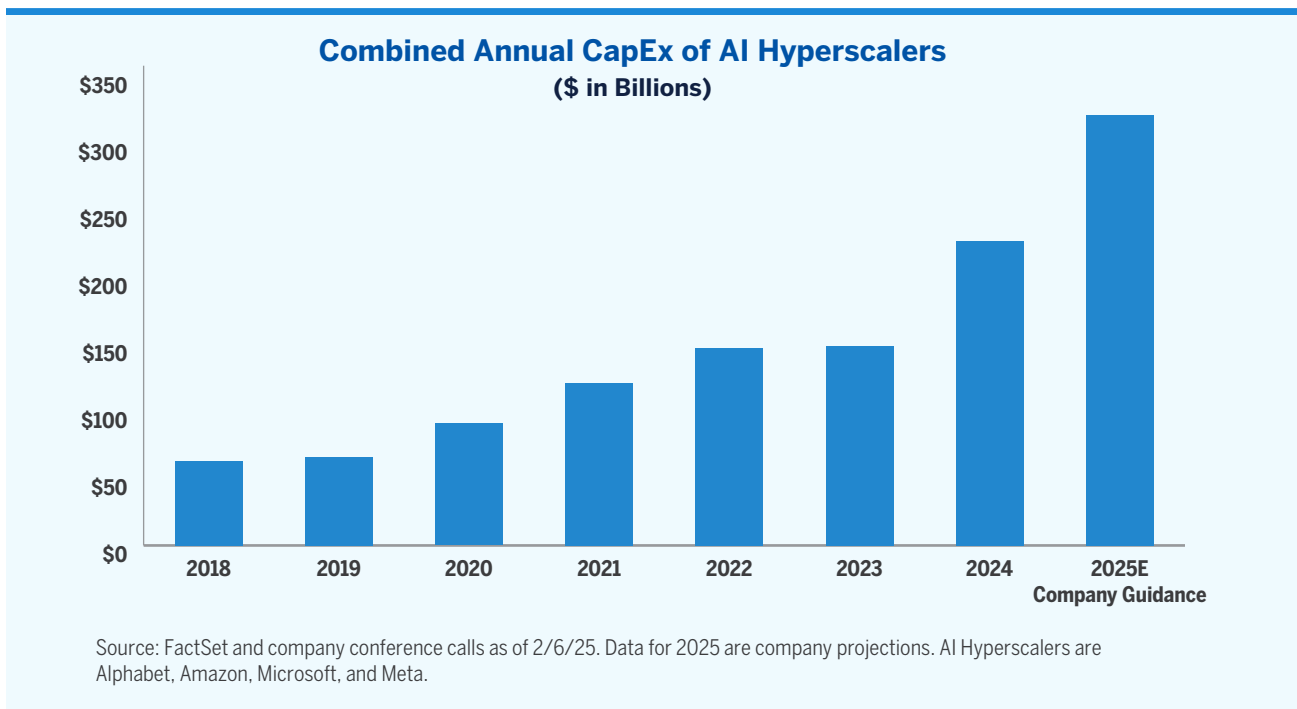


Pedal to the Metal

We [recently suggested](#) that artificial intelligence (AI) software becoming significantly more efficient may be supportive of [AI adopters](#) and [enablers](#). Our reasoning was that lower training costs for AI models would spur more adoption, leading to increased spending on AI infrastructure. Recently, the AI hyperscalers (i.e., major cloud service providers) that are responsible for much of the infrastructure spending discussed their plans for future capital expenditures (CapEx), giving the market some insight into this issue.



- Despite initial concerns that rapid improvements in AI training techniques might reduce spending on AI infrastructure, the hyperscalers disclosed that they would be increasing their CapEx plans this year. In the chart above, Microsoft, Amazon, Alphabet and Meta recently guided an aggregate spend of approximately \$320 billion in 2025, a more than 40% increase from the prior year, and faster than the prior three-year compound annual growth of 23%.
- Importantly, the projected increase in AI infrastructure spending is being sustained by strong internal cash flow generated by these companies' operations (see [AI vs. The Internet Bubble](#)). In fact, the projected 2025 hyperscaler CapEx would be less than two-thirds of the aggregate operating cash flow generated by these companies, according to consensus estimates.
- We believe that the AI revolution is still in its early stages, characterized by robust, sustained investment spending. Although a portion of the projected CapEx will be directed to non-AI investments, these companies have indicated a large majority of the AI infrastructure spending will be dedicated to AI enablers building out data centers—which require numerous GPU clusters and advanced thermal and power management systems. Moreover, as AI infrastructure develops, we believe that AI adopters, such as digital advertising companies and enterprise software companies with proprietary data, may be well positioned to potentially benefit from widespread AI implementation over the long run.

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