11/13/2025

Weekly Webinar

INTRODUCTION – FOCUS ON FUNDAMENTAL ANALYSIS

An analyst for several decades

Senior Analyst - Value Notes

CFO - CPA firm, business consulting

Analyst - Motley Fool and Seeking Alpha

CFO - L Capital, family office, project analysis and capital allocation

At Fountainhead, we believe that investing in businesses, whether it's a massive Google or a startup with $200Mn in revenues. Every business must be valued based on their fundamentals, irrespective of their daily price movements over which we have little control. But we do have analytical ability to analyze and value businesses and base our decisions on how well they perform. If you've been familiar with my work in the past year and a half, I really like to go for businesses which are market leaders, and have strong, competitive advantages, very strong balance sheets, and great margins which allows them to price their products or services way higher than the competition. To me the biggest incentive to invest in a company is its "moat" or significant competitive advantages. The term "moat" was coined by the great Warren Buffett signifying an unbreachable competitive advantage, like a deep moat surrounding a castle to keep out intruders. The hugely successful Peter Lynch, also placed a tremendous emphasis on investing only in great businesses and not worrying about the market.

Four examples of companies with great moats are Nvidia with its high-powered GPUs, Google with search, Taiwan Semiconductor with its manufacturing operations, and ASML with its EUV lithography machines, without which you cannot create a high-powered GPU.

OVERPRICED AI STOCKS – DR. BURRY EXPLAINS

Dr. Micheal Burry shorts Palantir and Nvidia - $1Bn payoff on put options on Palantir and Nvidia

Michael Burry was the successful investor who predicted and profited tremendously from the Great Financial crisis. He saw that all Wall Street firms were overleveraged and the mortgage-backed securities were going to be worthless if buyers walked away from their homes.

AI bubble? His two main grouses are the high level of debt and that hyper scalers and cloud service providers are not depreciating their GPUs fast enough. This leads to lower depreciation expenses and overstates income, and he's accusing that cohort of about $160Bn worth of overstating income.

OVERPRICED AI STOCKS – DEPRECIATION

GPUs have a shelf life shorter than buildings and capital equipment.

But unlike 19th-century railroads, or the Dotcom boom's fiber-optic cables, the graphics-processing units (GPUs) fueling today's AI mania are short-lived assets with a shelf life of perhaps five years. Given Nvidia's product cadence of 1 year, the fear of obsolescence is very high.

Far from being a one-off outlay, there's a danger of AI capex becoming a huge recurring expense.

it's worrying that private credit funds are increasingly using GPUs as collateral to finance loans.

What happens when your collateral is below your loan to value? Magnetar Capital, Blackstone Inc. and Macquarie Group Ltd. are among those providing such financing. Nvidia, meanwhile, is reportedly looking at using special-purpose vehicles to raise debt to buy and rent chips to customers such as OpenAI and Elon Musk's xAI.

> "The problem is we're about to go from tens of billions of debt that's funding quickly depreciating GPUs, to hundreds of billions of dollars. And then there could be serious trouble"

OVERPRICED AI – THE USEFUL LIFE CONUNDRUM

This is going to be fascinating tug of war, which will last several years.

Meta Platforms Inc.'s January decision to adopt a 5.5-year useful life for most of its servers and network assets, up from four-to-five years previously, boosted its net income by close to $2 billion in the nine months to September.

