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# TRIVARIATE RESEARCH

## FINDING SHORT IDEAS IN THE TECH SECTOR

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## BACKGROUND AND RESEARCH SUMMARY

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**Background:** We noticed recently when we were comprehensively analyzing gross and net margins for US equities ([Link](#)) that there was consistently anomalous behavior among 20% of Technology stocks. The lowest 20% of Technology stocks on net margins were consistently forecasted to make money on a 12-month forward basis, but ultimately did not. Given our broader market observation that the penalty for missing estimates has been harsh, we wanted to look at the least profitable Technology companies more carefully to see if there were any patterns of behaviors worth avoiding (for long only managers) or exploiting (on the short side).

**Estimate achievability among the lowest 20% of margin Technology companies is poor:** The forecasted net margins for this group are now near all-time highs at over 8%, even though the realized margins of this group 12 months later are consistently negative and this group has had trailing net margins that are negative for the last 20 years. We think it is highly unlikely that more than 80% of Technology companies will make money over the next year. To be clear, this group's realized vs. forecasted net margin has been negative every month since 2010.

**The penalty for missing estimates has been harsh:** The reason we focus on the high net margin expectations for these 20% of Technology companies is that the penalty for Technology companies missing earnings has been far greater than the reward for beating, for all but stocks with the worst performance the two weeks prior to their earnings reports. Among just the Technology stocks that lose money, the penalty for missing is nearly twice as harsh as the reward for beating for all but the worst performing stocks the two weeks before earnings are reported.

## INVESTMENT CONCLUSIONS

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How to find short ideas among low margin Technology companies

**Avoid negative revisions:** Historically, earnings revisions were very effective for picking winners from losers in the negative net margin Technology universe. Shorting the bottom two quintiles of revisions generated strong alpha. The underperformance of the negative net margin Technology stocks with the worst revisions has been particularly effective since 2020.

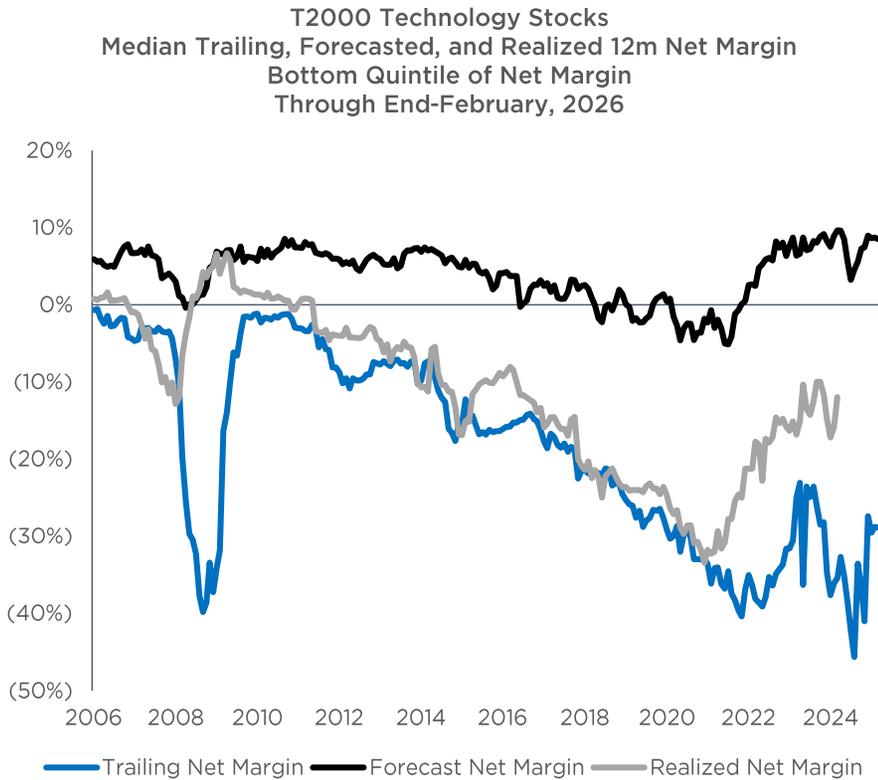
**The lowest margin group is largely Software:** 48% of the negative net margin Technology companies are Software and these companies in the bottom net margin quintile of Technology stocks consistently report meaningfully lower margins than they were forecasted to achieve a year earlier.

**Avoid high net margin expectations:** Those with the highest expectations for net margin among the lowest net margin quintile of Technology stocks have an average of negative 5% alpha per year.

