



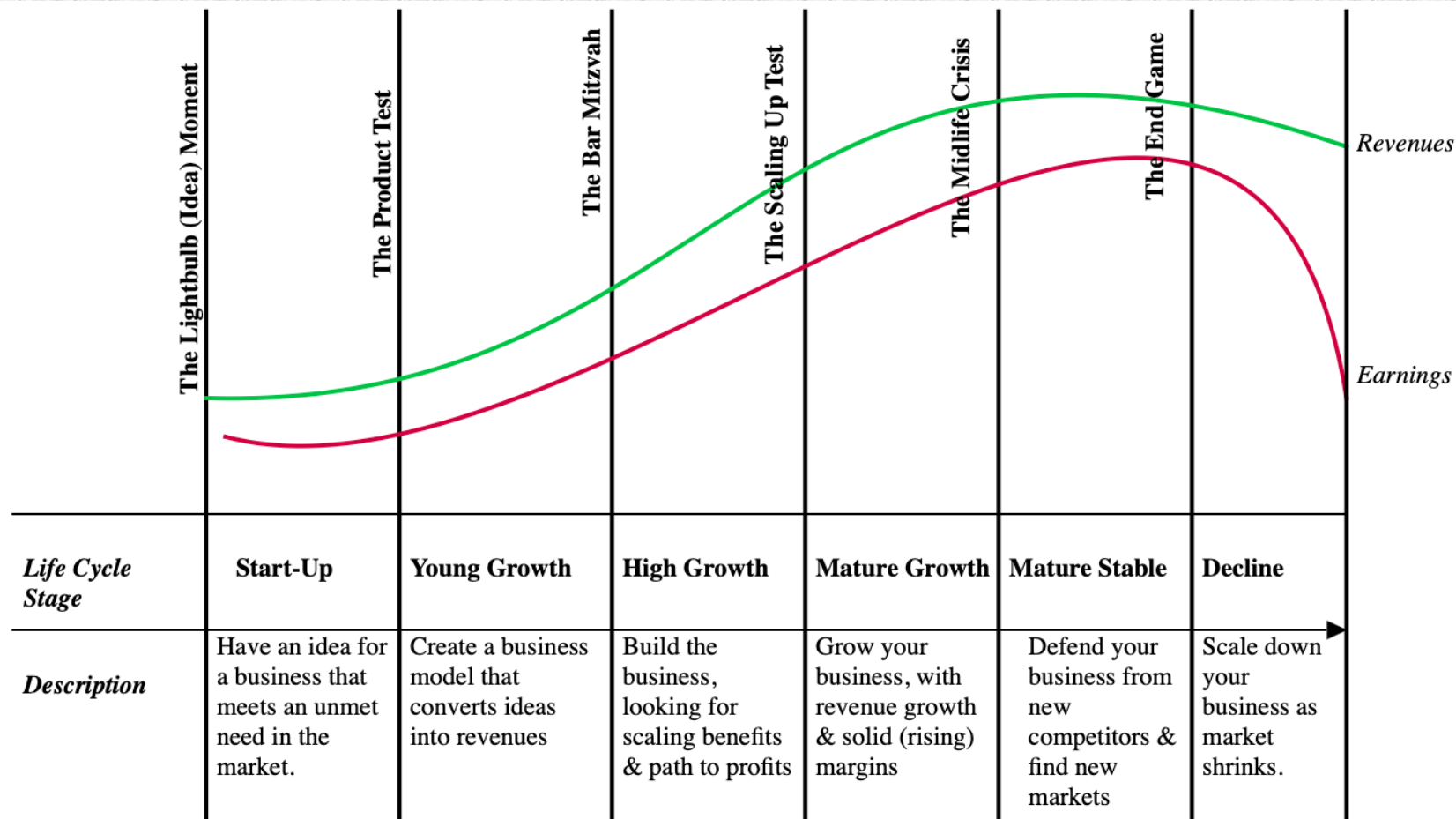
FROM EYEBALLS TO ARR: BUZZY PRICING METRICS (AND THE AI TRADE)!

Frames of reference and mispricing!

THE LEAD IN

- I was in San Francisco last week to talk to NYU Stern Alumni on October 15, and it was the **day that Anthropic had a pre-IPO meeting** with prospective investors.
- During the meeting, Anthropic reported an **annual revenue run rate (ARR) of \$67 billion**, a metric that those who track the company have adopted with gusto, **with an estimate that the ARR would exceed \$100 billion by the end of the year.**
- In the late nineties, **dot.com companies were priced not just on the number of visitors to their websites, but on eyeballs**, where Mary Meeker argued that ad spending at these companies was correlated with time that these visitors spent on websites (eyeballs) rather than total visitors.
- I will try to lay out the rationale for **why pricing supplants valuation in young companies** and why that pricing almost always has to be built around **messy metrics** like eyeballs and ARR.

