



MARKET UPDATE · Q4 2026 EARNINGS CYCLE

The TSIA AI-20 Index

Twenty AI-native public companies, measured on key outcome metrics.

Here's what the most recent quarter says about whether AI-first business models actually work, and what it means for your services P&L.

67.7%

MEDIAN GAAP GROSS
MARGIN

16.9%

MEDIAN REVENUE
GROWTH

2 of 20

GAAP OPERATING PROFIT

6 of 20

HEADLINE FLATTERS THE
REALITY

A GAAP scorecard for the AI story.

The TSIA AI-20 Index tracks twenty AI-exposed public companies through one lens: what their filings actually say. Each refresh compares the most recent reported fiscal quarter against the same quarter a year prior, on GAAP, with every margin recomputed from raw dollars rather than lifted from a press release.

No adjusted, pro-forma, or company-preferred metric appears as a headline anywhere in the index. That single discipline is the point of the exercise: it is the only way to see whether AI-first business models are producing profit, or producing narrative.

HOW THE INDEX IS BUILT — AND WHERE IT'S FRAGILE

- **GAAP only, recomputed.** Latest reported fiscal quarter versus the year-ago quarter, every ratio rebuilt from reported dollars.
- **A rolling snapshot.** Fiscal year ends span five different months, so the quarters are not aligned.
- **Margins use a Comparable 15 cohort.** Five constituents publish no comparable cost of revenue line.

The average of this index is not a usable statistic. Recursion alone carries a negative 1,977 percent operating margin.

Every number reported here is a median. Read the per-company flags before quoting any single row.

COHORT FOR MARGINS	MEDIAN FCF MARGIN	MEDIAN OPERATING MARGIN
15	+10.2%	-19.8%

Twenty companies, six archetypes.

The roster is a deliberate mix: pure software, AI infrastructure, security, and life-sciences data businesses. All claim the same AI premium, but their cost structures answer for it very differently.

Security

The one clean cohort — same conventions, genuinely comparable.

CRWD CrowdStrike

S SentinelOne

VRNS Varonis

AI platforms and agents

Widest margin spread in the index, 21.9% to 84.7%.

PLTR Palantir

PATH UiPath

AI C3.ai

SOUN SoundHound AI

CRNC Cerence

VERI Veritone

BBAI BigBear.ai

AI infrastructure and silicon

Capital-intensive; depreciation lags the build.

CRWV CoreWeave

AMBA Ambarella

AI-native fintech and risk

Three of the five with no comparable cost of revenue line.

UPST Upstart

LMND Lemonade

RSKD Riskified

Life sciences and AI-driven discovery

Where the index's most extreme ratios live.

TEM Tempus AI

ABCL AbCellera

RXRX Recursion

SDGR Schrödinger

Learning and enablement software

Classic SaaS economics as the control case.

DCBO Docebo

Archetypes are a TSIA grouping for reading the index, not a sector classification. Docebo reports under IFRS.

The AI premium is not being paid by customers. It is being paid out of gross margin.