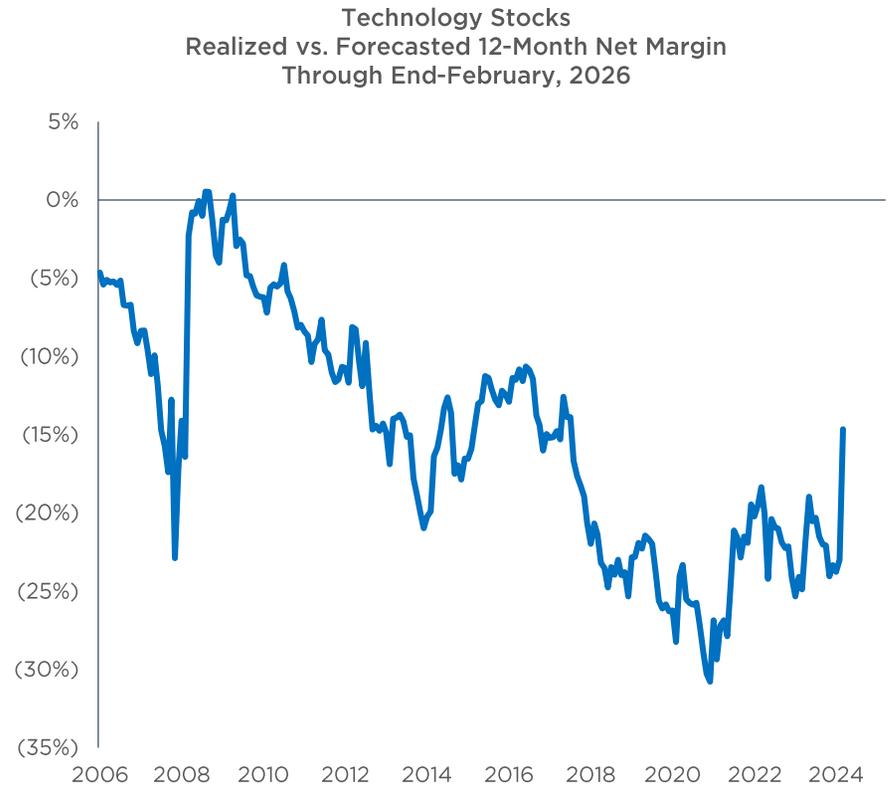
**Short ideas:** The biggest culprits are generally Software, as they realize much lower margins than those that are projected. **This is a separate but additional reason to stay cautious on the Software Industry today.** On slide 12 we show Technology stocks in the bottom quintile of net margins where margin growth forecasts are high. Stocks include CRWD, SITM, and PCOR, among others. Low margin Technology stocks with the biggest downward revisions among the lowest net margin companies include FIG, RAL, and SOUN, among others. Interestingly, there are no low margin stocks on both the high net margin growth and poor downward revisions screens today.

# ANALYSTS OVER-ESTIMATE PROFITABILITY FOR 20% OF STOCKS

Below on the left side we show the Technology stocks in the bottom 20% of net margin over time. The forecasted net margins for this group are now near all-time highs at over 8% (black line), even though the realized margins of this group 12 months later are consistently negative (gray line) and this group has had trailing net margins that are negative (blue line) for the last 20 years. We think it is highly unlikely that more than 80% of Technology companies will make money over the next year. **To be clear, this group's realized vs. forecasted net margin has been negative every month since 2010 (right).**