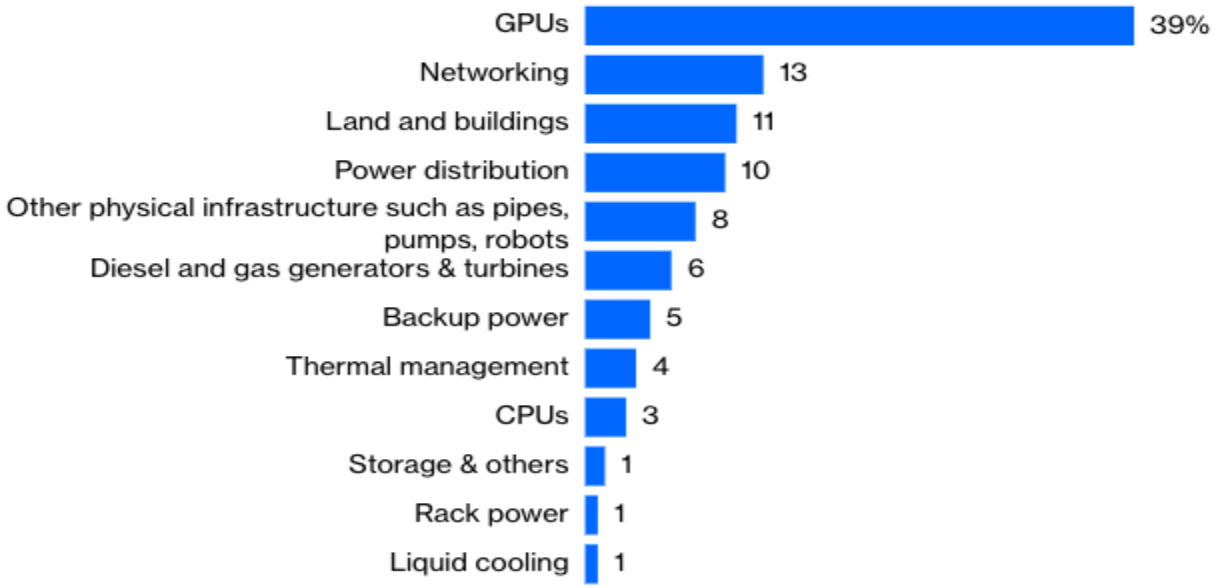
Of course, GPUs don't suddenly become useless when a new version arrives. Not everyone needs leading-edge kit to train frontier AI models. Processors can be repurposed for less demanding AI inference and other computing tasks, or they can be resold in emerging markets. And software innovations can extend their economic life. The head of Alphabet Inc.'s AI and infrastructure team, Amin Vahdat, has said that its seven- and eight-year-old custom chips, known as TPUs, have "100% utilization."

Amazon reverted to 5 years, for servers and other computer equipment, Coreweave is at 6, Nebius at 4 and European neocloud, Scaleway – 3 years.

AI OVERPRICED – WHAT COMPRISES CAPEX

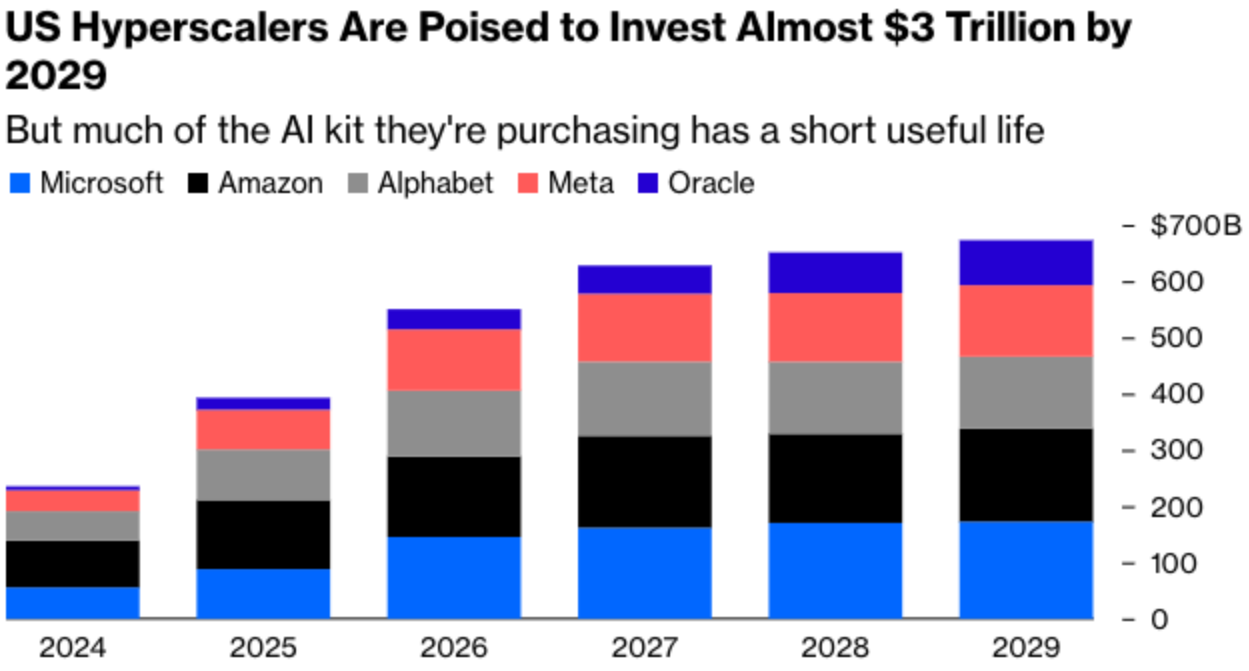
GPUs Are the Largest Expense For 1GW of AI Data Center Capacity

