

ML DOS NF CRM AI BOT

Update

"REAL INTELLIGENCE: SELL C3.AI"

/ STRONG SELL OPINION /

C3.ai, Inc. | NYSE: AI



SPRUCE POINT
CAPITAL MANAGEMENT
INVESTMENT RESEARCH REPORT



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Spruce Point Recognized As An Industry Leading Short-Selling Activist

On February 16, 2023 Spruce Point Capital Management was ranked #2 in Insightia's Activist Short Seller Top Five for the year 2022. We would like to offer a special thanks to all our readers far and wide across the globe for their support of our work.

The activist short seller top five

2. Spruce Point Capital Management

Activist short campaigns launched in 2022: 12
Average one-month total campaign return: 3.32%

Average target market cap: \$14.1B
Insightia One news stories: 17

In the words of its founder, Ben Axler, Spruce Point Capital Management is "industry agnostic." This was certainly the case in 2022, with the short outfit launching campaigns at companies across a variety of sectors such as footwear, packaged foods, basic chemicals, and power generation equipment.

The latter marks what Spruce Point considers its most successful campaign of the year, Axler told Insightia in an interview. In June, Spruce Point revealed a short position in Generac Holdings, claiming the company was deflecting from its core challenges by attempting to reposition itself as a clean energy company, going on to detail a host of serious concerns including "irrational" and "shady" acquisitions and "ballooning receivables."

At the time, Spruce Point predicted a 40%-50% downside risk. At its lowest point since the release of the report, Generac's share price had fallen by over 59% from \$212.57 per share to \$86.29.

Spruce Point's other targets in 2022, including apparel manufacturer FIGS and technology services firm TaskUs, have also seen their share prices fall by 40% and 51.23%, respectively, as of December 30, 2022, since the initial release of short reports.

Axler told Insightia that 2022's market has demonstrated how valuable patience can be for short sellers, as "not all stock prices reflect [Spruce Point's] view of fundamental reality as quickly as we would like."



Spruce Point Is Again Short C3.ai (NYSE: AI), After Our Previous Accurate Short Call And Sees 45% Downside Risk

Spruce Point's critical "*Strong Sell*" [report](#) on C3.ai (NYSE: AI) on February 16, 2022 accurately highlighted numerous concerns, many which came to fruition. Shortly after our report, the CFO resigned, the Company missed multiple financial targets, and it changed its description of what is a customer. Shares declined by 60% to \$10.16, below our \$12.85 – \$15.40 price target range.

Spruce Point Report Card of Concerns Raised In Feb 2022

Concern	What Happened?	Spruce Point Accuracy Grade
Sell-side revenue expectations were wildly optimistic for FY23 (YE April 2023) and estimate revisions were on the horizon	FY23 Revenue Estimates are lower by -20% FY23 Revenue Estimate (Current): \$261.5M FY23 Revenue Estimate (Feb 2022): \$332.9M	A+
Revolving door at the CFO position and serious concerns about the current CFO	Former CFO, Adeel Manzoor resigned a mere 9 days after our report was published (8-K source)	A+
C3 has used a shifty definition that has grown less transparent over time to define what is a customer	C3 changed its customer count definition 14 days after our report. Its new customer count is a now a " <i>best estimate</i> ". How hard is it to count ~200 clients for a Company that has been around for over +10 years? (8-K source)	A+
C3 frequently pivots to whatever is the "hot" technology buzz. First it was C3 Energy, then C3 IoT, then C3 AI and now....	Now C3 is attaching itself to ChatGPT by issuing a press release referencing the hot technology purchased by Microsoft	A
C3's stock could be down by 40% - 50%	Stock declined by 60% Stock closed at a low of \$10.16 on December 28, 2022	B We were too conservative with our price target