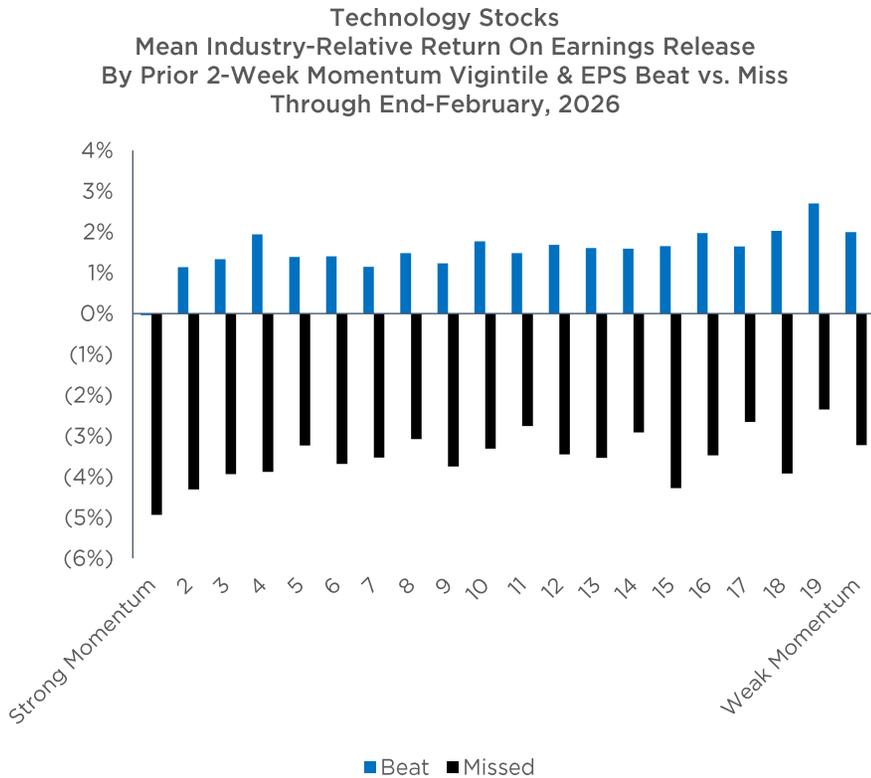
Source: Trivariate Research



Source: Trivariate Research

# ALL TECH AND MONEY LOSING TECH GET PUNISHED WHEN THEY MISS

The reason we focus on the high net margin expectations for these 20% of Technology companies is that the penalty for Technology companies missing earnings has been far greater than the reward for beating (left), for all but stocks with the worst performance the two weeks prior to their earnings reports. Among just the Technology stocks that lose money, the penalty for missing is nearly twice as harsh as the reward for beating for all but the worst performing stocks the two weeks before earnings are reported (right).



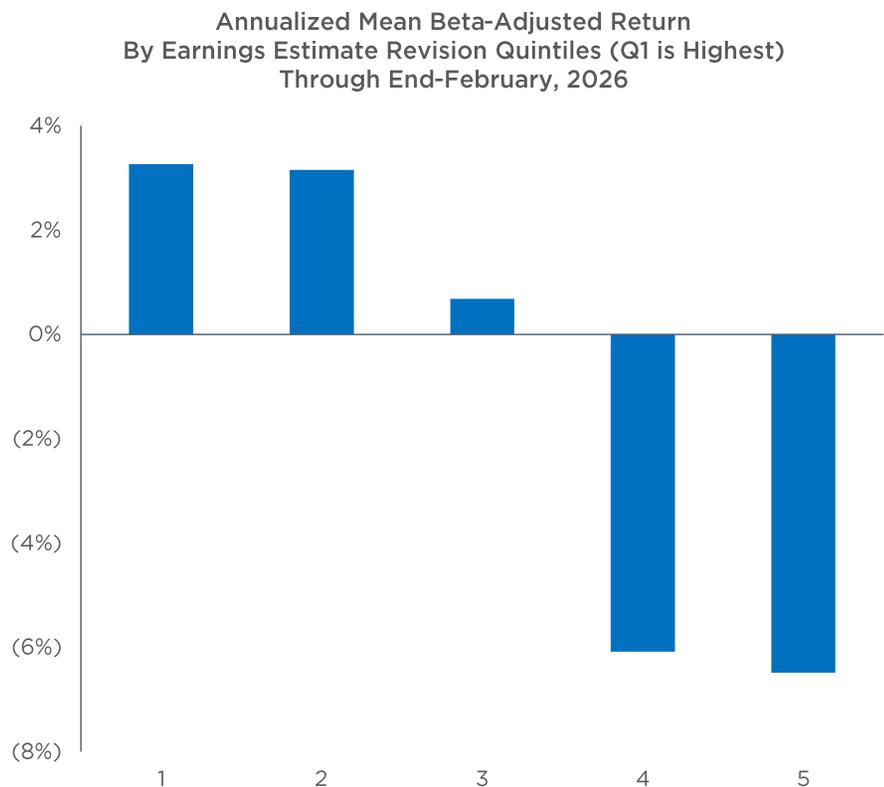
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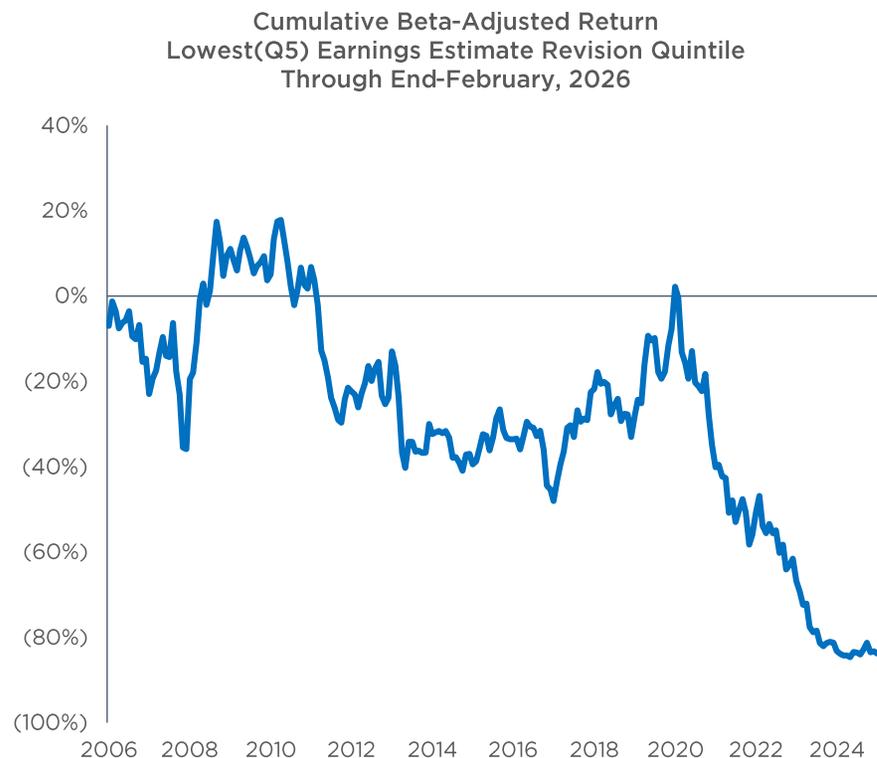
Source: Trivariate Research

