Grant Thornton

Valuation Trends in U.S. Markets & Tech: Key Insights for Asset Managers

Transcript

TODD PATRICK:

So let's take a look at the multiples in these categories, software AI, hardware AI and other AI. So you'll notice some trends that are pretty consistent between the software AI and the hardware AI companies. If you look at those multiples and you look at where they started. So let's take software AI, you know back four years ago or so, those multiples were at their low point. Obviously there was a lot going on back in 2020, but then there was a run up of the multiples as you'll see in 2021 both from a EBITDA perspective as well as revenue perspective.

Now there have been some swings and so you'll see there that the multiples went down in 22. Obviously 22 is not a great year for the market, but then there has been a rebound. And so in 23 going into 24, the general trend for both the software AI companies and the hardware AI companies has been very, very positive. Now certainly the other thing that jumps out at you when, when you look at these different trend lines and those multiples is the multiple, especially the EBITDA multiple of the hardware AIA, lot of this is driven off the NVIDIA. That's going to have a big impact for sure.

But there is high multiples. And when you look at where these multiple started in the hardware AI space, they dip down as low in 22 down to about 14 times and now they're over double that. So that's true from a revenue perspective and EBITDA perspective. And so my personal opinion, again, this is just a perspective on it. Plenty of you on the phone probably have a different perspective. But my personal opinion is I would not invest in NVIDIA right now, but that's where we, you know, that's where we currently stand with these multiples on the hardware side.

Now it's also interesting too, when you take a look at the other AI companies now, as I mentioned in the previous slide, these are well established companies for the most part, right? This is the IBM's of the world. This is the Facebook's of the world. This is this is Apple. And so when you look at the trend there in terms of multiples, you see something a little different, right? You see some of these multiples being higher back a number of years ago, let's say two to three years ago, then you see now. And so it would look to be that some of these companies may be a little bit cheap when you look at a 14 times multiple for EBITDA for this category and a revenue multiple on average about 5 times.

So we all know that multiples are a function of profitability and assessment of risk and they're also assessment of growth. And so I would argue that the mobiles that we see here a specialist EBITDA multiples where you see those multiples is really a function of expected growth of these companies.