

IT'S HERE: AN ANTHROPIC IPO VALUATION

To trillions and beyond!

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THE ANTHROPIC PROSPECTUS IS HERE...

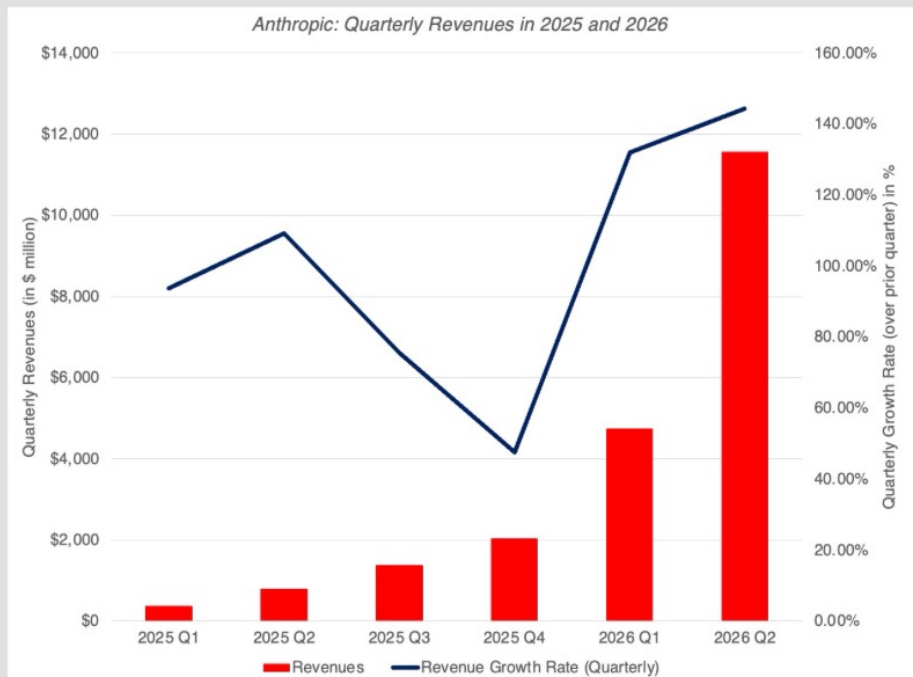
- **I am a dabbler, by nature**, moving on from topic to topic, but this year, I have spent more time than usual on one topic, AI, but it seems to be part of almost every business or economy related story.
 - I started my analysis of how AI would affect the rest of us, from doomsday to do-nothing scenarios, largely in response to Citrini and Citadel reports on the topic. in August 2026, I took my first big picture look at AI as a business, which I titled its bar mitzvah moment, with a look at its potential market, business economics and moats.
 - Just last week, I argued that both Anthropic and OpenAI would be priced, rather than valued, for their initial public offerings, using what I called buzzy metrics (like annualized run rates) and promised that I would try to value the company, when it filed its prospectus.
- On October 26, 2026, **Anthropic filed its prospectus**, and at the risk of being called hopelessly wrong by both bulls and bears, I will try to value the company, using what I see as its most likely pathway, while also leaving the door open for you to disagree with me, and pick your own pathways to valuing the company.

THE PROSPECTUS

- Before I delve into the details of the S-1 filed by Anthropic, it is worth noting that at 416 pages, it is long and filled with distractions, as has become the case with almost every initial public offering in the last two decades.
- I chronicled this trend in my post titled *Disclosure diarrhea*, arguing that while filings have become longer, they have become less informative).
- The Anthropic IPO has useful information that both bulls and bears will spin to justify their priors, and the table below classifies key disclosures, broken down by valuation input into revenue growth, profitability, risk and reinvestment categories,

