inc.	22.71	Other AI	56.0%	1.33	7.4%	64.8%	09/17/2025	(8.9%)
BOX	Box, Inc.	4.66	AI Software	64.8%	0.55	7.4%	86.4%	06/03/2025	(16.5%)
MDB	MongoDB, Inc.	33.04	Other AI	70.5%	1.60	1.0%	100.0%	12/02/2025	0.0%
RDNT	RadNet, Inc.	6.13	Other AI	76.7%	1.06	0.8%	13.2%	11/21/2025	(5.9%)
SNOW	Snowflake Inc.	89.77	Other AI	55.0%	1.53	0.8%	42.9%	10/31/2025	(4.4%)
HPE	Hewlett Packard Enterprise	29.37	Other AI	49.2%	1.85	0.8%	33.6%	10/08/2025	(15.2%)
MU	Micron Technology, Inc.	262.84	AI Semi	61.3%	2.36	0.6%	48.1%	11/07/2025	(7.6%)
AMZN	Amazon.com, Inc.	2484.19	Other AI	54.8%	1.52	0.4%	25.5%	10/31/2025	(8.5%)
ORCL	Oracle Corporation	592.20	AI Software	67.3%	1.42	(1.0%)	0.3%	09/09/2025	(36.6%)
AOSL	Alpha and Omega Semi.	0.65	AI Semi	49.6%	3.28	(1.7%)	35.7%	02/04/2025	(49.9%)
SOUN	SoundHound AI, Inc.	4.95	AI Software	64.3%	2.98	(2.4%)	83.8%	10/14/2025	(45.0%)
AI	C3.ai, Inc.	2.07	AI Software	43.9%	2.40	(4.3%)	37.7%	01/03/2025	(59.4%)

Source: Trivariate Research

DISCLOSURES

Disclaimer

This presentation is confidential and may not be reproduced or distributed without the express prior written permission of Trivariate Research LP and its affiliates (collectively, “Trivariate”).

The information contained herein reflects the opinions and projections of Trivariate as the date of publication, which are subject to change without notice at any time subsequent to the date of issue. Trivariate does not represent that any opinion or projection expressed herein will be realized. All information provided is for informational and research purposes only and should not be deemed as investment advice or a recommendation to purchase or sell any specific portfolio investment, security or other asset. While the information presented herein is believed to be reliable, no representation or warranty is made concerning the accuracy of any data or other information presented. Information obtained by Trivariate from third party sources in connection with the preparation of this presentation has not been independently verified by Trivariate. Additional information regarding Trivariate is available on request.

Any projections, forecasts, targets or other estimates presented herein constitute “forward-looking statements” that can be identified by the use of forward-looking terminology such as “may,” “will,” “should,” “could,” “would,” “predicts,” “potential,” “forecasted,” “continue,” “expects,” “anticipates,” “future,” “intends,” “plans,” “believes,” “estimates,” or the negatives thereof or other variations thereon or comparable terminology. Furthermore, any projections, targets, forecasts or other estimates in this presentation are “forward-looking statements” and are based upon certain assumptions that may change. Due to various risks and uncertainties, actual events or results or the actual performance of the funds may differ materially from those reflected or contemplated in such forward-looking statements. Moreover, actual events are difficult to predict and often depend upon factors that are beyond the control of the Trivariate. Nothing herein shall under any circumstances create an implication that the information contained herein is correct as of any time after the earlier of the relevant date specified herein or the date of this presentation. In addition, unless the context otherwise requires, the words “include,” “includes,” “including” and other words of similar import are meant to be illustrative rather than restrictive. Forward-looking statements and discussions of the business environment included herein (e.g., With respect to financial markets, business opportunities, demand, investment pipeline and other conditions) are subject to the ongoing novel coronavirus outbreak (“COVID” or “COVID-19”). The full impact of COVID-19 is particularly uncertain and difficult to predict, therefore such forward-looking statements do not reflect its ultimate potential.

This shall not constitute an offer to sell or the solicitation of an offer to buy any interests in any fund, product or account that is or may in the future be advised or managed by, Trivariate or any of its affiliates.

All data sourced from S&P Global, Bloomberg, or our Trivariate estimates. All forward-looking-statements reflect the opinion of Trivariate.