Reasons We Continue To Be Constructively Negative On C3.ai

Concern	Bull Case	Spruce Point Belief of Reality
C3's Generative AI Product	C3 will be a leader in Generative AI and be a big winner because of ChatGPT	<p>On January 31, 2023, C3 Generative AI Product was launched (available March 2023) solely with a press release. Wouldn't it be helpful for investors to see a glimpse of the product?</p> <p>Did C3 build this in the last couple months to capture the buzz? <u>Not one single SEC filing mentions the word "generative"</u> <u>Our interviews of former employees suggest there were no generative AI products in the Company's pipeline and that its press release referencing ChatGPT was opportunistic and in advance of any customer use case</u></p>
Microsoft Partnership	Microsoft and C3 have a partnership to develop AI Solutions	C3 sometimes uses Microsoft's Cloud Services
Significant R&D Investment	+\$1.0 billion invested	C3 Engineering job openings are down 40% in 1 year and its EMEA CTO for Energy & Industrial (a big current industry focus), recently left
Profitability and cash flow	Profitability is set to improve next year	C3 has yet to turn a profitable year and will notch its biggest loss in its history in FY23 of ~\$100M. The market doesn't believe C3's path to positive cash flow
Use of Stock Repurchases and Insider Buying	Shares are inexpensive and being bought	Company has not bought any stock since March 2022. They have an \$85m buyback authorization and repurchased no stock through Oct 31, 2022 when the stock was below \$12/sh. Insiders also have not purchased any stock
D.A. Davidson Buy Rating	D.A. Davidson initiated C3.ai with a \$30 target calling it a "Scarce" Asset	The timing of the initiation report is suspect. Spruce Point has successfully bet against D.A. Davidson tech promotes like iRobot. If it's a scarce asset, why has C3.ai never disclosed any takeover interest from a buyer? Microsoft bet on ChatGPT with an investment, not C3.ai
Capital Buffer	The Company has \$800m+ of net cash	The CEO has shown a shrewd ability to raise money when interest in the Company is hot. It could dilute investors with an equity raise. Is D.A. Davidson expecting to help raise capital in exchange for putting a Buy rating on the stock?
Air Force Contract	Large new revenue opportunity	On Feb 9, 2023, C3.ai issued a press release about providing mission-critical AI solutions to the USAF crowd-sourced flight data program. This news appears identical to previous news released on December 7, 2022



Spruce Point Recently Interviewed A Former C3.ai Engineer Familiar With Its Technology Product Offering

Spruce Point Question

"C3 just announced the launch of a Generative AI Product that will be available in March that will integrate Open AI and advanced models such as ChatGPT. Can you distill what this means and why all the excitement around this?"

Answer

*"The press release that C3.ai released around generative AI says they're doing it for enterprise search. [This implies that] they're helping some large company who has a bunch of files or other information search to find the right things within all of their files. **...the enterprise search thing didn't sound that exciting to me.** I've worked at a lot of software companies where it's a common like hackathon project for engineers to say, we, we've got all these different systems and we wish we could search them and find the answers to what we're looking for. **The trouble in doing that is more often connecting all those systems, security issues, not like our search algorithm isn't good enough.**"*

Spruce Point Question

"Do you have any comments on the D.A. Davidson research report?"

Answer

*"**The enthusiasm in the report around ChatGPT being a game changer for c3, I disagree with.** . . I followed the stock and so I saw the stock jumping in the past week and **it made me laugh that ChatGPT is what made the stock jump.**"*

Spruce Point Question

"How could Generative AI be integrated into C3's current AI architecture?"

Answer

*"The company has chased trends in the past. I would say that generative AI is AI related. It's just not that related to the other types of AI that C3 has been doing. So, like a typical C3 project is kind of building a business intelligence dashboard where a company can go look at all of their data and gain insights from their data, often with some optimization algorithms applied so they can learn how to do things more efficiently. **I just don't, in my mind, see an immediate connection between those types of applications that they've been selling and Generative AI.**"*



Spruce Point Recently Interviewed A Former C3.ai Sales Executive Familiar With Its Technology Product Offering

Spruce Point Question

"What is your take around the recent hype around ChatGPT as it relates to C3.ai?"

Answer

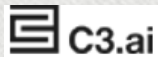
"My opinion there has been a frenzy around ChatGPT, but C3.ai is not in the market space, but they will benefit from, dare I say, the hype around it. I'm not convinced ChatGPT is completely a neutral system. I don't think they have any technology that directly replicates it or would spur on activities in that sector. I may be wrong, they may be working on something."