# LOW MARGINS AND NEGATIVE REVISIONS MAKE FOR GOOD SHORTS

Historically earnings revisions were very effective for picking winners from losers in the negative net margin Technology universe. Shorting the bottom two quintiles of revisions generated strong alpha (left). The underperformance of the negative net margin Technology stocks with the worst revisions has been particularly effective since 2020 (right).



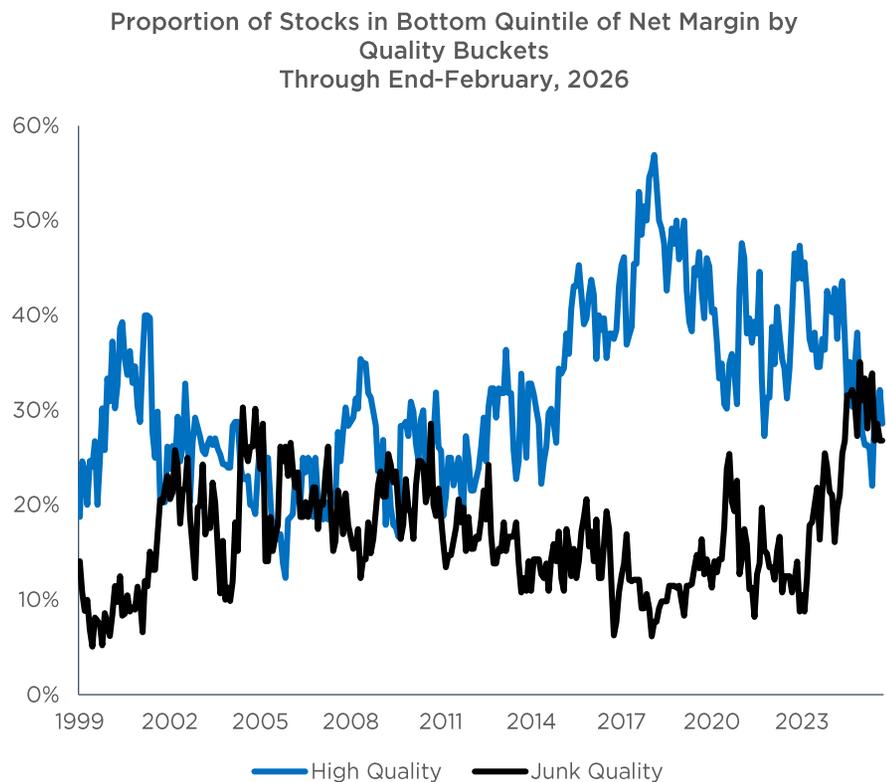
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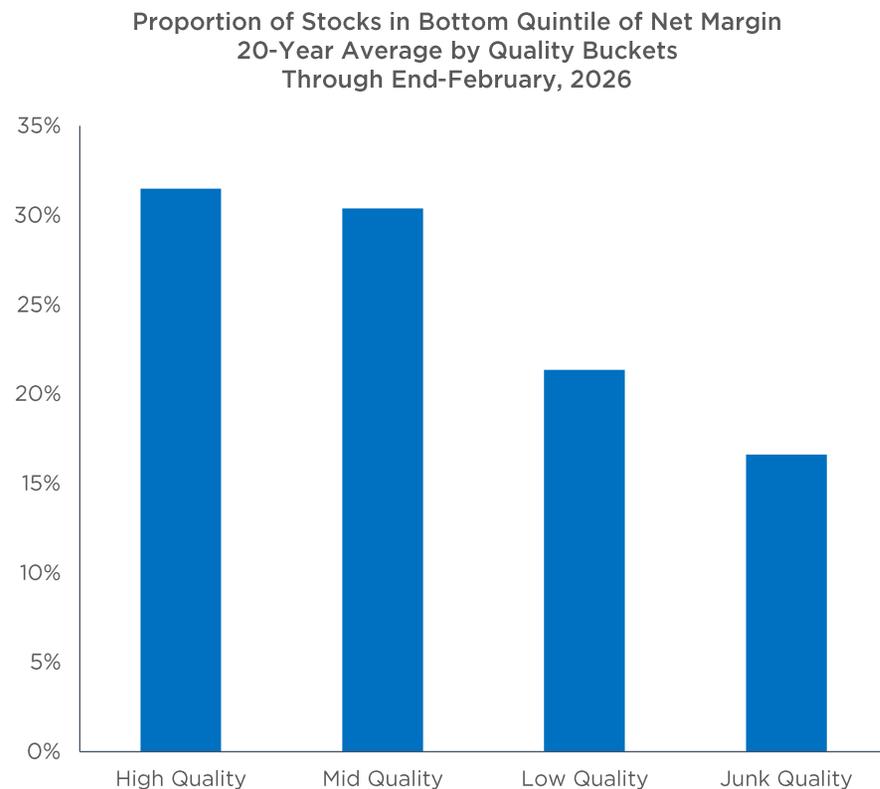
Source: Trivariate Research