MEDIAN GAAP GROSS MARGIN, COMPARABLE 15

67.7%

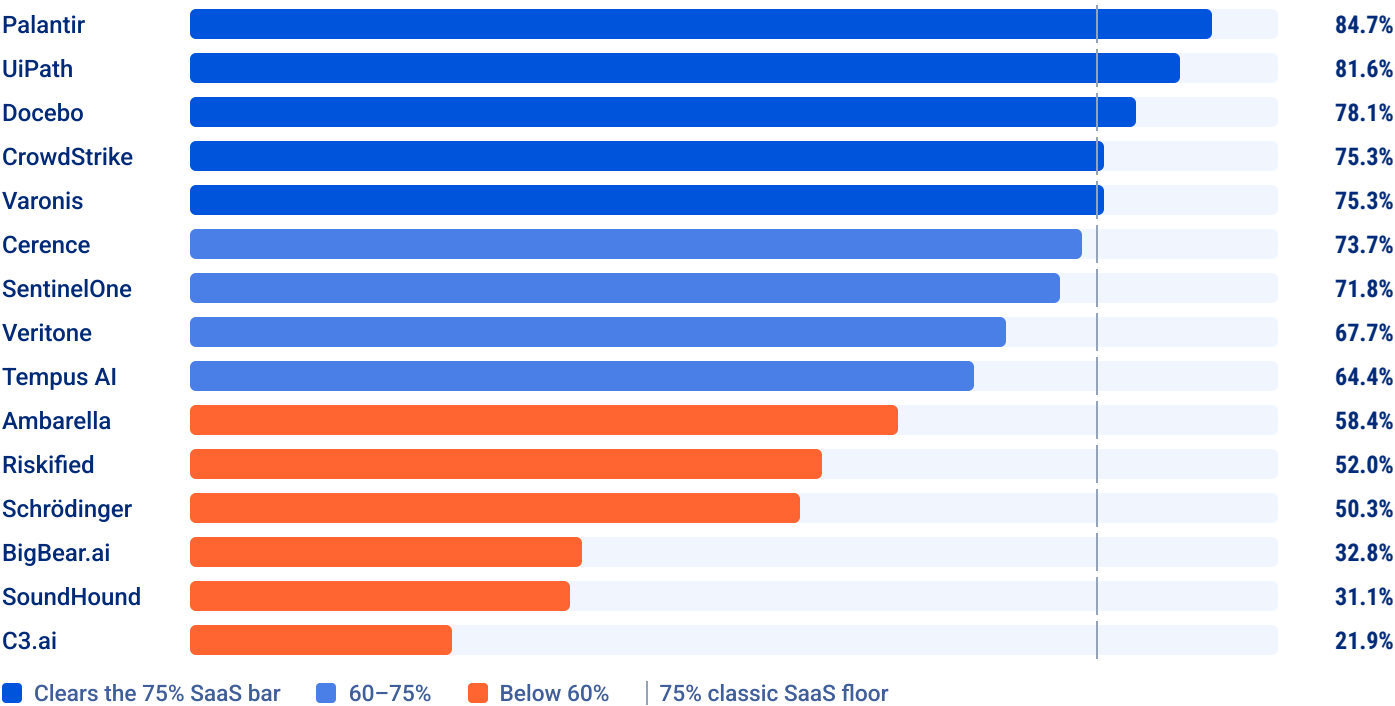
Classic enterprise SaaS at scale runs 75 to 80 percent. Only five of the fifteen comparable constituents clear 75.

THE THREE-YEAR PATH

Three fiscal years ago	71.1%
Two fiscal years ago	70.6%
Last full fiscal year	67.9%
Latest reported quarter	67.7%

347 basis points of erosion. Wrong direction.

EXHIBIT 1 · GAAP GROSS MARGIN AGAINST THE 75 PERCENT SAAS BAR



Ten of fifteen sit under 75 percent. Schrödinger is shown at total-company margin; its software segment alone is 69.4 percent.

Where the margin went, and why.

Every material gross margin decline in this index traces to a deliberate strategic choice, not an accounting quirk: an acquisition, a model transition, or a fixed delivery base that will not flex.

COMPANY	GROSS MARGIN CHANGE	THE MECHANISM
SoundHound AI	-4,430 bps	Bought Amelia. Traded a high-margin voice royalty mix for a services-heavy enterprise agent business. The pending LivePerson deal points the same direction.
C3.ai	-2,970 bps	Revenue halved while cost of revenue stayed flat in dollars. A fixed delivery base with no variable-cost scaling. This is the pure case.
Schrödinger	-1,210 bps	Software segment only. Moving customers from upfront licences to hosted deployment, and absorbing the hosting cost. Runs to 2028.
Varonis	-1,036 bps	Converting perpetual and term licence customers to SaaS. Varonis now carries the cloud cost the customer used to carry.
All four	Common thread	Not one of these is a demand problem. In every case the company chose to own more of the delivery cost than it used to.