"My understanding is that the business hasn't fundamentally changed, but the go-to-market strategy has become more based on influencing."

"In my opinion, major launches take 2 to 3 months lead up, so that everyone is aware of the architecture behind what was coming, how to go-to-market, who the targets are, etc. It would appear that there was none of that in this case. I think it came as a surprise to the C3.ai staff as it did to the market. My point is this typically means it is something they are going to do, but they don't necessarily have a pipeline for it at the moment. I'm sure they will, but it's premature for a user case."

We Believe C3.ai's Recent Air Force News Appears To Be Recycled

December 7, 2022 Press Release



C3 AI Announces Fiscal Second Quarter 2023 Financial Results

December 7, 2022

C3 AI Second Quarter Customer Successes

- C3 AI expanded its footprint in the **U.S. Department of Defense** with new and expanded deals with the Chief Digital and AI Office ("CDAO"), Missile Defense Agency, U.S. Air Force, and Defense Counterintelligence and Security Agency ("DCSA")
- C3 AI was awarded a sub-contract via Intelligent Waves LLC for the **USAF Crowd Sourced Flight Data Program**. C3 AI is providing the C3 AI Platform for the rapid development and operational deployment of a roadmap of mission-critical applications in support of the 59th Test and Evaluation Squadron ("TES") located at Nellis Air Force Base in Nevada.

Source: [C3.ai Press Release](#)

February 9, 2023 Press Release



C3 AI Provides Mission-Critical AI Solutions for the United States Air Force Crowd-Sourced Flight Data Program

February 9, 2023

The program discovers and resolves anomalies in fielded weapon systems while providing government-owned high-fidelity data to various national agencies

REDWOOD CITY, Calif.--(BUSINESS WIRE)--Feb. 9, 2023-- [C3 AI](#) (NYSE: AI), the Enterprise AI application software company, was awarded a contract in partnership with Intelligent Waves LLC to provide mission-critical AI applications for the U.S. Air Force Crowd-Sourced Flight Data Program.

The Crowd-Sourced Flight Data Program, run by the 59th Test and Evaluation Squadron (59TES) at Nellis Air Force Base in Nevada, is focused on enabling the rapid delivery of software-defined warfighter capabilities. The program's first focus is the F-35A, the U.S. Air Force's latest fifth-generation fighter aircraft with enhanced sensor and data fusion capabilities that allow it to operate in advanced threat environments.

Source: [C3.ai Press Release](#)

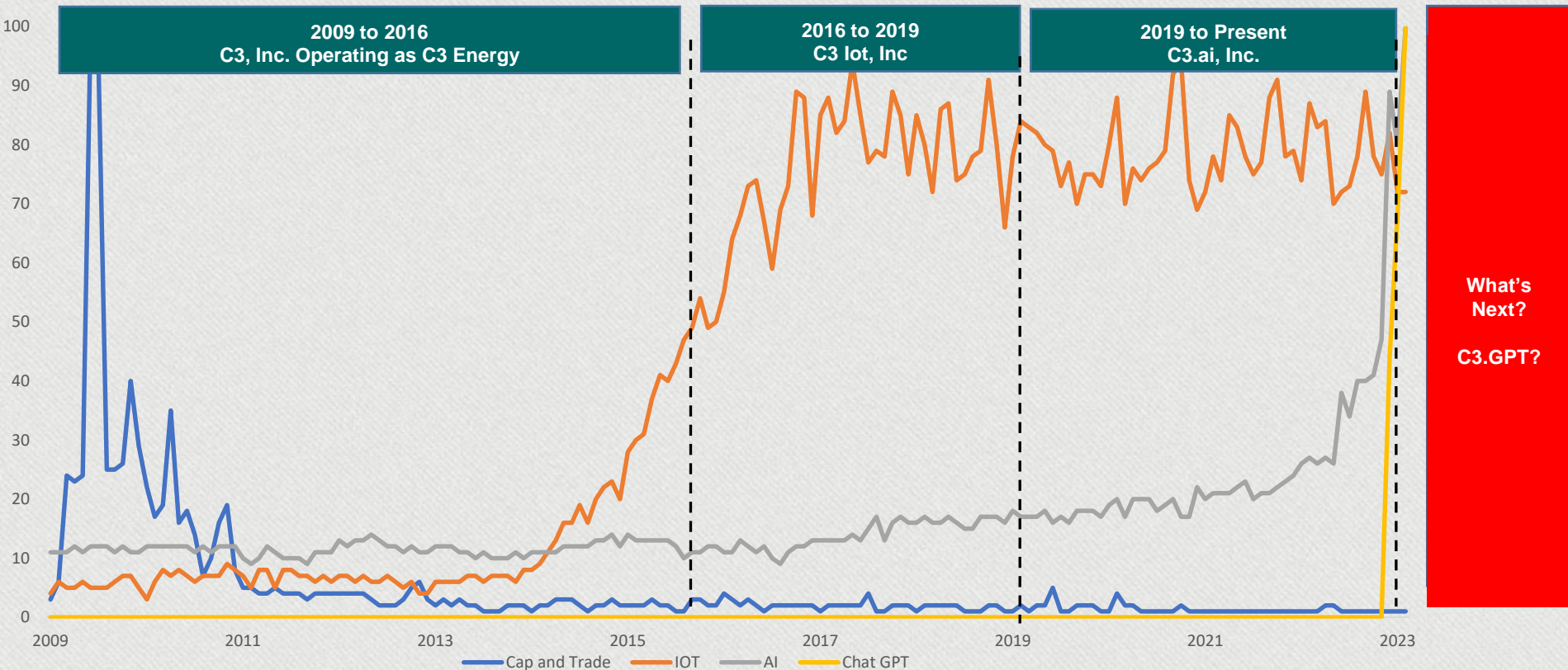
Look Familiar?