Nvidia's graphics processing units account for 39% of total capex



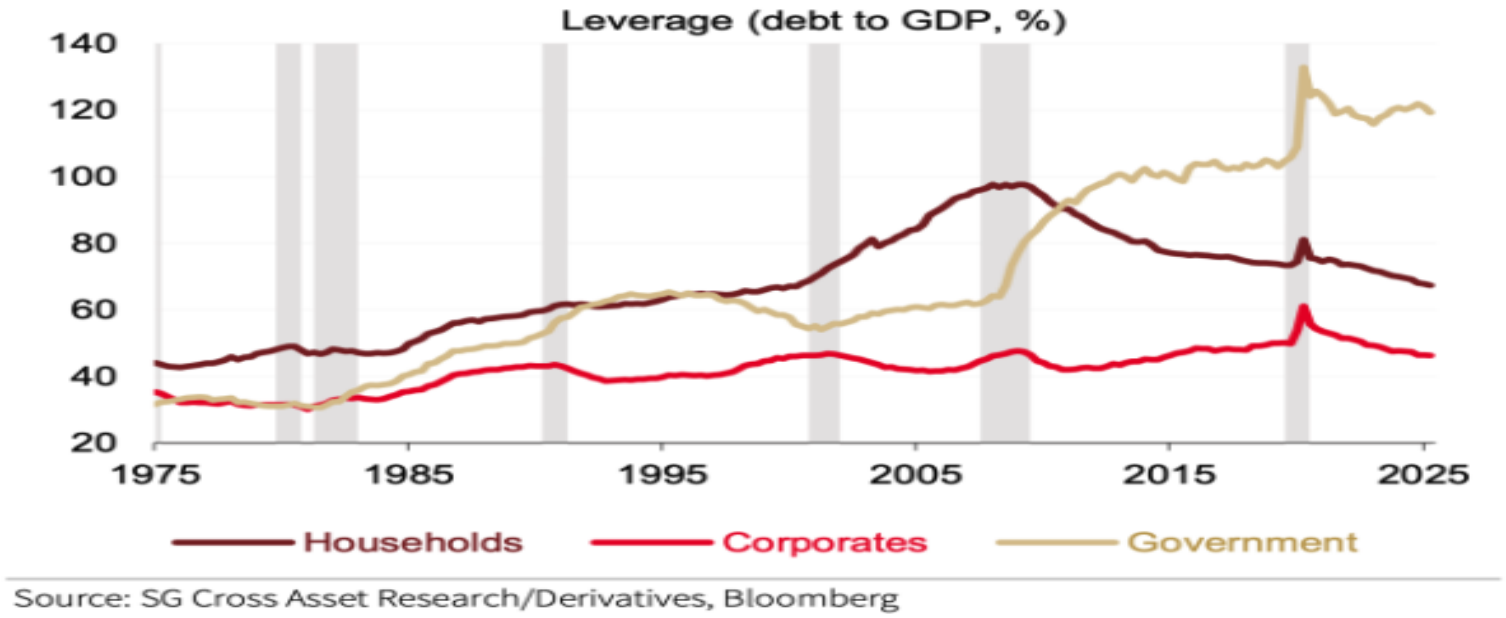
Source: Bernstein Research
Note: Estimates based on $35 billion for 1GW data center capacity, using Nvdia GB200 / NVL72 rack.