# THERE'S BOTH HIGH-QUALITY AND JUNK IN THE MONEY LOSING GROUP

Within the bottom-quintile of net margin, there is a surprising number of high-quality companies (left), though the percentage that is junk has grown over the last two years. The biggest two buckets of the lowest quintile of net margin are high-quality and junk (right).



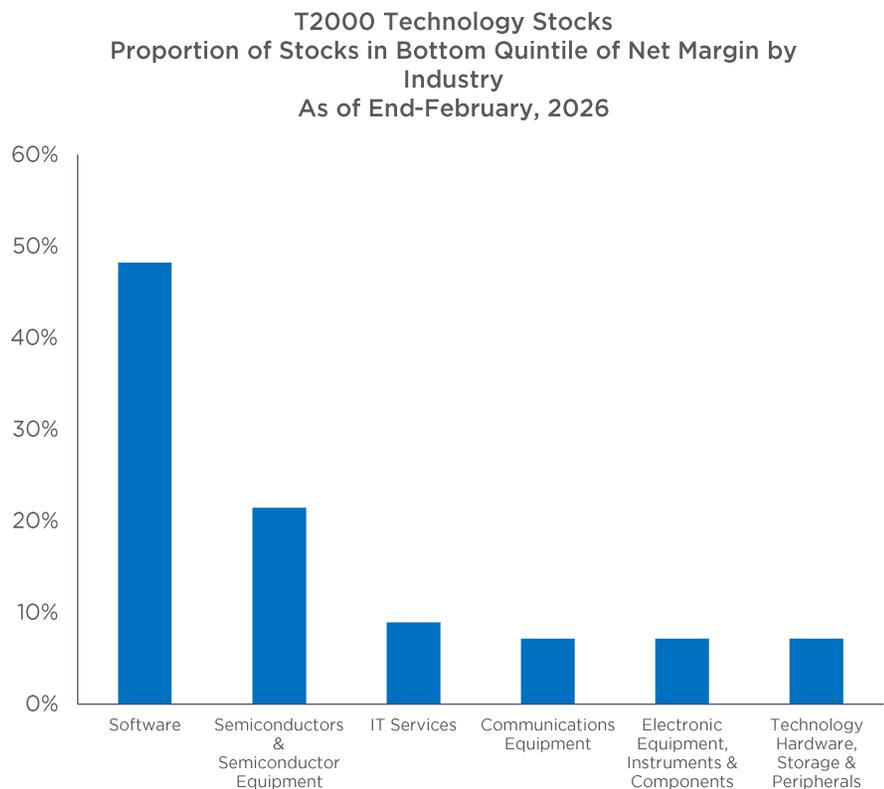
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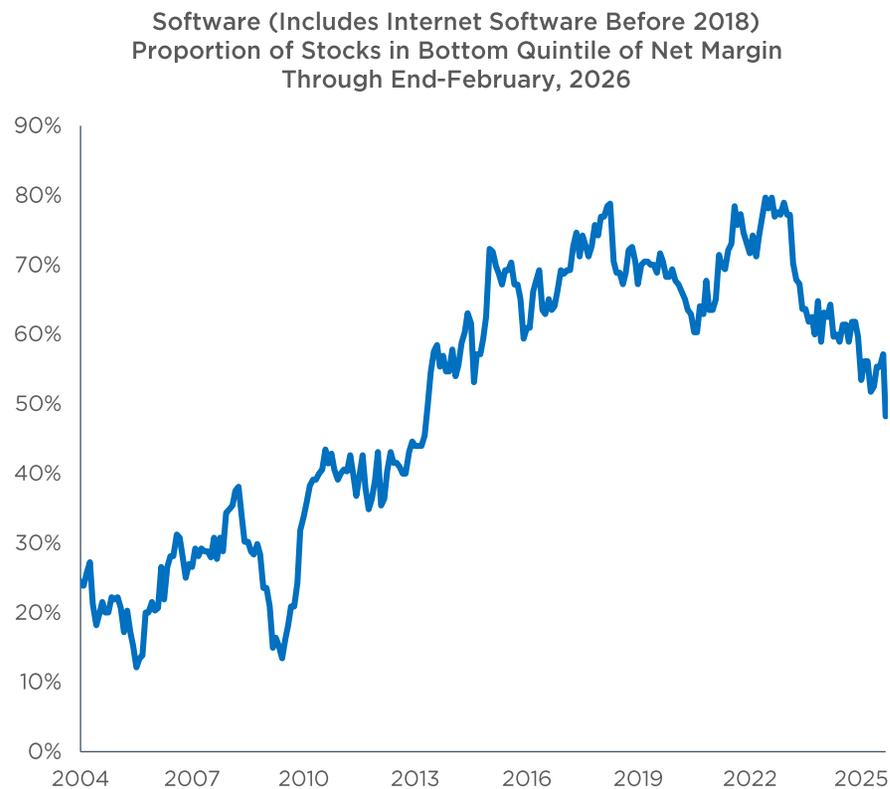
Source: Trivariate Research

