TRIVARIATE RESEARCH

US Equities
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VIDEO - Platforms, Products, and Services: A New Lens on US Equity Risk

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Background: We used ChatGPT to tag the top 2,000 US equities as a platform, product, or service company. We noticed the performance and correlations of these designations deviate enough that this is an important and interesting risk factor for consideration, and that is the subject of today's research. While we don't agree with every single stock-level categorization, this framework is useful for managing risk in US equities. **Slides 5-7 show the top 25 names in each category by size.**

Key figures: 54% of the companies among the top 2000 equities are services, 39% are products, and 7% are platforms. However, many of the platforms are large, as they account for 21% of the market cap. The largest market cohort is products at 47%. Over time, the platforms cohort has grown at the expense of services. Platforms have steadily gained market share, until recently when product companies advanced, which is sensible given that major Semiconductors are classified as products.

Performance: The platforms have DOMINATED market performance for the last decade. Their industry relative return has been over 40% cumulatively since 2012, vs. industry-relative underperformance for services and products. The cumulative return since 2010 has been over 8x for platforms, 4.8x for products and 3.2x for services. Recently however, **the rolling 6-month**

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performance of the industry-relative returns of the platform category is one of its worst six regimes in the last quarter century.

Relative valuation of platforms has collapsed: After commanding a much higher multiple on price-to-forward earnings for years, the valuation of platforms has consistently compressed since COVID. Among growth stocks, **product companies now trade at a premium on price-to-forward earnings to platforms for the first time since 2012**.

Growth and profitability: The reason for the collapse in the price-to-forward earnings is less about the modest decline in the median platform's forecasted gross margins, but rather about the revenue growth, which while higher in absolute terms, now appears to be decelerating while both products and services topline growth rates are accelerating. Interestingly, the median stock in all three categories has similar net margins today, but platforms are consistently forecasted to have higher net margins since 2024. **That potentially makes estimate achievability for platforms below average.**

Factor efficacy: The market has historically rewarded, not punished, high capital spending-to-sales among platforms. In fact, until the AI revolution began in earnest in 2023, there was little difference in subsequent stock performance by capital intensity quintile. Since 2023, the highest capital-intensity businesses outperformed, peaking early in Q4 last year. Forecasted revenue growth has not been a way to pick winners from losers among products or services companies but was a strong differentiator among platforms from 2019-2020 and again in 2024 and 2025. The platforms with the highest free cash flow yield have cumulatively lagged.

Risk factor: The importance of thinking about these categories comes from their changing behaviors. Products were consistently anti-corelated from services from 2000 through 2021, then became positive correlated post-COVID, and are negatively correlated again. Platforms and products remain slightly anti-correlated, while services have been consistently highly negatively correlated to platforms since COVID. **We see it as sensible to think about exposure to products, services, and platforms as a risk factor relative to the index exposure to these categories**.

Beware of which platforms are positively and negatively correlated to AI Semis (Slide 19), and which stocks trade the most negatively and positively to platforms (Slides 20 and 21) as you assess portfolio level risk. Long / short platform ideas based on recent factor efficacy are shown on Slide 22.

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