1. REVENUE GROWTH

Revenue Growth



The Glass half full

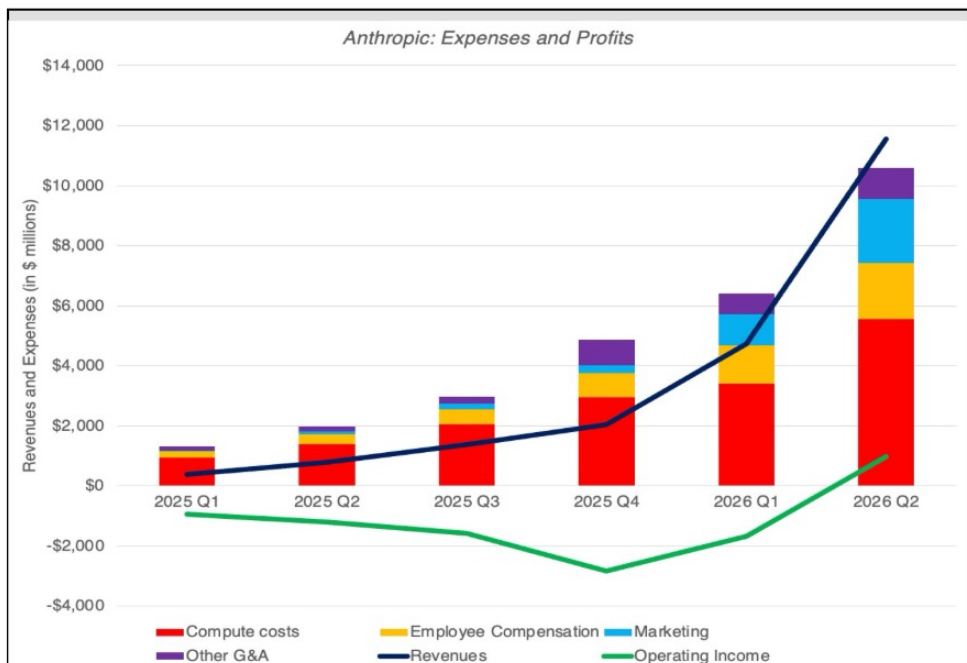
1. Revenues have *grown* >1300% *between 2025 the 2026 (first 2 quarters)*
2. The *enterprise customer base has expended*, with 1900 customers who spend more than \$1 million a year on agents and are returning to spend more.
3. *Return customers are spending far more on repeate sales*, suggesting stickness.

The Glass half empty

1. *Revenue growth slowed down in 3rd quarter of 2026*, as compute constraints and competition from OpenAI and open source models picked up.
2. *Revenues are still concentrated with five customers account for 25% of revenues.*
3. *The revenues are gross revenues*, not net of payments to partners.

2. PROFITABILITY

Expenses and Profitability



As percent of revenues						
Period	Compute costs	Employee Compensation	Marketing	Other G&A	Gross Margin	Operating Margin
2025 Q1	251.06%	57.98%	6.38%	33.24%	17.84%	-248.67%
2025 Q2	176.62%	40.66%	12.20%	23.00%	42.69%	-152.48%
2025 Q3	148.12%	35.38%	14.62%	16.86%	53.29%	-114.98%
2025 Q4	144.36%	39.80%	12.06%	42.79%	23.62%	-139.02%
2026 Q1	71.59%	27.37%	21.83%	14.44%	62.47%	-35.24%
2026 Q2	48.10%	16.07%	18.48%	8.92%	77.52%	8.43%

The Glass half full

1. The company has seen *rising gross margins*, pointing to improving unit economics.
 2. The company has *operating losses that are narrowing over time*, with perhaps a turn towards profits in the most recent quarters.
 The company is *generating growth efficiently*, with compute cost decreasing as a percent of revenues to 48% from over 251% and generating almost \$6.6 million in revenue per employee.