## 48% OF BOTTOM 20% NET MARGIN TECH. COMPANIES ARE SOFTWARE

The reason there appears to be several high-quality companies is because a big chunk of the money losing Technology companies are high gross margin Software companies that still lose money due to high operating expenses. 48% of the negative net margin Technology companies are Software (left), with another 21% Semiconductors or Semiconductor Capital Equipment. Software used to be 80% of all the bottom 20% of net margin Technology companies at the end of 2022 (right).



Source: Trivariate Research



Source: Trivariate Research

# AVOID HIGH EXPECTATIONS FOR PROFIT IMPROVEMENT

The Software companies in the bottom net margin quintile of Technology stocks consistently report meaningfully lower margins than they were forecasted to achieve a year earlier (left). It seems clear that avoiding low-margin Technology stocks that have the highest forecasted net margin growth is prudent (right), the biggest difference between forecasted and realized net income growth is among the lowest of the low margin companies that are generally forecasted to have higher margins than they ultimately realize. **Among money losing Technology stocks, avoid those with lowest trailing net margin and the highest forecasted improvement.**

Software in Bottom Net Margin Quintile of Tech Stocks  
Realized vs. Forecasted 12m Net Margin  
Through End-February, 2026



Source: Trivariate Research

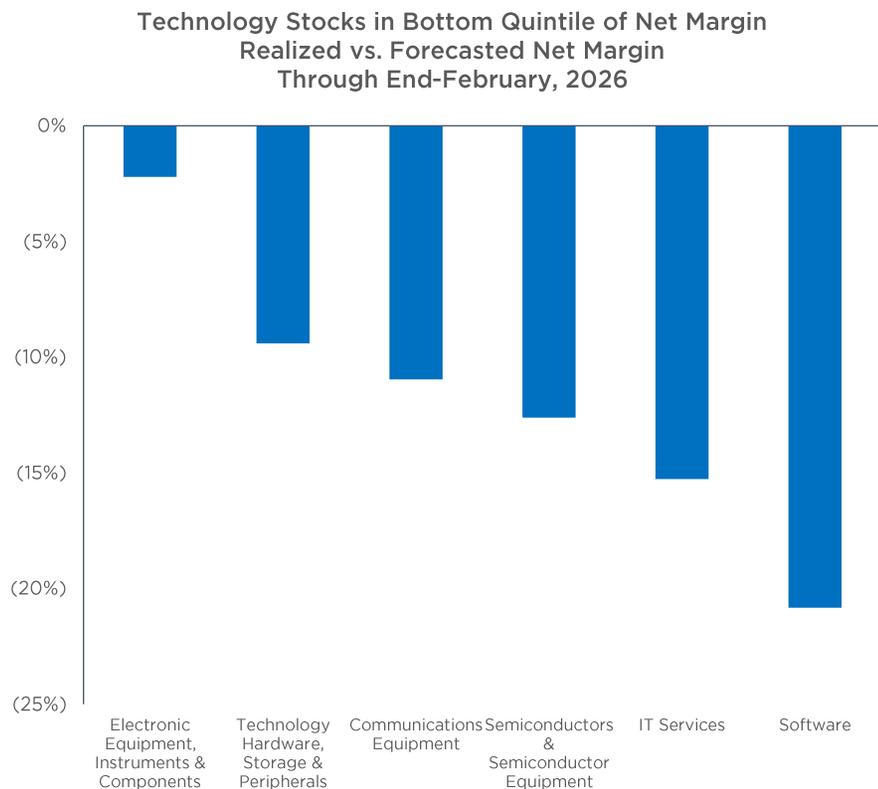
Technology Sector  
Forecasted vs Realized 1-Year Net Margin Growth  
By Trailing Net Margin Quintiles within the Lowest Margin Quintile  
As of End-February, 2026

Trailing Net Margin Quintile	Forecasted Net Margin vs. Trailing Net Margin	Realized Net Margin vs. Trailing Net Margin	Difference
High	9.1%	0.8%	(8.2%)
2	15.7%	3.7%	(12.1%)
3	22.4%	5.4%	(17.0%)
4	30.0%	8.2%	(21.8%)
Low	54.0%	27.6%	(26.4%)

