



Views From the Stream

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The AI Boom: Party Like It's 1999

"They say, 2000-00, party over
Oops, out of time
So tonight I'm gonna party like its 1999
Yeah, Yeah"

Prince (Prince Rogers Nelson)
Recorded 1982

From 1995 – 2000, the equity markets witnessed one of the great Tech Bull Markets. Stocks such as Corning, Intel, and Cisco led the charge. Two fundamental dynamics converged to create a massive surge in spending. First, the Internet exploded onto the scene captivating the public and investor imaginations. It would transform the world as numerous mainstream publications trumpeted. Second, corporations faced a potential disaster with their computer systems. Due to the tendency of large corporations to run machines into the ground, much of their corporate technology infrastructure stood vulnerable to the Y2K Bug. Once the clock struck midnight on December 31, 1999, the internal clocks on these computers would set back to 0, as if it were January 1, 1900. Thus, corporations could not put off the spending any longer and committed massive sums to update and replace their computer networks. With these two forces driving demand, technology spending rocketed upward, taking the stocks with it. Compounding this demand stood the companies formed to leverage this new technology. This included numerous companies planning to leverage the Internet to drive their businesses as well as whole new industries, such as CLECs (Competitive Local Exchange Companies) to connect local companies to each other and the phone network, and long haul fiber companies to haul all this data from city to city. As Prince would say, technology companies and their stocks would Party Like Its 1999.

But capitalism stands a brutal form of Darwinian survival. While corporations spent vast sums of monies to fix their systems, that would not continue forever. Once a corporation upgraded its entire enterprise systems, they could go back to maintenance and upgrading as needed. In other words, they could spend a fraction of the money. For the Internet buildout, a similar tale unfolded. Once the build out of the Internet completed, the system would only need upgrades and equipment spending cycles, not another buildout. On the service side, those that built out long haul fiber optic cable lines between major cities to

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move data, such as Global Crossing, found themselves with large amounts of excess capacity, dark fiber, with no demand in sight. And for companies that came public planning to piggyback on the buildout of the Internet to build disruptive businesses, such as CLECs (Competitive Local Exchange Companies), the market could not support 10 companies each needing 25% of the market to survive and thrive. As Wall Street realized this truth, the capital spigot shut for these new companies that would revolutionize the world. Revolutionize or not, investors care about sustainable business models, profits, and returns. With all this coming to a head, spending collapsed as did the stocks. In the ensuing bloodbath, more than half of the new companies went out of business. And for many of the survivors, business dropped as much as 90% and only slowly recovered. It became a classic example of Schumpeter's "Creative Destruction". And while the Internet did revolutionize the world, those that profited from its creation came much later as the Internet's infrastructure truly became robust.

Fast forward to today, a new crop of companies caught investors eyes over the past two years. This time the stocks revolve around Artificial Intelligence, also known as AI. In January, 2023, Microsoft invested \$10 billion into ChatGPT. This set off an investor stampede into AI stocks. Stocks such as Nvidia, Super Micro, and MicroStrategy took off. In just over a year, these stocks rose to levels 4x to 5x above where they ended January 2023, a move that took the Internet and Technology darlings 2 ½ Years to accomplish from 1998 to 2000. The following tables demonstrate the similarities:

<u>Tech Company</u>	<u>Sept 1995</u>	<u>Feb 1998</u>	<u>Aug 2000</u>	<u>'98 to '00</u>	<u>'95 to '00</u>
<i>Intel (INTC)</i>	\$7.50	\$22.00	\$75.00	3.41x	10.0x
<i>Cisco</i>	\$3.80	\$11.00	\$77.00	7.00x	20.3x
<i>Corning</i>	\$9.50	\$13.50	\$109.30	8.09x	11.5x
<u>AI Company</u>	<u>Mar 2019</u>	<u>Jan 2023</u>	<u>Mar 2024</u>	<u>'23 to '24</u>	<u>'19 to '24</u>
<i>Nvidia (NVDA)</i>	\$ 45.00	\$203.00	\$ 903.00	4.45x	20.1x
<i>MicroStrategy (MSTR)</i>	\$146.00	\$285.00	\$1,697.00	5.95x	11.6x
<i>Super Micro (SMCI)</i>	\$ 19.35	\$ 84.34	\$1,008.00	11.95x	52.1x

Data care of Yahoo Finance

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As the data makes clear, the AI Boom appears similar in magnitude to the Technology Bubble of 25 years ago. One could almost say investors adopted the motto: Party Like Its 1999. Unfortunately, like any Party that gets out of control, the hangover proves as prodigious as the Party. From 2000 to 2002, the Technology Stocks came back to Earth with a resounding thud:

<u><i>Tech Company</i></u>	<u><i>Aug 2000</i></u>	<u><i>Sept 2002</i></u>	<u><i>'00 to '02</i></u>
<i>Intel (INTC)</i>	<i>\$75.00</i>	<i>\$20.88</i>	<i>-72%</i>
<i>Cisco</i>	<i>\$77.00</i>	<i>\$10.48</i>	<i>-86%</i>
<i>Corning</i>	<i>\$109.30</i>	<i>\$ 1.87</i>	<i>-98%</i>

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In the year 2000, Cisco delivered approximately \$19 billion in revenue. However, at its peak, the company possessed a Market Capitalization that valued the company at \$580 billion or 30x Revenue. If we fast forward to today's AI darlings, something similar appears at work. Wall Street estimates Nvidia revenues for the year ended January 2025 at \$110 billion, up from \$60 billion in the year ended January 2024. The Market Capitalization of Nvidia stands \$2.259 trillion. Thus, the company stands valued at 20.5x Forward Revenue.

The current AI Boom possesses stunning similarities to the Internet buildout of a prior generation. AI appears a revolutionary technology that will transform the world. No company possesses the infrastructure it needs. And no company wants to get left behind the competition. Thus, the AI companies, like the Internet companies of a generation ago, become the arms merchants to corporations as they build out their basic infrastructure. Just like the late 1990s, there stand shortages of product as all the elephants attempt to get through the doorway at once, taking out the wall. High End AI GPU Server Shipments exploded over the past few years, rising from demand of just 100,000 in 2022 to over 240,000 in 2023. Demand projections for 2024 exceed 600,000 units for these high end AI Servers. When adding in lower performance ASIC AI Servers, total AI Server Shipments should reach more than 1.2 million this year or more than 10% of all Server Shipments. In contrast, AI Servers possessed only a 1% share of Server Shipments in 2022. By 2025, projections show AI Servers at 13.5% - 15.0% of all Server Shipments. While still growing at a rapid rate, the growth rate projections show growth decelerating from over 150% to only 30% to 45% depending on the type of AI Server. While still a prodigious growth rate, it represents a marked deceleration. And with capacity growing at a rapid rate, capacity could exceed demand in the next year or two. And all these demand projections assume that no recession rears its ugly head that decimates corporate profits and capital spending.

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The cycles go round and round with euphoria always followed by the hard slap of reality. And the eventual winners are not necessarily the early leaders, but those who piggyback off the infrastructure built out by their predecessors. And when new industries explode onto the scene, investors must remember that trees don't grow to the sky, whatever investors may dream. Whether AI and Technology or EVs and CLECs or TVs and Radios, investors repeat the same cycle over and over again. For those who invested in EV companies, the hangover stands under way. And for those investing in AI stocks, the hangover stands yet to come. But, for investors today, with the AI Boom flowing and trees growing, they see no reason not to Party Like Its 1999.

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