OVERPRICED AI - THE ROAD TO $3 TRILLION IN CAPEX FUELED BY DEBT



Source: Bloomberg MODL function
Note: Shows fiscal years

AI OVERPRICED – DEBT CAN BE A PROBLEM



Source: SG Cross Asset Research/Derivatives, Bloomberg

OVERPRICED AI – DEBT CAN BE A PROBLEM

As we saw from the graph US has 120% Debt to GDP

Corporates have closer to 40%

Households are between 50 and 60%

Within corporates there is a severe case of haves and have-nots, Microsoft and Meta borrow at government rates of about 4%, while Coreweave borrows at 8-9% and lower rated corporates borrow even at higher rates.

OVERPRICED AI – DEBT CAN BE A PROBLEM

The need for more debt in an already heavily indebted society to continue to build more AI infrastructure is turning out to be a problem investors won't be able to shake off. Clearly, AI needs capital and debt and lots of it, judging from the $550Bn in Capex planned for 2026, and possibly at least that amount each year through 2030. We're looking at about $3Trillion in the next 5 years in infrastructure funding for land, building, equipment, and electricity for data centers, which would constitute about 60% to 65% of the total cost, leaving 35 to 40% for the GPUs itself.

But the government with a debt to GDP ratio of 120% could be less equipped to provide or backstop it and judging by the equity market reaction to Meta Platforms, Coreweave and Nebius' capex plans, corporates leveraging their balance sheet are also not getting any love.

Big tech doesn't have power or enforceability of any kind, but it has credibility and accountability with a stock market that rewards and punishes with equal ferocity.

In my opinion, understanding that the AI race is essentially, at its core a sovereign race.

The US will eventually emulate the Chinese model of a public/private partnership and be joined at the hip - Just don't be sure who's in the driver's seat.

THE AI COLD WAR-1

The AI cold war between USA and China

In the spring of 2024, the Chinese government turned the screws on tech firms to catch with the US on AI, and by Jan 2025, we got the DeepSeek model, which showed China's AI strengths.