Why would C3.ai issue a press release appearing to rehash information during a period with heightened trading activity in its stock price?

Reminder: C3's Long History, And Multiple Name Change Pivots Chasing Technology Buzz Words

We believe C3.ai has gone through multiple iterations as a company chasing popular technology themes and buzzwords while incorporating them into its formal business name. When C3 was created in 2009 it largely operated as [C3 Energy](#) chasing the themes of “Cap & Trade” and “Smart Grid”. As the cap-and-trade fever subsided, the new theme of Internet of Things (IoT) was gaining popularity and C3 pivoted in 2016 by changing its name to [C3 IoT](#). As the IoT buzzword peaked and began to trend down, C3 yet again changed its name to C3.ai to reflect its new focus on “artificial intelligence”. Technology trade circulars such as ZDNet commented on C3.ai as follows, “*patented technology is really a platform-as-a-service for the Internet of Things with some fairly standard AI mixed in.*”

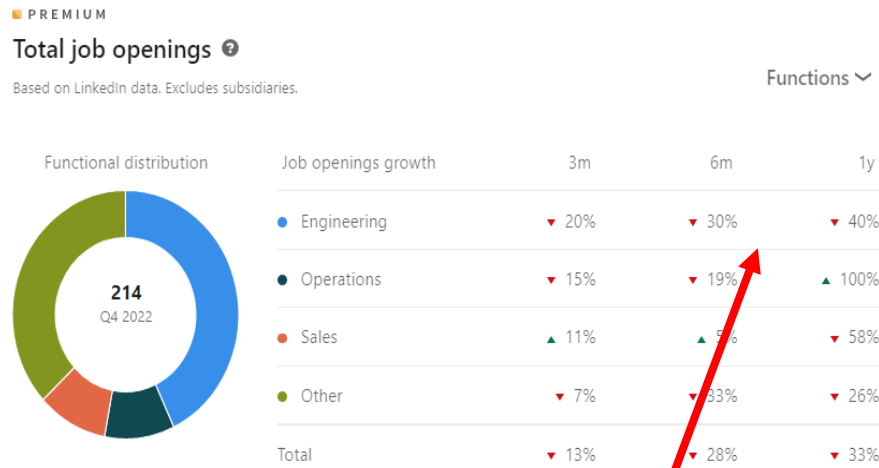
C3 Name Change History Overlaid By Google Keyword Trends



AI's Stock Price Movement Is Not Reflecting Fundamental Realities

The evidence does not indicate that C3.ai ramped up engineering hiring to launch its recently promoted Generative AI Suite. In fact, engineering jobs have been declining. Furthermore, even generally bullish sell-side analysts are not increasing their revenue expectations based on the recent suite announcement. Do investors bidding up AI's stock more than 2x know something that analysts close to management do not?