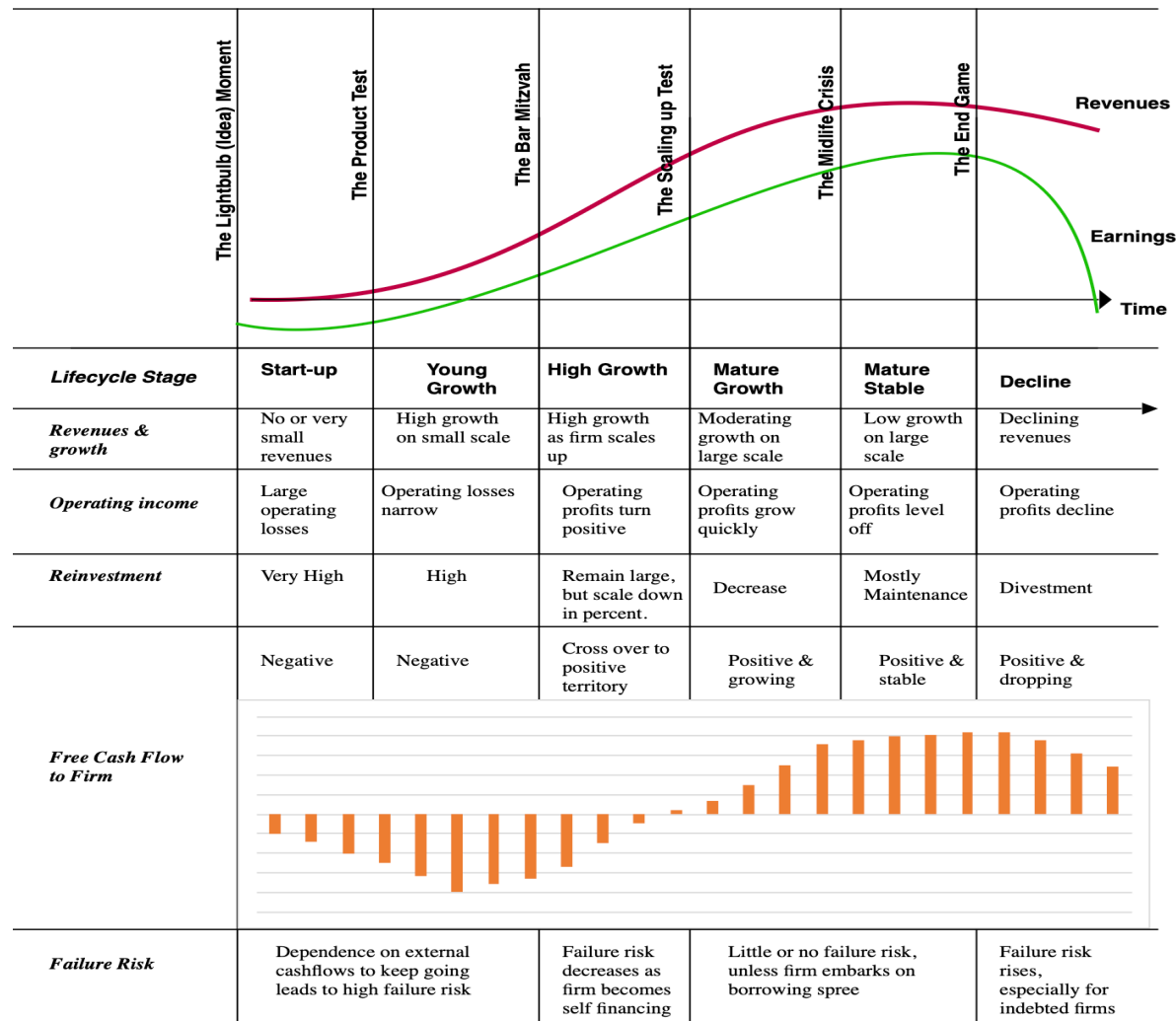
YOUNG COMPANIES IN THE LIFE CYCLE



CLASSIFYING COMPANIES IN THE LIFE CYCLE: TWO SIMPLISTIC PROXIES...

- Chronological age: The first and simplest choice is to look at the age of a business, putting companies that have been in operation for short periods into the young company grouping and classifying those that have been in operation for longer as mature.
- Industry grouping: Another choice is categorizing industry groups into life cycle stages and assuming that any company that belongs to a specific group is in the same stage. For decades, investors have viewed technology as a shorthand for growth and put technology companies into the earlier stages of the life cycle and utilities as mature or even declining and put all utility companies into the same life cycle stage.

AND ONE BASED ON OPERATING METRICS



CLASSIFYING ANTHROPIC AND OPENAI

	<i>Anthropic</i>	<i>OpenAI</i>	<i>Comments</i>
Founded in	2021	2015	
Revenues in 2023 (\$ billions)	\$0.10	\$1.00	A combination of official releases and leaked (unofficial) information
Revenues in 2024	\$1.00	\$3.70	
Revenues in 2025	\$4.60	\$13.07	
Revenues in 2026, Q1	\$4.80	\$5.70	
Revenues in 2026, Q2	\$11.60	\$6.70	
Revenues in 2026, Q3	\$16.80	NA	Leaked at 10/15 investor meet by Anthropic.
Revenues in trailing 12 months	\$35.21	\$19.40	TTM for OpenAI through 2nd quarter of 2026
Annualized Revenue Rate (ARR) in \$ billions in Sept 2026	\$67.00	\$50.00	Shift from gross to net revenue lowed OpenAI ARR from \$70 to \$50 billion
Revenue Growth rate (LTM over 2025)	1408%	120%	Growth through 2nd Quarter of 2026 for OpenAI and through 3rd Q 2026 for Anthropic
Revenue growth rate (2026 Q2 to 2026 Q3)	50%	77%	Revenue growth rates baloon out to much higher numbers, if computed year-on-year
Operating loss in 2023	NA	NA	
Operating loss in 2024	-\$2.98	-\$5.09	
Operating profits (losses) in 2025	-\$8.06	-\$38.53	Excluding extraordinary and non-cash charges
Operating profits (losses) in first half of 2026	-\$8.70	-\$21.60	

