Profitability trends by company

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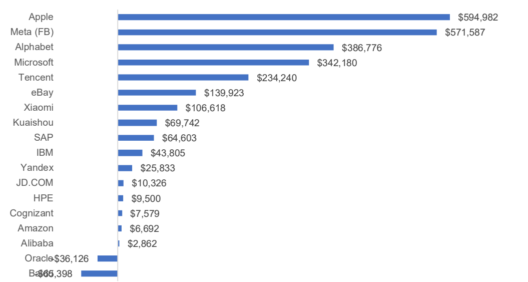
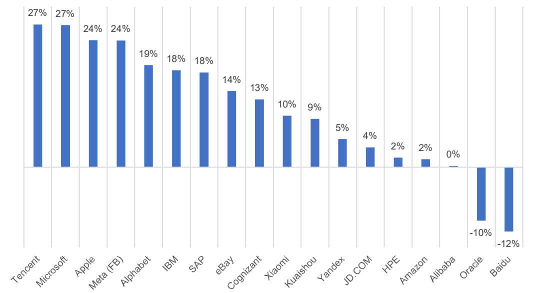
Free cash flow per employee, 3Q25 annualized (US$)



Key webscaler free cash flow margins: 3Q25 annualized



The left chart shows free cash flow per employee. Companies ranked highest tend to pay employees the best. The right chart shows FCF margins for all webscalers, ranked high to low for the 3Q25 annualized period (4Q24-3Q25).

Apple and Meta are standouts on a per-employee basis. They both recorded FCF above a half million US dollars per head over 12 months. Alphabet, Microsoft and Tencent take the next three spots, in the $200K-$400K range. Apple is high because it has not exploded its capex in a chase for AI greatness. Apple appears to be taking a wait and see approach with AI. Assuming the bubble pops, Apple will be able to access lots of cut-rate data center space and GPU access; its future looks bright in this regard. Oracle and Baidu are both underwater, with negative free cash flow. Oracle is betting on strong government connections to help it through the current spending wave, while Baidu is focused on autonomous driving and transforming its search credentials into the AI cloud.

Business mix trends

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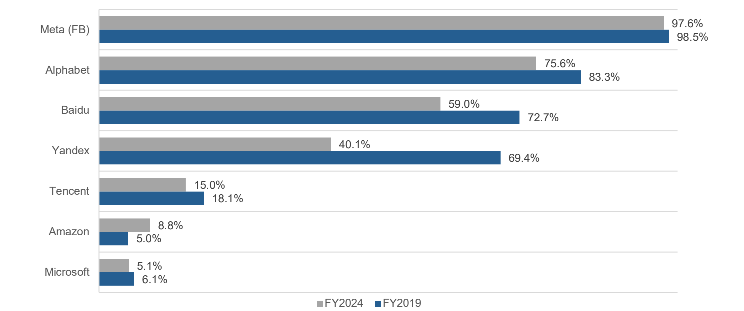
Advertising business, % total revenues



The webscale sector is a mixed bag of companies. The main linkage is a reliance on a costly footprint of data centers. Some webscalers started as software companies and moved into services and hardware; some webscalers started with devices and have added services and software over time. Several get most of their revenues from ecommerce.

For a subset of webscalers, advertising accounts for a large portion of their revenues. Meta is the standout, as nearly all revenues still come from ads despite its effort to diversify ("Our Ray-Ban Meta AI glasses are a real hit. And this will be the year when we understand the trajectory for AI glasses as a category...".) Alphabet is not far behind, but has diversified a bit; non-ad revenues are now nearly 25% of total. Microsoft and Amazon are at the other end of the spectrum, with little exposure to ads. Amazon has been trying to develop this market, though, and now is approaching 10% of total revenues.

One important point: ad revenues are tied to consumer spending volatility, so should be watched carefully given concerns about recession or worse coming to the US market in 2026. Meta is most at risk, as most other webscalers have made some progress in diversifying. One uncertainty is whether AI platforms will end up relying heavily on ad revenues as they scale. There are few signs today that subscription models are proving viable beyond early adopters. Webscalers will need strong adoption by specific large enterprise verticals to even come close to justifying their massive capex outlays.

WNO spending trends: Capex and R&D

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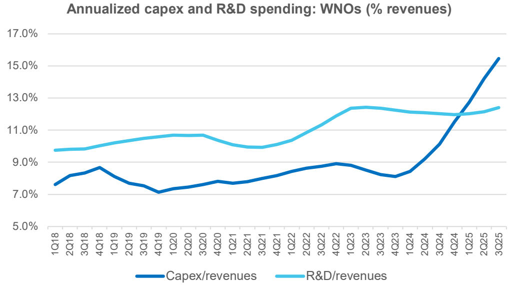
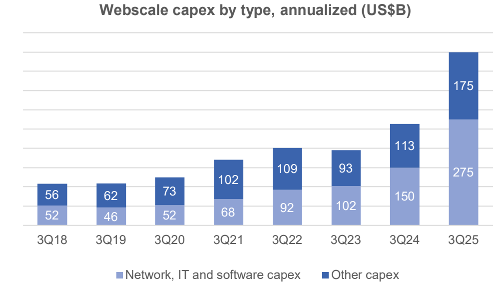
Annualized capex and R&D spending: WNOs (% revenues)



Webscale capex by type, annualized (US$B)



Capex has been surging: 3Q25 marked the 6th straight quarter of YoY capex growth in excess of 50%. As a result, capital intensity hit 15.5%, from just 10.1% one year ago. R&D hit a new all-time high, climbing to 12.4% of revenues. A big portion of capex is for real estate - and lots of concrete. The data center "shells" are getting bigger, though. Tech capex is now >60% of total. Most of this went to for existing or in-process data centers so that webscalers can accelerate their AI model development. There are also big energy-related costs for UPS, backup power gensets, transformers, etc. Webscalers are also starting to spend big on fiber & transport, connecting together their vast AI factory footprint. This benefits a range of vendors beyond NVIDIA, such as Ciena.

The recent capex surge is driven by logic and fear. NVIDIA is stirring up FOMO, using geopolitical tension to its advantage, and using their moment in the sun to extend their power into any post-bubble future. That includes a push into the mobile RAN with a recent tie-up with Nokia. This all feels a bit familiar to anyone who lived through the dotcom bubble of the late 1990s.