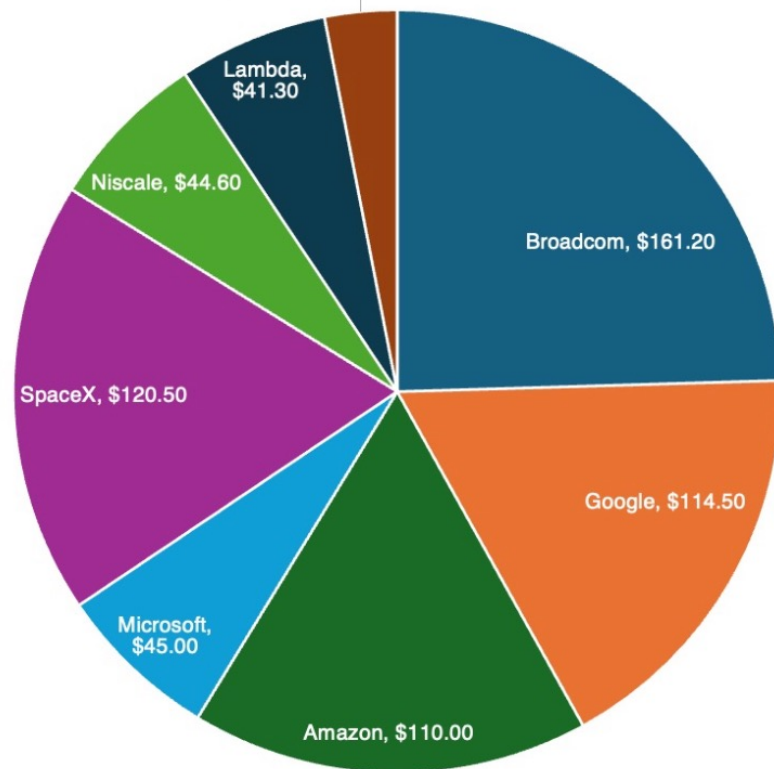
The Glass half empty

1. The gross margin is high only *because compute costs have become fixed costs*.
 2. The company may generate operating profits, but will need to *continue to grow revenues to cover rising compute costs*.
 3. The company *spends hefty amounts on stock-based compensation*, mostly in restricted stock, that are manageable as long as revenues continue to grow and employee count stays low.

3. REINVESTMENT

Reinvestment for Growth

Anthropic: Compute Commitments (in billions of dollars)



The Glass half full

1. The company *has locked in significant compute capacity*, a key ingredient in developing and selling its frontier models and is closing a gap it had on this front with OpenAI.
2. The *compute investment cost should become lower over time*, as chips become cheaper and more capacity is built.
3. Some of these commitments have *flexibility built into them*, allowing for cancellation or change.

The Glass half empty

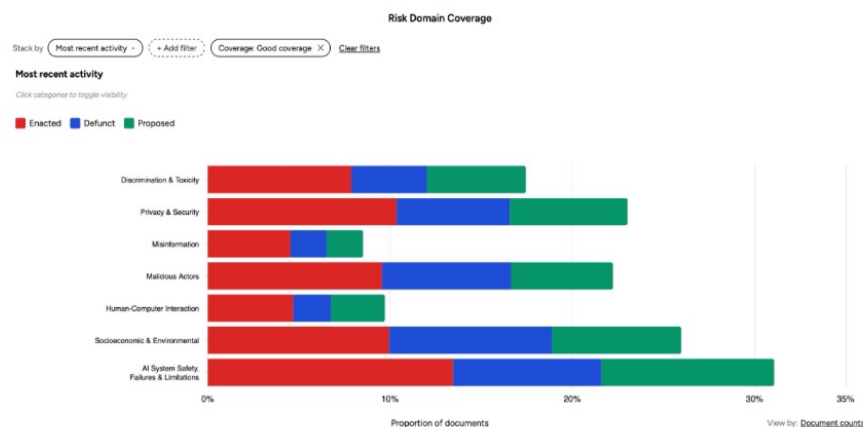
1. The commitments that the company has for compute capacity exceed \$650 billion, most of which are contractually set, and are thus analogous to debt.
2. If opposition to data centers continues to build, compute power may become more expensive over time.
3. The compute investments will need renewal and growth, creating an ongoing reinvestment need.

4. RISKS

Risk - Operating, Financing and Regulatory

Year	Compute & Purchase Commitment	Present Value @ 6.28% (BB+ rate)
1	\$ 63,168.00	\$ 59,433.89
2	\$ 98,128.00	\$ 86,869.43
3	\$ 60,832.00	\$ 50,669.09
4	\$ 58,304.00	\$ 45,692.66
5	\$ 50,000.00	\$ 36,868.47
6 and beyond	\$ 62,000.00	\$ 83,486.03
Debt Value of commitments =		\$ 363,019.56

What AI Risks Are Currently Being Governed?



The Glass half full

1. Once embedded in their client's business, *AI agents will be difficult to dislodge or cut back on, making revenues stable.*
2. The company has *\$114 billion in cash*, likely to be augmented with another \$100 billion from the offering, and *continued access to capital.*
3. There are regulatory risks, but *even if regulations are in place, it will keep competition out*, even as it makes a dent in profits.