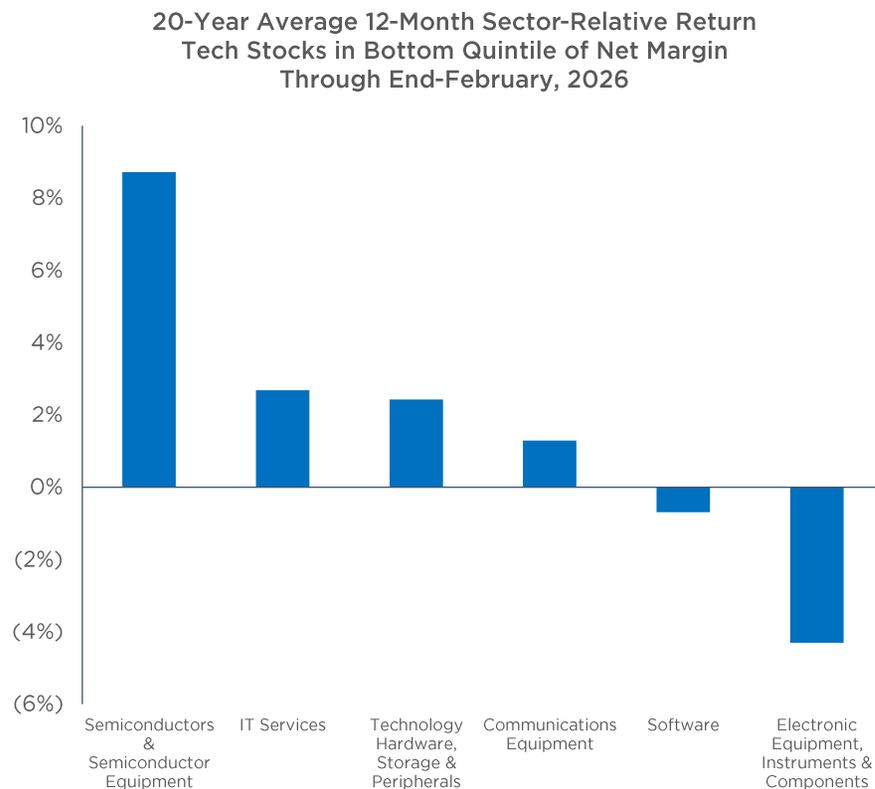
Source: Trivariate Research

# SOFTWARE COMPANIES MISS EPS THE MOST, SEMIS ARE BEST STOCKS

The biggest culprits are generally Software, as they realize much lower margins than those that are projected. The -28% means, as an example, a company was projected to have 8% net margin but ended up with -20% net margin (left). Generally, Software and Electronic Equipment companies were the worst performers among the bottom quintile of net margin Technology companies, and Semiconductors were best (right).