PRICE VS VALUE: THE DISTINCTION

Tools for intrinsic analysis

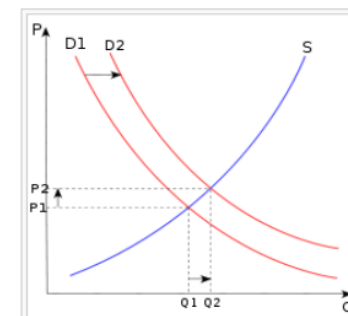
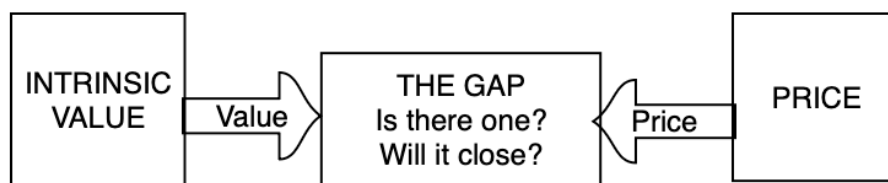
- Discounted Cashflow Valuation (DCF)
- Intrinsic multiples
- Book value based approaches
- Excess Return Models

Tools for "the gap"

- Behavioral finance
- Price catalysts

Tools for pricing

- Multiples and comparables
- Charting and technical indicators
- Pseudo DCF



Drivers of intrinsic value

- Cashflows from existing assets
- Growth in cash flows
- Quality of Growth

Drivers of "the gap"

- Information
- Liquidity
- Corporate governance

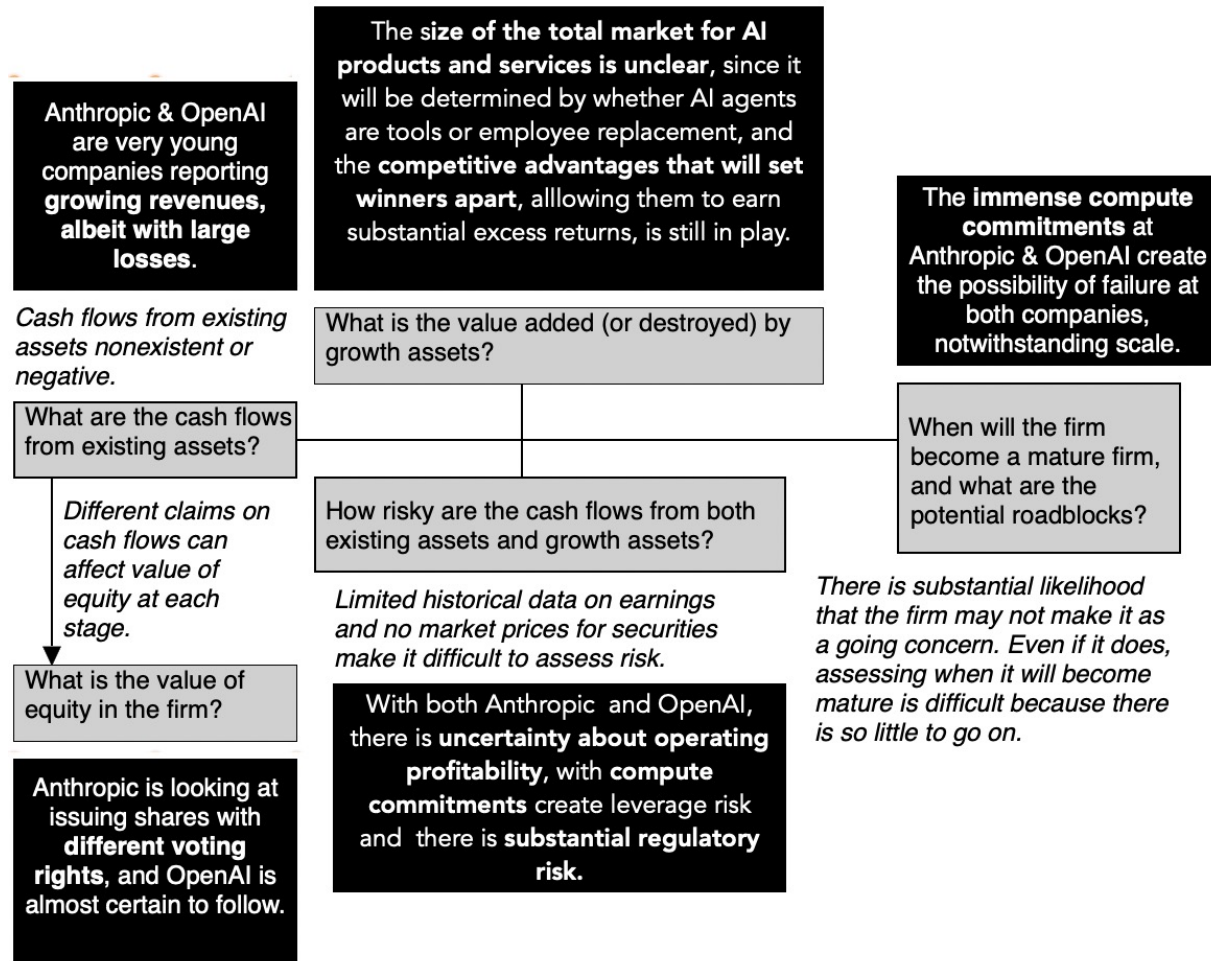
Drivers of price

- Market moods & momentum
- Surface stories about fundamentals

VALUE: THE CRUTCHES WE USE...