LinkedIn Job Openings



Source: LinkedIn Premium Insights

**Engineering Jobs
In Strong Decline**

FY23 (YE April 2023) Revenue Estimate Revisions

Time Frame	Estimate	%Chg from Dt
1) Current Estimate	261.500M	0.00%
12) 1 Day Ago	261.455M	0.02%
13) 1 Week Ago	261.455M	0.02%
14) 1 Month Ago	261.636M	-0.05%
15) 3 Months Ago	261.000M	0.19%
16) 6 Months Ago	311.143M	-15.96%
17) 12 Months Ago	332.900M	-21.45%

Source: Bloomberg

**Even C3.ai Promoting
Analysts Are Not
Increasing Revenue
Estimates Based On Its
Generative AI Suite
Launch**

**Revenue
expectations are
down -21% since
Spruce Point
warned about C3.ai
in Feb 2022**

The Market Doesn't Believe C3.ai's Cash Flow Claims, And Neither Do We....

AI appears to have a big credibility issue. The Company has made repeated claims that it will be cash flow positive. However, despite these claims, the current consensus still calls for substantial cash burn over the next twelve months and beyond.

CEO Quote on AI's Cash Flow Forecast

"I don't expect our cash balance to go below \$700m, we're very well capitalized, we're in a position to grow the business, advance the technology and deliver a cash positive, profitable business growing at a very rapid rate."

Source: [Bloomberg Interview](#), Feb 14, 2023

Note: [Cash flow positive claim also made](#) in Aug 2022

AI's Historical and Projected Financials

ADJ	C3.ai Inc	ASC 842	Periodicity	Annuals	Cur	FRC (USD)		
1	2	3	4	5	6	7	8	9
10	11	12	13	14	15	16	17	18
Key Stats	I/S	B/S	C/F	Ratios	Segments	Addl	ESG	Custom
10	11	12	13	14	15	16	17	18
BBG Adj Highlights	BBG GAAP Highlights	Company Model	Earnings	Enterprise Value	EV Ex Operating Leases			
In Millions of USD	2019 Y	2020 Y	2021 Y	2022 Y	Current/LTM	2023 Y Est	2024 Y Est	
12 Months Ending	04/30/2019	04/30/2020	04/30/2021	04/30/2022	10/31/2022	04/30/2023	04/30/2024	
Market Capitalization			6,769.6	1,804.8	2,671.4			
- Cash & Equivalents	156.5	245.0	1,093.4	960.2	840.1			
+ Preferred & Other	319.5	395.0	0.0	0.0	0.0			
+ Total Debt	0.9	9.5	11.7	34.6	28.6			
Enterprise Value			5,688.0	879.2	1,859.9			
Revenue, Adj	91.6	156.7	183.2	252.8	269.8	261.5	316.8	
Growth %, YoY		71.0	16.9	38.0	27.2	3.5	21.2	
Gross Profit, Adj	61.2	117.9	138.7	189.0	195.9	198.9	242.9	
Margin %	66.8	75.2	75.7	74.8	72.6	76.1	76.7	
EBITDA, Adj	-35.5	-66.4	-52.2	-185.3	-243.9	-84.4	-45.7	
Margin %	-38.7	-42.4	-28.5	-73.3	-90.4	-32.3	-14.4	
Net Income, Adj	-33.3	-69.4	-55.7	-192.1	-238.6	-99.9	-58.6	
Margin %	-36.4	-44.3	-30.4	-76.0	-88.4	-38.2	-18.5	
EPS, Adj	-1.32	-1.94	-0.83	-1.84	-2.23	-0.74	-0.31	
Growth %, YoY		-47.0	57.1	-120.8	-62.5	59.6	58.8	
Cash from Operations	-34.9	-61.3	-37.6	-86.5	-159.4			
Capital Expenditures	-6.8	-2.3	-1.6	-3.8	-42.3			
Free Cash Flow	-41.7	-63.6	-39.2	-90.3	-201.8	-41.7	-69.6	