The Glass half empty

1. It remains to be seen *whether the money spent on AI agents is discretionary* and cut by clients when times are bad.
2. The company is money-losing and is *currently rated BB+*, indicating that *there is default risk.*
3. If *regulations and restrictions are extensive*, they will impede growth (which the company needs to be stay whole) and cause margin pressure.

WHAT I LEARNED FROM THE PROSPECTUS (AND IT WILL MAKE NEITHER BULLS NOR BEARS HAPPY!)

- Revenue growth
 - Pluses: The company is **growing quickly**, and for at least of the subset of users **that have tried its products, it is delivering on its promise**.
 - Minuses: The **revenue growth rate is clearly coming down**, as scale, competition and compute power constraints all work against the company, and the fact that **it is so interconnected in both operating and financing with other big players in the AI game does lead to the potential for double counting and opacity**.
- Profitability
 - Pluses: The **expenses for Anthropic, across categories, are growing slower than revenues** and that is helping reduce operating losses and putting it on a glide path to not just profitability, but significant profitability.
 - Minuses: Notwithstanding one quarter's numbers, **the company is not quite ready to deliver sustained profits yet and will require significant revenue growth** to keep ahead of the expenses that will hit the income statement from compute power commitments.
- Reinvestment for Growth
 - Pluses: The **immense compute power commitments** taken on by Anthropic is largely responsible for the high gross profit margins reported by the company, because **they have moved company's biggest expense from the variable to the fixed operating cost column**.
 - Minuses: Not only does this **increase the company's operating leverage**, but also will result in **further commitments down the road, as compute power needs to be replenished and grown**.
- Risk
 - Pluses: The company has built a **buffer against risk in the form of a very large cash balance**, which will be added to in the IPO, and it is **possible that companies will become reliant on its products**,
 - Minuses: It is exposed to risk on three dimensions - in operations, from **high operating leverage**, in financing, because of its **contractual content cost commitments** and on survival, since it is **dependent on growth to meet its obligations**.

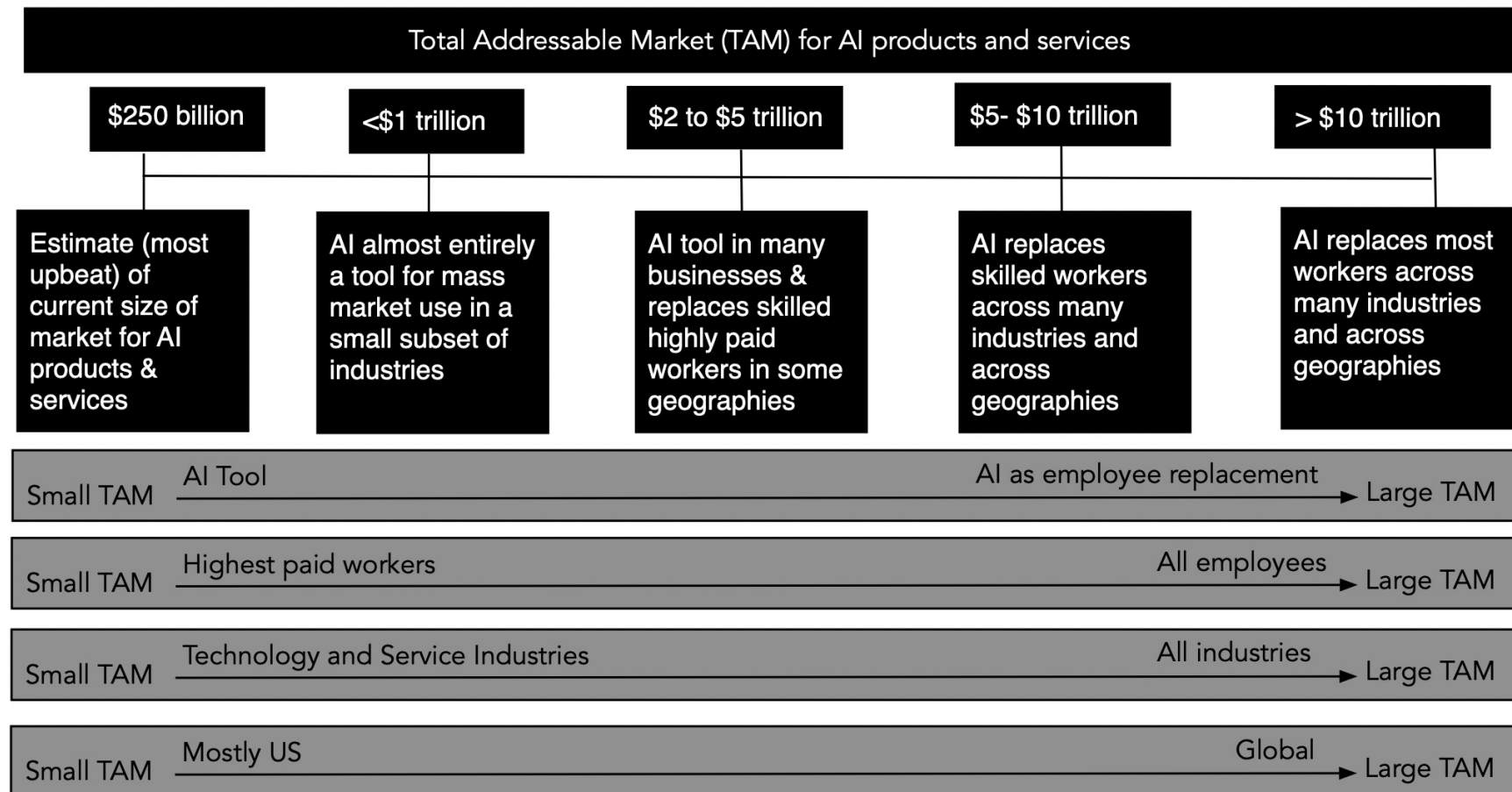
THE PROSPECTUS AS A CRUTCH AND A TRAP..