- Financial statements: The current financial statements of a company provide **information on unit economics, profitability and risk**, and historical financial statements are useful in assessing growth in the business and changes in business profitability.
- Market size and growth: Knowing the **size of the total market that a company is aiming for, and how quickly it is growing** can help put reasonability constraints on the growth rate and market you estimate for a company.
- Industry statistics: As you forecast profit margins and the risk profile for a company, having that **information for the cross section of companies in the industry** can establish bounds and help in making estimates.

THE CHALLENGES IN VALUATION: OPENAI AND ANTHROPIC

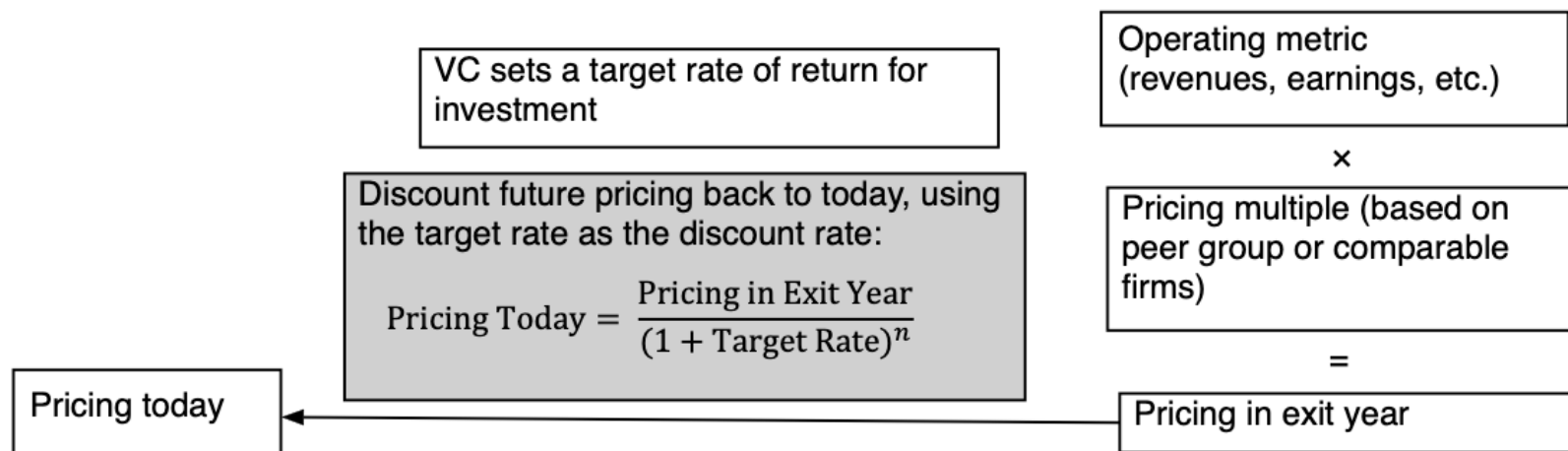


PRICING OPENAI AND ANTHROPIC: LOOKING TO VENTURE CAPITAL?

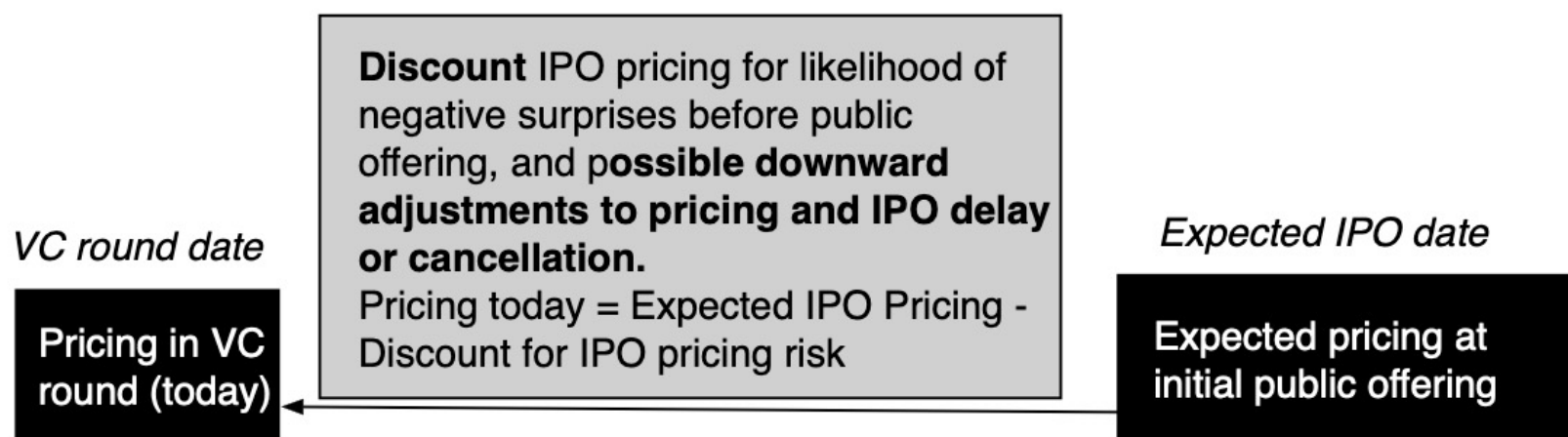
	<i>Anthropic</i>	<i>OpenAI</i>
Number of VC rounds	19	10
VC capital realized (in \$ billions)	\$135	\$185
Most recent VC pricing (\$ billions)	\$965	\$852
Date of VC round	30-May-26	31-Mar-26