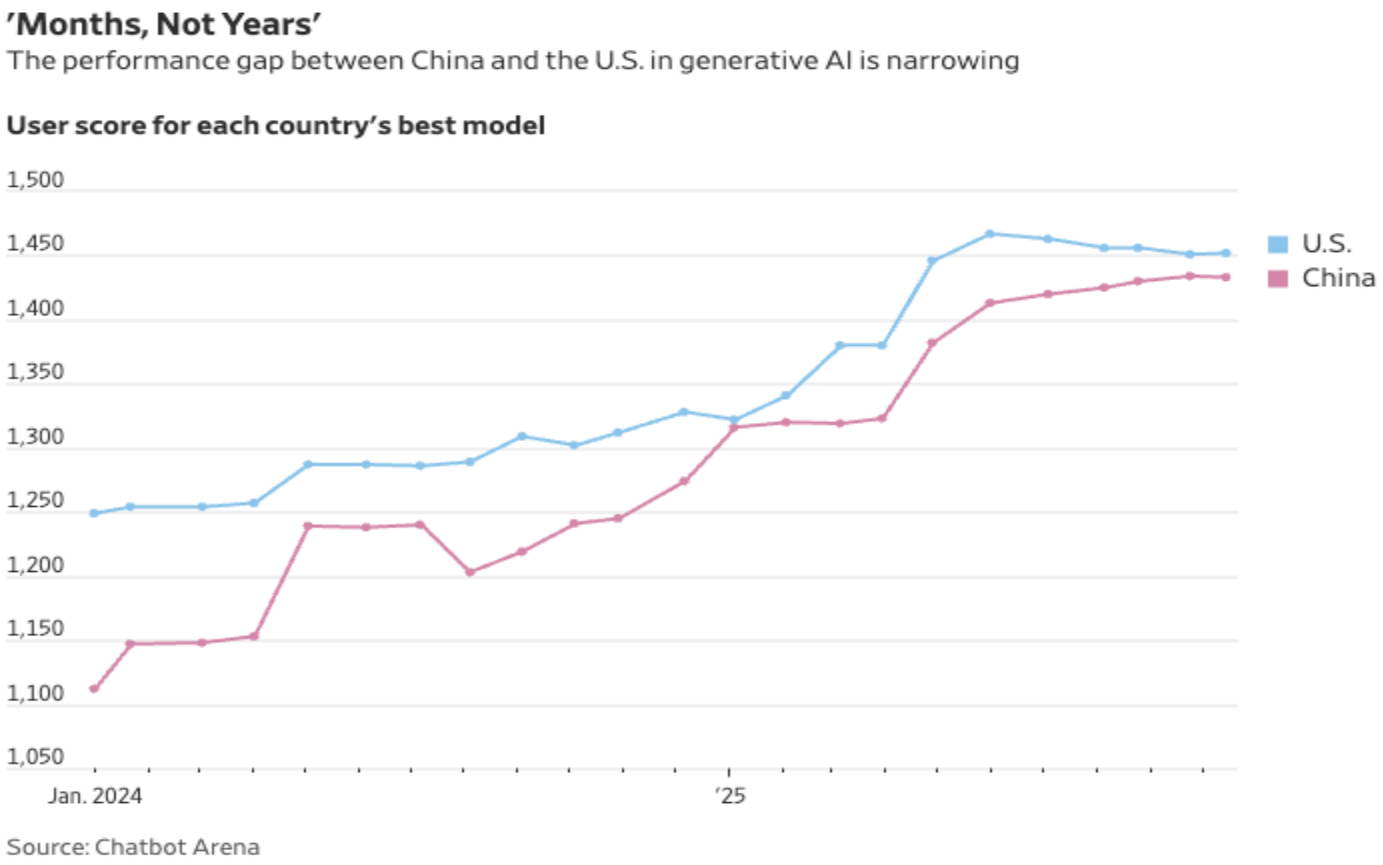
China's authoritarian regime ensures that the money taps are never turned off.

China has electricity, and infrastructure to spare – the US data centers have to wait 36 months to get on a grid.

Whoever wins the AI race will increase its influence over the rest of the world, one of the reasons why Jensen Huang kept insisting that AI be built on Nvidia's stack.

China is way ahead of the USA in physical AI – I saw that myself at the CES show.

THE AI COLD WAR-2



AI COMPANIES WITH HIGH CAPEX AND DEBT – COREWEAVE UNDER A MICROSCOPE

Coreweave has lost 45% from its high of $140, and 30% from its earnings date just 3 days ago.

Data center execution: Delivery for a big client (likely for Microsoft) is behind schedule, so a part of Q4 revenue will now be pushed out to Q1-2025

Coreweave Capex is slated at $12Bn to $14Bn for 2025, rising to over $25Bn for 2026

Debt currently stands at $14Bn, likely to add $5-7Bn in 2026 with the possibility of reaching $35Bn by 2026. High cost of borrowing – at about 8-9%

Contrast this with revenue growing from $5Bn to $31Bn in the same time frame, with an order backlog of $55Bn. It will likely break-even in 2027, even after interest expenses.

AI NEOCLOUD – NEBIUS IS ALSO DOWN

- Deal signed with Meta for $3Bn over 5 years, could have been larger.
- 2025 ARR $900Mn to 1.1Bn
- Forecast – $7-$9Bn in ARR for 2026. This is a huge number and looks interesting from the diversity of the client base. 50% is non hyperscaler.
- The first delivery of the $17Bn Microsoft delivery was confirmed, indicating that the New Jersey facility in Vineland is on schedule.
- $4.3Bn of financing completed in Sept 2023, at 2-3% interst and minimal dilution.
- Capex of $5Bn in 2026
- Depreciation of GPUs 4 years, a conservative approach, faster than the industry average

AI NEOCLOUD – NEBIUS ALSO DOWN BUT A BETTER BET THAN COREWEAVE

Good execution: Nebius' execution has been good to great so far, and it has successfully raised capital to fund all these projects. In my opinion the funding terms have been very good, and the dilution for existing shareholders manageable. The tenor and mood of management was extremely optimistic, a contagious optimism reflecting that their inability to say no to customers, and the CRO gushing that he didn't have to work to market Nebius, instead learn how to manage customers' expectations.