- Over the next few days, **don't be surprised to see people make equally strong cases for and against Anthropic** using their spin of the data in the prospectus.
- **Neither side will be convinced or convincing** and will emerge with their priors about Anthropic reinforced.
- I think that **too much time and effort is being spent on going through this prospectus**, as if it contains the answers to every question you may have on AI, when, **in truth, it is a snapshot of a young company that is evolving.**
- This prospectus, at least in my view, is **analogous to reading a report card for a kindergartner**, a precocious and talented one perhaps, but still a kindergartner, and trying to determine how much, if any, to set into a college fund.
- As a final note, try to **stay away from conspiracy theories** about a cabal of AI players or accounting fraud.

THE ANTHROPIC VALUATION: MY STORY (AND YOURS)

- The **prospectus, with all of its disclosures, is still a document rooted in the past**, and the value of a business lies in your expectations for the future.
- In this section, **I am planning to leave the safety of the historical disclosures and embark on forecasting the future**, knowing fully well that **I am going to be wrong, and perhaps even massively wrong**, in my attempts.
- At each step of the story, I will **offer you a chance to disagree with my take**, and provide your own, with the resulting change in inputs. I know that you are busy, but if you can humor me and play along, we may both benefit.

1. TARGET REVENUES – THE MARKET FOR AI PRODUCTS AND SERVICES



MY ANTHROPIC REVENUE STORY

- **I believe that AI will have the power to disrupt some industries, and that its most powerful (and highest priced) models will displace white collar (and highly paid) employees, yielding an end market size of \$5 trillion or greater for its products.**
- In my view, and that is based on a very early reading of the AI business today, **Anthropic is aiming for the premium portion of the market and looks like a leader in that portion of the market.**
- The one emerging add on is Anthropic's ambition (made explicit in the prospectus) to be a player in a subset of the businesses that its agents are disruption, with the pharmaceutical business emerging as a potential play.
- **With that story in place, I believe that it is plausible that Anthropic's revenues could approach a trillion dollars in a decade. For perspective, there is only no company in the world with more than a trillion in revenues today, with Amazon and Walmart sitting at around \$700-\$750 billion.**

YOUR PICK ON TARGET REVENUES

<i>Expected Revenues in 2036 (in \$ millions)</i>	<i>\$ Revenues in 2036 (\$ billion)</i>	<i>CAGR (years 2-5)</i>
A1: \$200 billion, AI as tool	\$200	9.00%
A2: \$500 billion, AI as job replacement in future	\$500	26.80%
A3: \$800 billion, AI as selective job replacement	\$800	36.71%
A4: \$1,200 billion, AI as broad job replacement	\$1,200	46.00%
A5: \$1,500 billion, AI as industry player	\$1,500	51.25%
A6: Direct input (enter CAGR & check year 10 revenues)	\$1,011	42.00%

2. THE PROFITABILITY STORY

- To estimate where margins will converge, it may help to start with the recognition that the AI product and service market, once established, is likely to have
 - a mass market segment where models, many of which may be open-sourced and less powerful, will compete for customers primarily on pricing, and
 - a premium segment, where frontier models, many of which will remain closed models, powered by client data, dominate.
- The operating margins for the former are more likely to resemble those of business services (roughly 10%), whereas the operating margins for the latter will converge on the operating margins of enterprise software (close to 40%), with compute power and R&D becoming the reinvestment needed to deliver these products.