OpenAI has a pending round of capital raise ahead of an IPO, where they expect to raise \$30 billion with a **pricing for the company of roughly \$1.4 trillion.**

VC VALUATION: FORWARD PRICING IN DISGUISE!

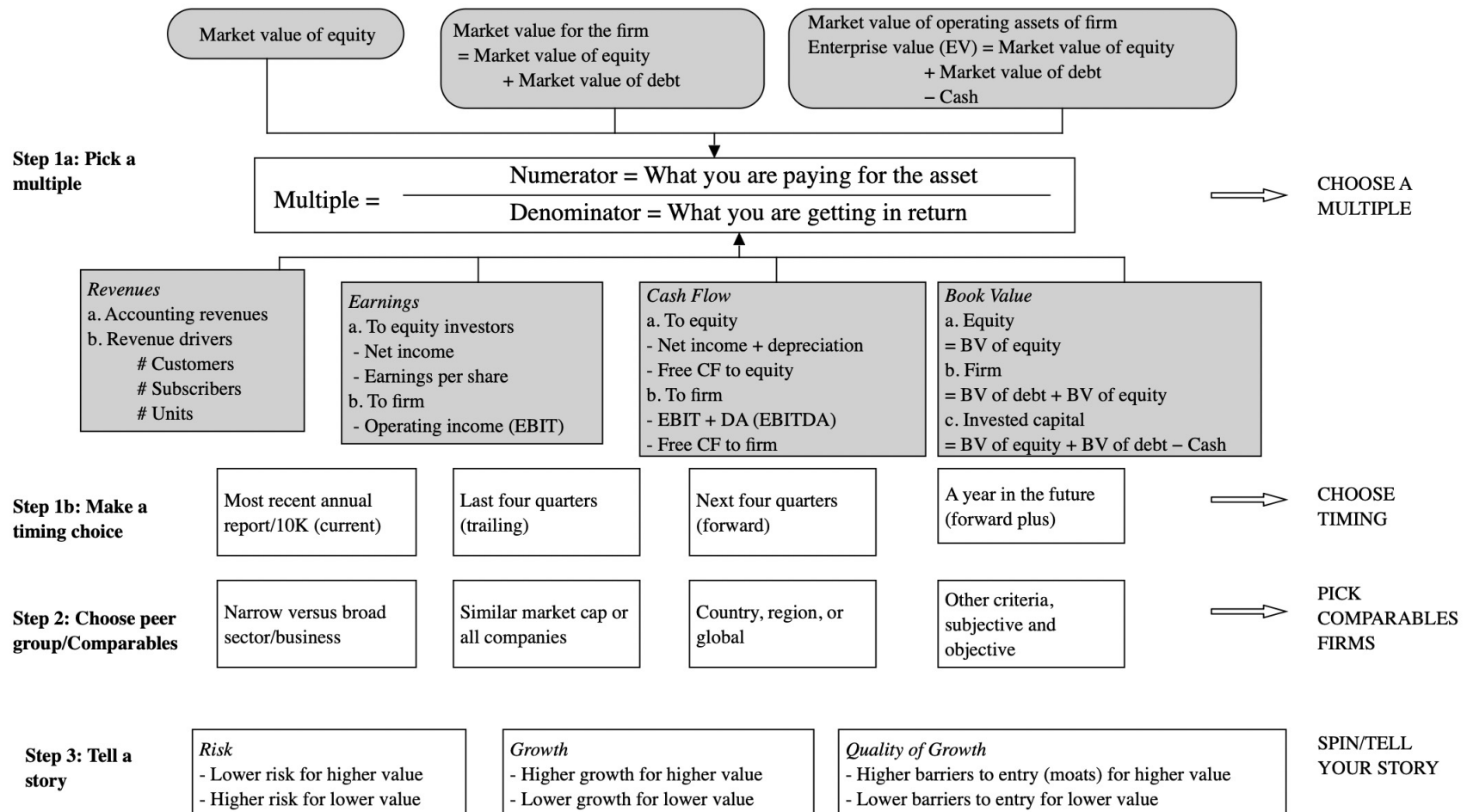


AND WITH ANTHROPIC AND OPENAI, EVEN LESS INFORMATIVE!