De risking customer concentration: Nebius has two mega deals with hyperscalers. Given the mid-point of $8Bn of management's forecast of $7-$9Bn in ARR, that leaves about $8Bn – 4.2Mn or 3.8Bn, almost 50% from non-hyperscalers, which is great. That is key to growing the market and Nebius showed growth from clients like Shopify, Black Forest Labs, World Labs and Cursor. They also spoke of increased interest from non hyperscalers for compute power from startups, enterprise software customers and platforms like Shopify, widening the market.

AI NEOCLOUD – CHALLENGES

Coreweave dropped significantly because one of its suppliers is behind schedule, so project execution because of shortage of capacity is a problem, and Nebius could have these problems as well. For example, Meta could have taken more compute, but Nebius could only promise and deliver the $3Bn.

Investors will have to deal with lumpy revenue and earnings given the tight capacity constraints for power, GPU, and should be prepared for a bumpy ride, like Coreweave.

Interestingly Nebius also confirmed great pricing for even the Hoppers, which is surprising. Michael Burry had made the point that hyperscalers weren't depreciating their GPUs fast enough and overstating profits – increasing their supposed life from 3 to 6 years. Burry does his homework and then some, so do expect this to resurface whether clouds and neoclouds change their depreciation methods or not. This discussion will not go away, and in my opinion it should not.

Nebius remains a strong buy:

Nebius has a lot of good things going for it and I will be adding on declines. It will be a risky and a bumpy ride.

THE SHUTDOWN ENDS

The shutdown did end but it didn't resolve any problems.

There was little resolution amongst Republicans and Democrats, except to kick the can down the road.

ACA subsidies expire at the end of the year, and premiums have skyrocketed.

I added Oscar, because I think it would be political suicide to not address this problem in a mid-term election year. The insurer is fundamentally stronger and will survive. This valuation is very interesting, and the stock is unlikely to fall too much from here.

ECONOMIC UPDATES – NONE FROM THE GOVERNMENT

No CPI report – unfortunately, we will be flying blind till next month, and will have to rely on

