



## The AI Revolution: Key Takeaways from Quarterly Earnings Calls

Total reading time = 4 minutes

As we discussed in our **Inaugural piece on AI**, we believe the recent acceleration of Artificial Intelligence (AI) is the most disruptive development since the dawn of the Internet itself. We will see more use cases of generative AI as the technology continues to improve at a rapid pace. Generative AI refers to the type of AI that can “generate” new content such as text or images based on a previously learned set of data. ChatGPT and Midjourney are good examples of this. By contrast, Artificial General Intelligence (AGI) refers to AI systems that possess human-like intelligence and cognitive abilities. For now, AGI mainstream use cases are still on the horizon.

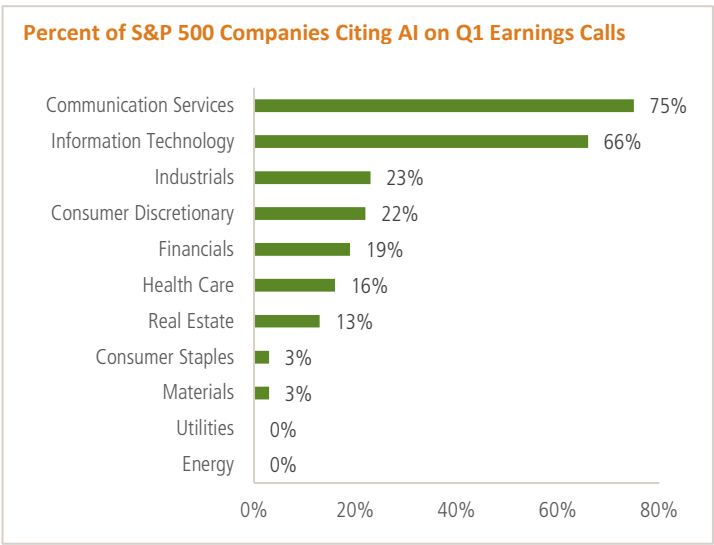
The first quarter’s earnings season provided us with an initial glimpse of how companies are integrating the technology into their products. Overall, these earnings calls reinforced our belief that we are in the early innings of a very rapid AI adoption cycle that will provide attractive investment opportunities. Not only will technology companies benefit, but generative AI applications will extend across almost all sectors and industries. In our previous Insights piece, we highlighted several AI beneficiaries in the semiconductor space: Nvidia, Advanced Micro Devices, and Broadcom. In this piece we will concentrate on software and non-tech segments of the market.

AI was a dominant topic on first quarter earnings calls, with most tech executives agreeing we might be witnessing the most important technological development in several decades. According to the research consulting firm Gartner, 45% of executives say they increased AI investments following the launch of ChatGPT. In addition, 70% of executives are currently “in investigation and exploration mode with generative AI.” These data points highlight the broad based and strong demand for AI solutions.

Productivity gains from deploying generative AI or large language models (LLMs) can be substantial. For example, **Salesforce** noted they are seeing a 20-30% productivity increase after the company rolled out its own LLMs. **ServiceNow**, a cloud-based IT service management platform provider, is currently incorporating LLMs across all of its products. The company hopes to achieve higher deflection rates (e.g., customers solving issues without contacting customer support), which will help to automate business processes and improve employee experience.

**Intuit**, the company most known for its QuickBooks and TurboTax products, incorporated generative AI into its email marketing platform (Mailchimp), allowing customers to “create faster email campaigns.” While there are many other examples, these cases highlight how integrating generative AI could both reduce costs and improve product quality.

Figure 1: AI was a popular topic across almost all sectors



Source: FactSet

AI’s impact is likely to resonate beyond the Technology sector. **Intuitive Surgical**, a pioneer in robotic surgery, said it is working on applying AI and machine learning to the data collected when procedures are performed using their da Vinci robots. This allows Intuitive and its customers to identify clinically relevant variations across different procedures, surgeons, or entire health systems. These insights can then be used to provide recommendations for streamlining surgical workflows according to best practices. The result is better outcomes for patients, more efficient operating rooms, and cost savings for customers. The technology is still in its infancy and will take years to fully develop but it has been met with enthusiasm from customers.

**Uber** is another example of a company that extensively uses AI. Uber implemented a deep learning algorithm (DeepETA) that predicts customer pick up and drop off times, calculates fares, and matches riders to drivers. With the rise of generative AI, the company said it expects a material uplift in developer productivity, as well as increased usage of chat bots vs live agents that should drive operational costs down.

**Duolingo**, the world's most popular language learning app, collaborated with OpenAI to develop Duolingo Max. Duolingo Max provides AI-generated, in-depth explanations and allows users to build conversational skills using its Roleplay feature. Duolingo Max is Duolingo's most expensive premium plan priced at \$30 a month, or \$168 for an annual subscription.

As we research and analyze various companies, one of our biggest questions is to what extent these significant investments in AI can be monetized. While in some cases the monetization strategy is relatively straightforward (such as Duolingo charging premium prices), in other cases it is less clear. For example, ServiceNow believes improved customer productivity and higher value-add will be reflected in product pricing, but to what degree the pricing will change is unclear. Commentaries from health care companies echoed a similar sentiment, where management teams highlighted how AI will help drive operational costs down, but there was less clarity surrounding an acceleration in revenue growth/creating new revenue streams.

Companies that can clearly articulate and demonstrate their strategy for generating higher revenues and earnings from AI are likely to generate the most investor interest and drive relative stock outperformance. We are excited about the compelling stocks that are prudently making their way into our investment portfolios.

**Our research team is dedicated to uncovering unique opportunities to capitalize on durable sector and industry-specific trends. We welcome your comments and questions any time!**

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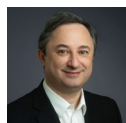
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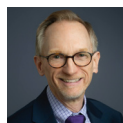
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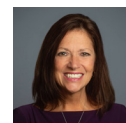
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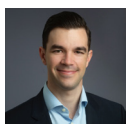
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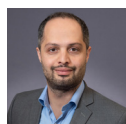
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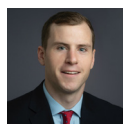
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**Ownership:** Fifty-one percent ownership by a Veteran or Veterans. The applicant must share in all risk and profits commensurate with their ownership interest.

**Control and Management:** Proof of active management of the business. Veteran must possess the power to direct or cause to direct the management and policies of the business.

**Contribution of Expertise and Capital:** Contribution of capital and/or expertise by Veteran owner(s) to acquire their ownership interest shall be real and substantial and be in proportion of the interest acquired.

**Independence:** The Veteran owner(s) shall have the ability to perform in their area of specialty/expertise without substantial reliance on non-Veteran-owned businesses.

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