MY ANTHROPIC TWIST

- Anthropic is targeting the premium market, as reflected not only in its current revenue breakdown, with almost 80% from enterprises paying based on usage, but also in its focus on using its newly acquired compute power to build next generation models rather than service current clients.
- **I will assume an end-mix of 75% of revenues from premium products, and 25% from the mass market, giving me an unadjusted pre-tax operating margin of 32.5%; that would put them at the ninth decile of US companies in 2026.**

YOUR PROFITABILITY STORY

<i>Operating Margin in 2031</i>	<i>Target Operating Margin</i>	This is the input to reflect your expectations of the margin pressure that will created by open-source models, with more pressure pusing margins to mass-market levels,
B1: Mass Market (100%)	10.00%	
B2: Mass market (75%); Premium (25%)	17.50%	
B3: Mass market (50%); Premium (50%)	25.00%	
B4: Mass market (25%); Premium (75%)	32.50%	
B5: Premium (100%)	40.00%	
B6: Direct Input	30.00%	

3. THE REINVESTMENT (EFFICIENCY OF GROWTH) STORY

- **The nature of compute power, and especially with the chips that represent a large percentage of costs, is that investments will age quickly** and will need replacement, which is an indication that if Anthropic's growth ambitions come to fruition, there will **be more reinvestment needed in future years, to both replenish and grow compute power.**
- **It is true that technology may make chips cheaper, but that may be more than offset by new models demanding proportionately more power, and if you add in the real estate and power needs, there is room for disagreement.**
- **I do believe that the compute power crunch will stay in place for the near term, but will ease over time, and that belief translates into my assumption that Anthropic will need to invest about \$1 for every \$3 in additional revenues, going forward. That would be in line with what technology companies are generating as revenues per dollar of invested capital today, but with the leap in revenues that Anthropic is forecasting, it will translate into large dollar reinvestment each year.**

YOUR TURN...

<i>Sales to Invested Capital</i>	<i>Sales to Capital (1st 5 years)</i>	<i>Comments</i>
C1: Compute power remains scarce & costly	1.00	The key reinvestment is in compute power, and the amount to be invested will depend on the cost of compute power.
C2: Compute power costs high near term, moderate later	1.50	
C3: Compute power costs high near term, ease later	2.50	
C4: Compute power costs ease near term	3.00	
C5: Compute power surplus & cheap	4.00	
C7: Direct Input	4.00	

4. THE RISK STORY: OPERATING RISK

- The AI business is still evolving, and while Anthropic's growth and customer stickiness are noteworthy, I am just being realistic when I contend that **the business will face challenges as it grows, and lives through market and economic turmoil.**
- Thus, for companies spending on AI as a tool, **we do not know whether they will cut back their spending, and if so how much, in bad times**, and for those who plan to replace employees with AI agents, whether the pace and extent of usage will change with the economy.
- The number that is designed to convey this risk into the valuation is the cost of capital, and **for Anthropic, assuming that it carries the risk of large technology companies with an added burden of the compute commitments, I will estimate a cost of capital of 9.74%. Again, for perspective, note that the median cost of capital for US firms in September 2026 was 9.16% and that 9.74% is close to the third quartile (of 9.88%).**

YOUR OPERATING RISK STORY...