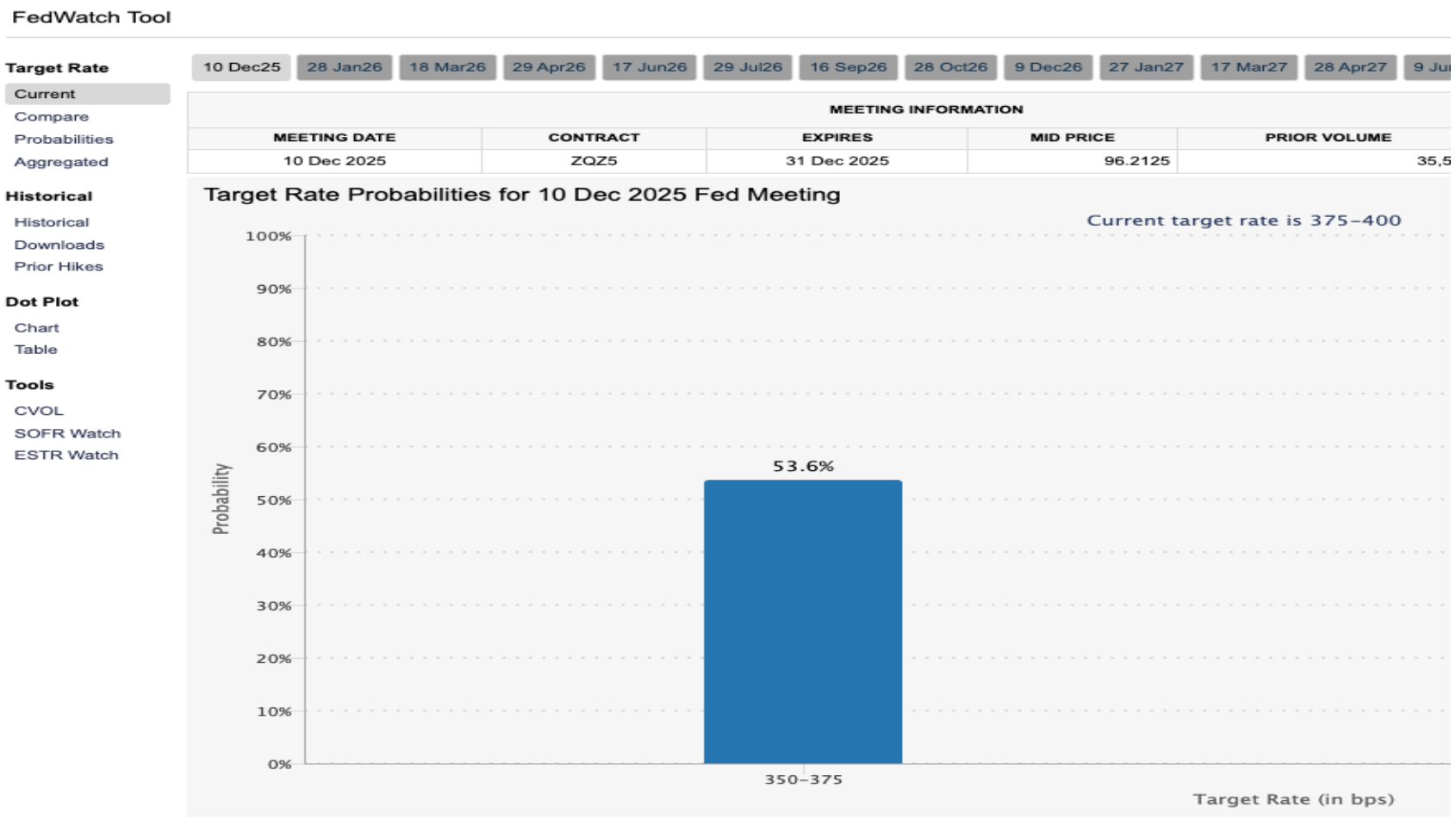
The PMI, U.Michigan consumer sentiment index, and some housing reports

Given the softness in the labor market, ADP is now providing weekly reports, which showed a 14,000 net loss of jobs – that data can be unreliable.

I believe the Fed will cut rates – The Fed Watch Tool gives a 54% chance of a rate cut at the December meeting, but I suspect it will increase over the next two weeks.

I'm sure the chatter has reached the Fed about the government possibly adding debt for AI and it will desperately need lower interest rates to do so.

ECONOMIC UPDATES – ONLY 54% CHANCE OF A RATE CUT



WHAT IS THE BEST STRATEGY GOING FORWARD?

Nvidia's earnings will be key on Wednesday Nov 19th, and I'm confident that it will beat and guide by a large number.

But it is not possible to predict if it will lift the market.

Regardless, it would be good to add some more GARPs to diversify – Growth At A Reasonable Price.

I am researching a few.

The Trade Desk (TTD) looks interesting, and I will add this week.

PORTFOLIO ANALYSIS

Heavy concentration of technology, and semiconductors, therefore our portfolio is more volatile.

We have a high Beta stock portfolio. The Beta measures the movement of a stock relative to the S&P 500, so if the S&P 500 drops 0.5% our portfolio could drop 1%

For example, Nvidia has a Beta of 2, Microsoft, Apple and Alphabet are closer to 1.25, while Credo and Nebius are closer to 3!

While we are a strict buy and hold long term portfolio, It becomes essential to hedge, take profits or have active stop losses in the volatile stocks.

Updated Portfolio Analysis – cash deployed.

Strategy for each company