THE TWO GENUINE IMPROVERS...

Tempus AI — organic mix plus acquisition blend

+890 bps

Palantir — and still expanding

+175 bps

...AND THE CAUTIONARY ONE

SentinelOne expanded 845 basis points over three years, then gave back 350 in a single quarter.

Gross margin gains in this cohort are not durable by default.

AI delivery cost lands in cost of revenue, not in R&D. It is a services cost — and it shows up below the gross margin line, where your board already looks.

Change measured FY2023 to the latest reported quarter; C3.ai is FY2025 to FY2026.

The growth is real. The profit is two companies wide.

Revenue is still compounding across this cohort. Operating profit is not: the growth shows up in fifteen different places, and the profit shows up in two.

MEDIAN YOY REVENUE GROWTH

16.9%

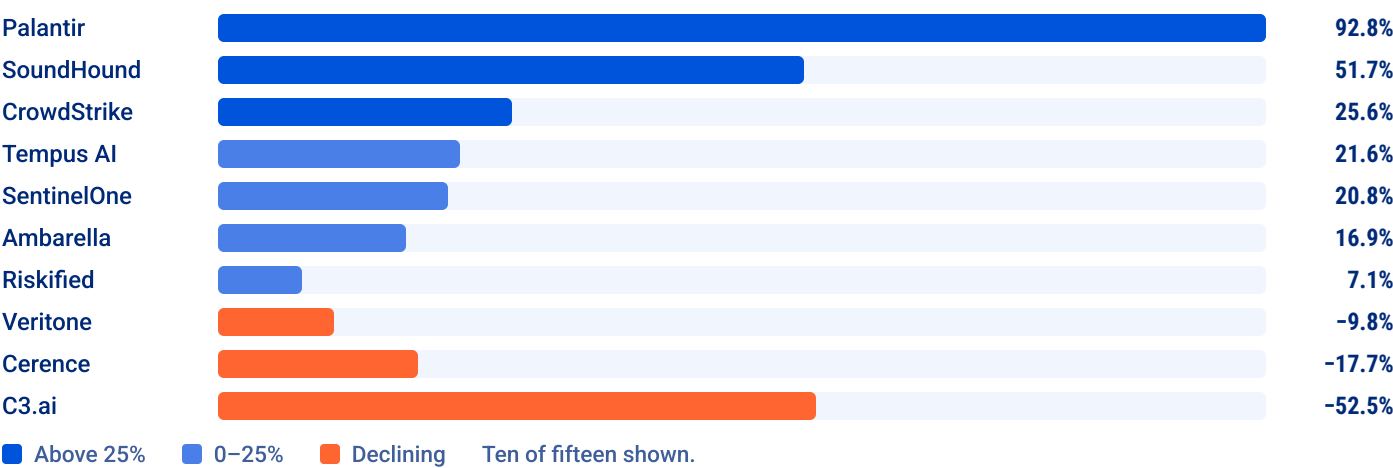
Real demand, spread unevenly — from plus 92.8 percent to minus 52.5 percent.

CONSTITUENTS WITH A GAAP OPERATING PROFIT

2 of 20

Palantir at 47.1 percent, UiPath at 6.7 percent. That's the entire list.

GROWTH IS REAL, AND WILDLY UNEVEN



Five companies report GAAP net income. Three of them got there without operations.

CrowdStrike
Interest income and tax, on a GAAP operating loss of 30.6 million.

Cerence
Net income of 1.7 million on an operating loss of 2.4 million.

Tempus AI
A 98.5 million dollar unrealised securities mark.

The Rule of 40 now needs two answers. The median is -2.4 on operating margin and +17.4 on free cash flow. Where the two disagree, ask why: CoreWeave scores +105 on operating margin and -115 on cash.