<i>Cost of Capital</i>	<i>Initial cost of capital</i>	<i>Comments</i>
D1: Company-specific inputs	9.74%	Don't overthink this. Given that AI will serve a range of businesses, this cost of capital will not be through the roof. Your concerns about regulatory risk can be reflected in margins and about lease commitments in failure risk on input page.
D2: Technology Median	9.34%	
D3: All companies - First Quartile	7.79%	
D4: All companies - Median	9.16%	
D5: All companies - Third Quartile	9.88%	
D6: Direct input	10.00%	

FINANCING RISK

- The main talking point for many Anthropic bears is the compute commitment that runs into hundreds of billions, creating fixed costs that will be a drag on profitability, especially if revenue growth falls short of expectations, as well as the risk of distress.
- While bondholders are right to be trepidatious about this possibility and will point to the current bond rating of BB+ for the company as backing, there are two reasons why failure risk will be suppressed.
 - The first is that the company has the cash balance to sustain itself through the near terms and meet its contractual obligations.
 - The second is that, as a high-profile trillion-dollar plus company, it will have access to capital.
- I do believe, though, that if revenues grow at anemic rates, both these benefits will dissipate, as cash gets burned through and the market cap collapses, and I **will estimate a probability of failure of 10% for the company, with a loss of half its value if that happen.**

YOUR FAILURE RISK ASSESSMENT

I will assume that your firm has no chance of failure over the foreseeable future.

Do you want to override this assumption =

Yes

If yes, enter the probability of failure =

10%

What do you want to tie your proceeds in failure to?

V

Enter the distress proceeds as percentage of book or fair value

50%

3. REGULATORY RISK

- With AI companies, the question with regulatory risk is not whether it will show up, but **when it does, what form it will take.**
- Anthropic and OpenAI have **both invited the government to restrict how this business will grow**, and while there may be the cynical rationale of keeping out competition (especially from China) for these pleas, the regulations and restrictions are coming.
- As with social media companies, the effect of these regulations will not be a cessation of the business but **an increase in operating expenses and perhaps some lost revenues.**
- I estimate that the regulatory effects are likely to be mild, at least on a relative basis, and that it will shave my initial operating margin estimate of 32.5%, for Anthropic, down to 27.5% (a reduction of 5%).

YOUR CHOICE ON REGULATORY RISK

<i>Adjustment to target operating margin</i>	<i>Reduction of operating margin</i>	Comments
E1: No chance	0%	Regulatory restrictions will manifest as higher costs and lower operating margins, as well as in growth. You can adjust the margins here and the growth above.
E2: -5% (Minor restrictions)	-5.00%	
E3: -10% (Moderate restrictions)	-10.00%	
E4: -15% (Major restrictions)	-15.00%	
E5: Direct input of regulatory effect on margin	-7.50%	

Anthropic (IPO S-1)												Oct-26	
Base Year and Comparison			Growth Story			Profitability Story			Growth Efficiency Story			Terminal Value	
	Company	Industry	High growth leading into IPO will push revenues up significantly next year, and as AI products and services displace labor in selected industries, the market expands to allow for more growth. In some niche businesses, like drugs, Anthropic has potential to generate its own revenues.			Margins improve, with pricing power on premium products, and compute costs are largely grow at rates lower than revenues.			Compute costs scarcity and costs will ease over time, allowing for lower reinvestment to sustain growth.			Growth Rate	4.90%
Revenue Growth	1920.19%	14.84%										Cost of capital	9.13%
Revenue	\$20,608											Return on capital	15.00%
Operating Margin	-227.98%	27.41%										Reinvestment Rate	32.67%
Operating Income	-\$46,981												
EBIT (1-t)	-\$46,981												

AND YOURS?

- The **worst-case Anthropic story**, where target revenues limp to \$200 billion in 2036, margins converge on the mass market (10%), compute power stays scarce and costly (sales to capital of one), cost of capital rises to the third quartile for US companies (9.88%) and the regulatory effect on margins is drastic yields worthless equity, In fact, **the value of equity is -\$373 billion**, and the company will cease to exist.
- The **best-case Anthropic story**, where target revenues surge to \$1.5 trillion in 2036, margins converge on the premium market (40%), compute power becomes cheap (sales to capital of four), cost of capital falls to the first quartile for US companies (7.79%) and the regulatory effect on margins is non-existent **yields a value of \$4.04 trillion for equity**.
- While I believe that the best case and worse case scenarios are both unlikely, **you can assess your own story for the company, with the resulting value**, applying what I call the 3P test: Is it **possible**? Is it **plausible**? Is it **probable**? Investing is a personal decision, and whether you choose to buy Anthropic, sell it short or sit on the sidelines, you should base it on your own assessment.

CORPORATE GOVERNANCE: WHAT IS IT?