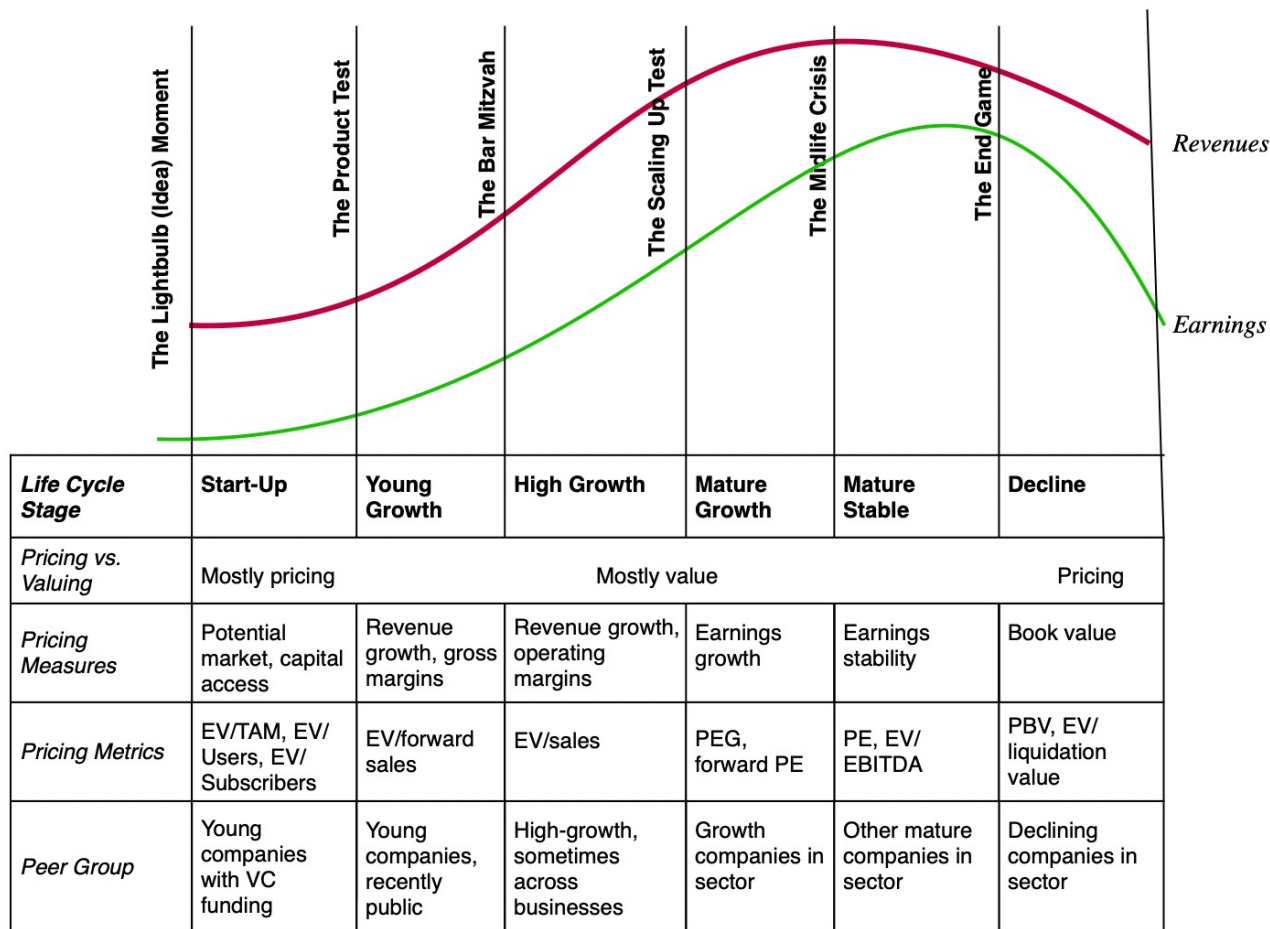


For Anthropic, for instance, **at the time of the VC round, the expected pricing for the IPO was \$1.15 trillion**, well below what the expectations are today, and reflective of how much can change over short periods with young companies, and the \$965 billion pricing in the VC round would have represented a \$150 billion discount on the estimate.

THE PRICING PROCESS



1. PRICING METRICS ACROSS THE LIFE CYCLE



PRICING METRICS AT ANTHROPIC AND OPENAI

	Anthropic			OpenAI		
	Base Value	Pricing Multiple at \$1..5 trillion	Pricing Multiple at \$2 trillion	Base Value	Pricing Multiple at \$1..5 trillion	Pricing Multiple at \$2 trillion
ARR in September 2026	\$65.00	23.08	30.77	\$50.00	30.00	40.00
Expected ARR at end of 2026	\$110.00	13.64	18.18	\$70.00	21.43	28.57
Expected Revenues in 2030	\$300.00	5.00	6.67	\$350.00	4.29	5.71
Compute cost in 2026 (\$ billions)	\$6.00	250.00	333.33	\$15.00	100.00	133.33
Compute cost in 2028 (\$ billions)	\$28.00	53.57	71.43	\$111.00	13.51	18.02
Compute cost planned spend (\$ billions)	\$518.00	2.90	3.86	\$750.00	2.00	2.67
Compute cost contractual commitments	\$414.00	3.62	4.83	\$600.00	2.50	3.33
Compute capacity in 2025	1.4 GW	\$1,071.43	\$1,428.57	1.9 GW	789.47	1052.63
Compute capacity in 2026	5 GW	\$300.00	\$400.00	8 GW	187.5	250
Number of active users in Sept 2026 (billions)	0.25	6000.00	8000.00	1.20	1250.00	1666.67

THE CONCLUSION: DEPENDS ON YOUR PRIORS!