YoY GAAP revenue growth, latest reported fiscal quarter, Comparable 15. Lemonade is excluded from this cohort and grew 79.4 percent on GAAP revenue against 32 percent in-force premium growth.

Six headlines that flatter.

If you benchmark your own business against a competitor's press release, this is the page to keep in mind.

COMPANY	HEADLINE	MECHANISM	DATA
SoundHound	Rule of 40 of plus 0.4	A 39.4 million dollar non-cash mark-to-market gain on the Amelia earnout sits inside operating expenses	-89
Tempus AI	First GAAP profitable quarter, 5.6 million dollars	Roughly 98.5 million dollars of unrealised gains on marketable securities inside other income	92.9M net loss
BigBear.ai	Net loss improved 89 percent	Prior-year base held a 70.6 million impairment and a 135.8 million derivative loss	Core loss +8.9M
Lemonade	Revenue up 79 percent	Reinsurance cession cut from about 55 percent to about 20 percent, so more premium is retained	In-force +32%
Varonis	SaaS ARR up 52 percent	Existing term-licence customers converting to SaaS, counted as new SaaS ARR	+25% ex-conversions
CrowdStrike	GAAP net income of 27.8 million	Interest income on a large cash balance, plus tax, on top of a GAAP operating loss	30.6M op loss

Company filings and press releases. Adjustments are TSIA calculations.

What this means for your services P&L

1

AI delivery cost is a services cost.
It lands in cost of revenue, not R&D — below the gross margin line, where your board already looks. Instrument gross margin by offer.

2

Inference cost does not fall with scale.
C3.ai is the proof case: revenue halved and cost of revenue stayed flat in dollars. A demand miss becomes a margin collapse.

3

Acquisition buys capability and dilution together.
SoundHound gave up 4,430 basis points buying into enterprise agents. Price the margin cost into the deal model before the synergy case.

4

A model transition costs you years of reported numbers.
Varonis, Schrödinger and Lemonade all show it: reported numbers get worse while the business gets better. Set the board's expectation first.

Four things to do this quarter.

Instrument these four before your next board cycle. None of them requires reorganizing anything else.

- 1 Decompose gross margin by offer.**
Split cost of revenue into human delivery, hosting and model inference. If you cannot see the inference line, you cannot manage it.
- 2 Build a per-transaction inference cost model.**
Cost per resolved case, per generated artefact, per agent session — then hold it against price. This is the new unit economics.
- 3 Re-underwrite the AI acquisition pipeline on gross margin.**
Model the blended margin on day one and at year three. Reject deals that dilute below your floor unless the strategic case is explicit and board-approved.
- 4 Restate Rule of 40 both ways for your board.**
Growth plus operating margin, and growth plus cash margin, side by side. If you only report one, you will be measured on the flattering one.

The growth is real. The margin is not free. If you are building an AI services P&L, the number to watch is your cost of revenue.

Want to learn more? Here's what to do next.

Twenty companies bet their business on AI. Two of them are profitable. The number to watch is not your growth rate — it's your cost of revenue.

1 Take the research further with TSIA Advisor.

TSIA Advisor is a conversation with TSIA. Ask it anything and get answers backed by real research, tailored to your role and your company, with a TSIA Expert one message away.

PROMPTS TO START WITH

- "What does TSIA research say about splitting cost of revenue into human delivery, hosting, and model inference?"
- "Which TSIA frameworks should I use to build a per-transaction inference cost model for a support offer?"
- "Given my role and my company, what does the AI-20 finding on gross margin erosion mean for my FY27 plan?"
- "Recommend a TSIA Expert who can review how we price an AI-delivered services offer."

Ask TSIA Advisor

2 Bring your questions to Technology & Services World.

The AI-20 refreshes quarterly; the conversation about what to do with it happens in person. TSW is where services leaders working the same margin problem compare notes.

OCTOBER 19–21, 2026

Bring your questions to TSW.

Sessions on AI services economics, cost of revenue and pricing — from the research executives who build the AI-20.

Register Now