- In my view, it is a **measure of the power that shareholder (in public) and outside investors (in private businesses) have to change the way businesses are run**, if they disagree with current management.
- It is therefore true that **this power will be greater at companies where boards are more willing to push back against CEOs** and will diminish when you change the rules of engagement to make it more difficult for shareholders to push for change.
- I have long argued that the institutional investors who sat on their hands, when **Google decided to break a precedent, at least in US markets, at its initial public offering by issuing shares with different voting rights**. Their success has opened the door for a host of tech companies that have used the same structure to protect founder power at companies and effectively reduced the power that shareholders at these companies have to push for change to selling their shares and moving on.

ANTHROPIC: A VOTING RIGHT STRUCTURE

<i>Share Class</i>	<i>Voting rights</i>
A	Only share class available to public. <i>Standard economic and voting rights</i> , but with little or no influence on board composition or major corporate actions.
E	Employee shares , with <i>voting rights limited to changes that affect the benefit trust</i> (which runs the company) or in the event of disputes.
N	Corporate holder shares , which are <i>nonvoting shares</i> held by Alphabet and Amazon, giving them share of profits and cash flows, but no say in how the company is run.
T	Held by benefit trust , which has no voting rights, but has the power to <i>choose and elect the majority of the members of the board</i> and oversee the public benefit mission.
F	Single share held by <u>Anthropic's seven co-founders</u> (Dario & Daniela Amodei, Tom Brown, Jared Kaplan, Sam McCandlish & Jack Clark) with 50.1% of the voting rights.

WITH A PUBLIC BENEFIT CORPORATION TWIST

- The company has **structured itself as a public benefit corporation**, and in its prospectus, it states that *"we may make decisions that we believe appropriately balance the pecuniary interests of our stockholders, the best interests of those materially affected by our conduct, and the Company Purpose, but that negatively impact the short-, medium-, or long-term performance of our business or the market price"*.
- **Given the worries that people have about AI being a force for destruction**, a concern that Dario Amodei has actively cultivated, this protection against shareholder power may seem to be a good thing, but we need to be open eyed about what this structure does.
- **It does not protect society from AI's evils, but puts that power in the hands of the few** (the founders and members of the benefit trust) at the top of Anthropic, hoping that they use that power well. If you, as an investor, have had bad experiences with top management at companies using corporate responsibility and ESG as cover for self-serving activity and hypocrisy, the Anthropic structure is that structure on steroids.

FOR TRADERS, A WORRY ABOUT LOCK UPS...

- On the first trading day, insiders (but not founders and certain major figures) will be permitted **to sell up to 10% of their shares**.
- The **remaining shares will be unlocked in tranches**, across the first 180 days of trading, and founders and key named figures will be allowed to trade after 365 days.
- I think **that too much is made of share unlocking, perhaps because it gives investors and journalists something to talk about before unlock dates**. With companies like Anthropic, where you have large institutional investors in the game, and plenty of liquidity, the effects of these unlocks is likely to be muted. My view, though, also reflects a belief that the smart money (which presumably includes all of those selling at the unlock) is not that smart and that their selling has far less informational value than you might believe,

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TRADING THE ANTHROPIC IPO

- **At the IPO, Anthropic will be priced**, and that almost everyone who trades the stock right after the offering will be pricing, not valuing the stock.
- **If it is priced well above my estimate of \$1.48 trillion**, I will sit out the frenzy. To the question of why I would not sell short, if it is priced well above my value, my response is that while I have faith in my valuation, with a range around my estimate, I have no reason to believe that the market will see the error of its ways, if it has made an error, and correct within my time horizon.
- **Once Anthropic starts trading, the story will continue**, and given AI's presence in the economy and markets, I can guarantee you that it will be a roller coaster. It is possible that we have underestimated the possible payoff from AI, and that Anthropic continues to rise in market cap, but **it is just as possible that major parts of the storyline, from revenue growth to margins to risk, will come under stress, leading the market to reassess what it thinks Anthropic should be priced at.**
- Obviously, those stresses will also cause my estimate of the value to change, but **it not just a possibility but almost a guarantee that there will be a day that Anthropic will be undervalued**, and it may be sooner than you think. The structure of the company, with the public benefit facade and the voting rights abuse, will require a much larger discount on my value estimate, but the market may accommodate that requirement as well.