- You can make the **case that Anthropic is cheaper than OpenAI**, based upon the **most recent ARR or the ARR in 2026**, but **OpenAI is cheaper** relative to **expected revenues in 2030, compute costs/capacity and based on user count**.
- You can see that each of these pricing multiples comes with caveats, with obvious explanations for differences, some in **how the metric is computed** and some in **fundamentals**.
- No matter which of these pricing metrics you use, though, **the truth is that both Anthropic and OpenAI may be overpriced, and our judgment is about which company is less overpriced**.

2. THE PEER GROUP COMPARISON

- If you are pricing a company in a business, **where there are lots of publicly traded companies**, you will not only have a choice of pricing multiples, but also more robust pricing, since each of the companies has an updated market price and the financial statements are standardized (GAAP or IFRS).
- If you **are pricing a company in a business, where there lots of companies that are privately held**, as is often the case when you have a nascent business with lots of potential, you are confronting a challenge that many venture capitalists face, and you can try to get the most recent pricing for each company, though that pricing will often be dated (depending on when the last capital raise was) and sometimes untrustworthy.
- Your **most difficult challenge will be when you are pricing a company in a business, where you have both very few companies in the space**, and almost none are publicly traded.

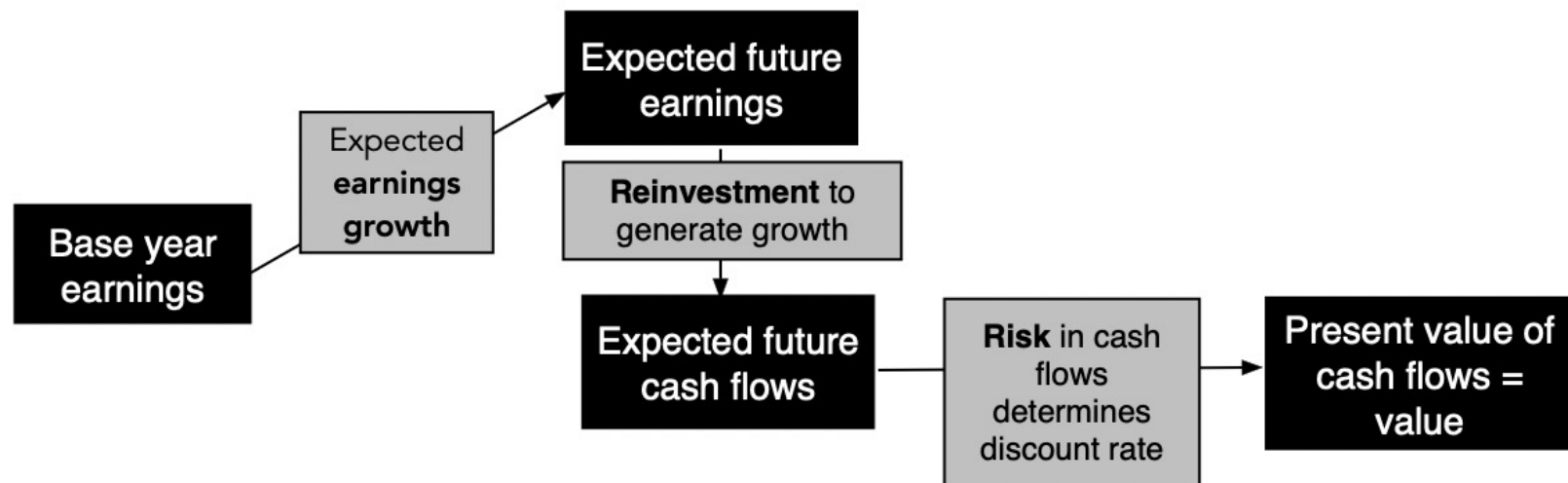
FOR ANTHROPIC AND OPENAI?

	Anthropic (\$2 trillion)	Anthropic (\$1.5 trillion)	SpaceX	Alphabet	Apple	Amazon	Meta	Microsoft	Tesla	Nvidia	Mag 7
Market Cap	\$2,000.00	\$1,500.00	\$2,100	\$4,120	\$4,950	\$2,690	\$1,780	\$3,940	\$1,500	\$5,450	\$24,430
Enterprise Value	\$2,200.00	\$1,700.00	\$1,950	\$4,000	\$4,920	\$2,790	\$1,920	\$3,700	\$1,470	\$5,420	\$24,220
Revenues (LTM)	\$35.21	\$35.21	\$23	\$446	\$467	\$776	\$228	\$332	\$100	\$303	\$2,651
Expected revenues in 2026	\$110.00	\$110.00	\$65	\$498	\$478	\$828	\$256	\$360	\$107	\$350	\$2,877
EV/Sales (TTM)	62.48	48.28	84.64	8.97	10.54	3.60	8.41	11.15	14.70	17.89	9.13
EV/Sales in 2026	20.00	15.45	30.00	8.04	10.29	3.37	7.50	10.28	13.75	15.49	8.42