C3.ai has never generated cash flow

The market continues to forecast cash flow burn

Source: Bloomberg

We Actually Agree With The Sell-Side Price Targets For Once And See 45%+ Downside To AI

For once, Spruce Point agrees with the sell-side view of AI's stock price. Deutsche Bank, Morgan Stanley, and JP Morgan, the only bulge bracket firms providing research coverage, all have price targets ranging from \$11 to \$13. Morgan Stanley revisited its price target recently on February 2, 2023, just a few days after C3's "Generative AI" hype press release and remained bearish with a "Sell" rating and a \$12 price target. We think the AI buzz will simmer down significantly from now until AI reports earnings results on March 2, 2023 when the market again will be forced to look at AI's fundamentals and be reminded of its continuous cash burn and lackluster revenue growth.

Broker	Recommendation	Price Target
D.A. Davidson	Buy	\$30
JMP	Market Perform	\$19
Canaccord	Hold	\$14
JP Morgan	Neutral	\$13
Wedbush	Neutral	\$13
Piper Sandler	Neutral	\$13
Morgan Stanley	Underweight/ Attractive	\$12
Deutsche Bank	Sell	\$11
Average Price Target (ex: Recent Davidson Report) % Implied Upside (Downside)		\$13.57 -46%

Source: Bloomberg
Based on \$25 per share stock price

DA Davidson Initiation

C3.ai, Inc.

AI - NYSE

Institutional Equity Research

February 2, 2023

Not Too Late to Participate in Generative AI Re-rating

We are initiating coverage of AI with a **BUY** rating and a \$30 price target. We believe that C3.ai is a truly scarce asset in a critical software arena and that the emergence of generative AI as a "killer app" for Artificial Intelligence provides C3.ai with the opportunity to monetize its considerable investment and track record in the field of Artificial Intelligence. C3.ai is due to introduce a generative AI product in March, which we see as a game changer for the company. Note that we have incorporated use of the generative AI tool ChatGPT into the authoring of this initiation.

D.A. Davidson initiated on February 2, 2023 and the author admits that the report used ChatGPT! How accurate and reliable can this really be? How credible can an analyst covering mostly large, non-AI technology stocks be?

Buy

Price Target

\$30.00

Price (2/1/23)

\$21.68

Industry

TECHNOLOGY

Valuation & Performance

Total Debt/Total Capital

n.a.

Cash per share (10/31/22)

\$7.72

BV Per Share (10/31/22)

\$8.66

Dividend

\$0.00 (0.0%)

Gil Luria

D.A. Davidson & Co

Coverage 6 Companies

Buys 2 Holds 4 Sells 0

Ticker	Company	Recommendation	Tgt Px	Updated!
Summary		Coverage: 6	Average Rating: 3.7	
▼ Firm: D.A. Davidson				
SHOP	CN Shopify Inc	neutral	50.00	02/15/23
MSFT	US Microsoft Corp	buy	325.00	02/08/23
AI	US C3.ai Inc	◆ buy	30.00	02/02/23
ADBE	US Adobe Inc	◆ neutral	350.00	01/17/23
ORCL	US Oracle Corp	◆ neutral	85.00	01/17/23
CRM	US Salesforce Inc	◆ neutral	150.00	01/17/23

Four Basic Questions For C3.ai Management

Spruce Point has four basic and simple questions that C3.ai should clarify to allow investors to assess if the >\$1.0 billion market value increase in its valuation is justified.

Generative AI

Can you give a specific example of how generative AI will help one of your customers? What exactly is the revenue model?

Market partnerships with Microsoft, Amazon, Google (Alphabet)

You promote your partnerships with these leading companies, but do you pay them or do they pay you? Please elaborate on the terms of the relationships.

Cash Burn

You claim to be able to turn cash flow positive, but the market doesn't believe you. What exactly is the path to stop the substantial cash burn?

Undervalued Security

You made the claim this week that AI's stock price is undervalued. Why hasn't the Company recently used the stock buyback program and why no insider buys?