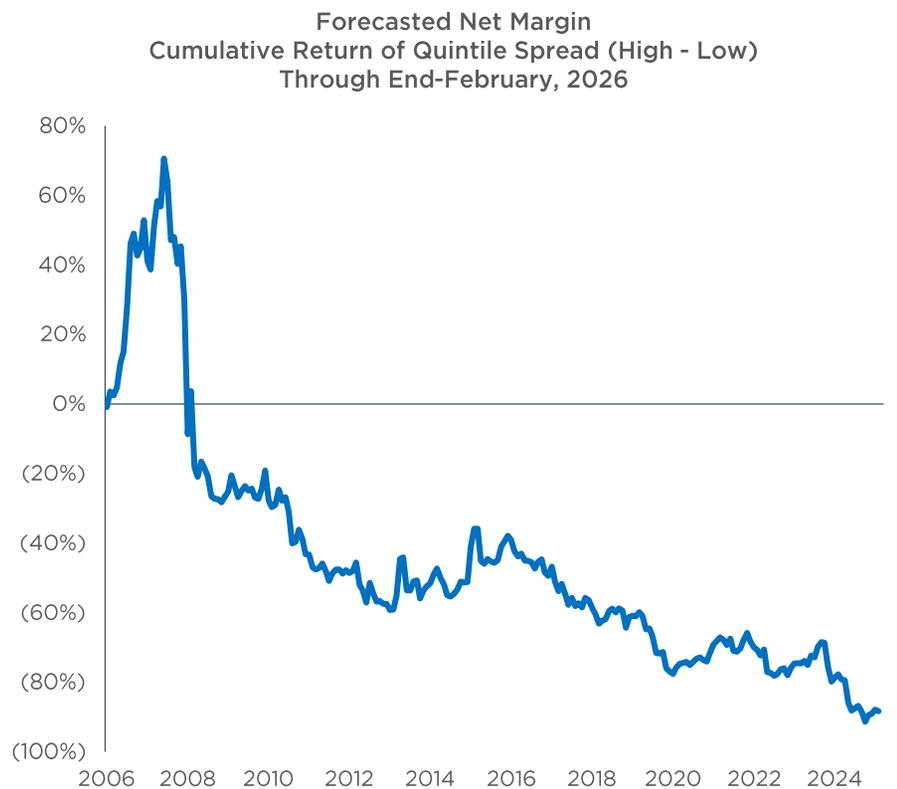
Source: Trivariate Research



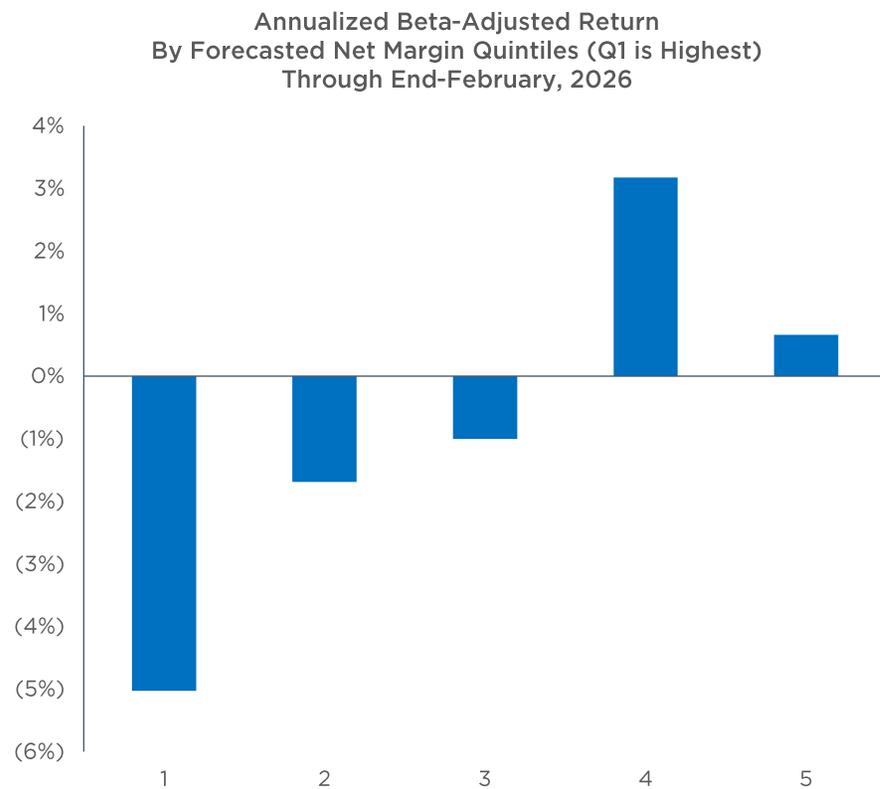
Source: Trivariate Research

# HIGH NET MARGIN EXPECTATIONS SHOULD BE AVOIDED

It seems clear that among the bottom quintile of net margin Technology companies, avoiding those with the highest forecasted net margin is prudent (left). Those with the highest expectations have an average of negative 5% alpha per year (right).



Source: Trivariate Research



Source: Trivariate Research

## LOW MARGIN SHORT IDEAS

We like shorting Technology stocks in the bottom quintile of net margins where margin forecasts are high (left). Stocks include CRWD, SITM, and PCOR, among others. Our work also shows that the biggest downward revisions among the lowest net margin companies should underperform (right). FIG, RAL, and SOUN are on this list. Interestingly, there are no low margin stocks on both lists today.

**Short Ideas 1: High Forecasted Net Margin  
Tech Stocks in Lowest Quintile Trailing Net Margin  
As of End-February, 2026**

Ticker	Company	Industry	Market Cap. (\$Bn)
CRWD	CrowdStrike Holdings, Inc.	Software	93.78
SITM	SiTime Corporation	Semiconductors & Semiconductor Equipment	10.46
PCOR	Procore Technologies, Inc.	Software	8.26
U	Unity Software Inc.	Software	7.89
GPGI	GPGI, Inc.	Technology Hardware, Storage & Peripherals	6.50
CIFR	Cipher Digital Inc.	Software	6.32
FROG	JFrog Ltd.	Software	4.80
ALKT	Alkami Technology, Inc.	Software	1.76

Source: Trivariate Research

**Short Ideas 2: Low Earnings Revision  
Tech Stocks in Lowest Quintile Trailing Net Margin  
As of End-February, 2026**

Ticker	Company	Industry	Market Cap. (\$Bn)
FIG	Figma, Inc.	Software	15.33
RAL	Ralliant Corporation	Electronic Equipment, Instruments & Components	5.18
SOUN	SoundHound AI, Inc.	Software	3.63
VRNS	Varonis Systems, Inc.	Software	2.71
AXTI	AXT, Inc.	Semiconductors & Semiconductor Equipment	2.02
COHU	Cohu, Inc.	Semiconductors & Semiconductor Equipment	1.42
HLIT	Harmonic Inc.	Communications Equipment	1.17
AEHR	Aehr Test Systems, Inc.	Semiconductors & Semiconductor Equipment	1.15
AI	C3.ai, Inc.	Software	1.12

Source: Trivariate Research

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