3. THE CONNECTION TO VALUE?

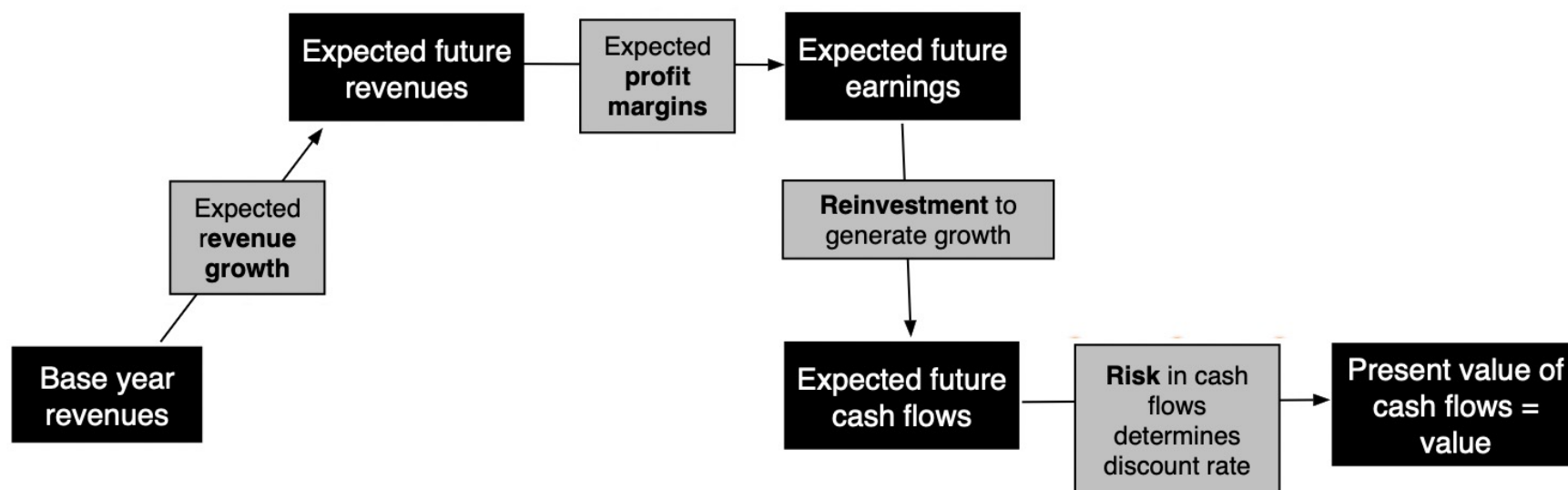
- You **can price a company based upon any metric that you choose to use**, assuming that it is viable, but if pressed on which metric is the best one, I will deflect (and perhaps deliver a non-response), because **I don't believe that there is a "best" metric for pricing.**
- The key, though, is that no matter what metric you pick, **you should think through how that metric will play out in the company's value** and what you need to control for in your pricing.
- And since pricing is statistics, first and foremost, you want to choose a metric where **you can get more firms in your peer group.**

A SIMPLE EXAMPLE WITH PE RATIOS



Control variable	Effect on PE
Higher earnings growth	Increase PE ratio
Higher ROE (lower reinvestment)	Increase PE ratio
Higher risk (cost of equity)	Decrease PE ratio

AND WITH EV/REVENUES



Control variable	Effect on EV/Sales
Higher revenue growth	Increase EV/Sales ratios
Higher operating margins	Increase EV/Sales ratios
Higher expected return on capital	Increase EV/Sales ratios
Higher risk (cost of capital)	Decrease EV/Sales ratios

THE PRICING STORY FOR ANTHROPIC

- As you can see, for Anthropic to be highly priced relative to revenue, its revenues will have to not only **grow a lot but do so quickly**, making the revenue growth rate and the speed at which it ramps up the first determinants.
- The second component is **profitability**, since the company is reporting sizable losses now, and can expect to do so in the near term. Here, there are two key determinants that will drive value, with the first being **unit economics**, since having higher gross margins will ease the pathway from losses to profits, and the second being **economies of scale**, with compute costs growing slower than revenues, pushing up operating margins.
- The third is **risk**, with operating risk (from evolving business models), financial risk (from the compute commitments) and regulatory risk (from restrictions on AI) all coming into play; companies that are less exposed to these risks should be worth more. To
- o make a case for Anthropic at a \$1.5 or \$2 trillion pricing, you will have to make defensible arguments **for sky-high revenue growth in the early year, a surge in operating margins to 30% or higher, with favorable unit economics and economies of scale providing tailwinds and a risk profile that quickly converges towards the average, as regulatory risks recede and the business model finds its feet.**

CONCLUSION

- As Anthropic heads towards its initial public offering, my suggestion is that you step back from the frenzy, since like the **parable of the six blind men who visit an elephant**, and having touched different parts of it, come away with wildly different descriptions of the animal, there will be Anthropic bulls and bears who will latch on to a part of the company's lore and spin tales about its future.
 - **For bulls**, that story is going to be anchored in a belief that AI's reach in terms of **market will be massive**, that **Anthropic will be one of the big winners** in that market and that it will find a way to convert its dominance into market share and high profits; the **pricing will be tied to high revenue growth and great unit economics** (with high gross margins).
 - **For bears**, the story will be premised on **an AI market that struggles to get off the ground**, and Anthropic, as a company, **being constrained by weak corporate governance and an untrustworthy management**. Their pricing argument will point to the **revenue growth that will be lower than anticipated**, which combined with their compute commitments will **lead to profit margin compression**, making the nosebleed multiples of revenues that you will be paying for the company an overpricing.
- **I will not be taking sides here**, but not because I am copping out. It is because I am investor at heart and **feel more comfortable making my decision based upon an intrinsic valuation of Anthropic**, with all its flaws and uncertainties, which will have to wait until the full prospectus gets filed.