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Introduction

- **Objective**
 - Explore artificial intelligence's (AI) and machine learning's (ML) transformative impact on company & sector growth and how to identify AI/ML companies with the potential for sustained growth.
- **Focus**
 - Secular growth vs. cyclical.
 - Recent developments and current state of the AI/ML industry.
 - Long-term growth investing and industry insights.
- **Strategy**
 - Introduce the AAI Growth Investing approach.
 - Demonstrate how to use proprietary G-Score & Growth Grade to identify high-quality, stable companies with high growth potential.
 - Complete portfolio management system, including selling discipline.

AI & ML Explained

- Overview: AI simulates human intelligence; ML enables data-driven decisions.
- Evolution: From symbolic systems to neural networks.

Everyday Applications of AI & ML

- **Personalized Recommendations:** Streaming services like Netflix and Spotify use AI/ML to suggest shows and music based on user preferences.
- **Voice Assistants:** Siri, Alexa, and Google Assistant use AI to understand and respond to user queries.
- **Smart Home Devices:** AI powers devices like smart thermostats and security cameras to optimize home environments.
- **Fraud Detection:** Banks use AI to detect unusual transactions and prevent fraud.
- **Customer Service:** AI-driven chatbots assist customers with common queries, providing 24/7 support.
- **Image Recognition:** Social media platforms use AI to recognize faces and objects in photos.
- **Online Shopping:** E-commerce platforms use AI for product recommendations, personalized marketing, and price optimization.

Long-Term, Sustainable Growth: Understanding Secular Growth

- Definition: Long-term expansion driven by fundamental shifts.
- Characteristics: Sustained revenue growth, competitive advantage, innovation focus.
 - Less susceptible to market and economic cycle.
- Investor Appeal: Stability, less top-line and bottom-line volatility, resilience.

Secular Growth vs. Cyclical Growth

- Definitions
 - Secular Growth: Long-term growth trends driven by structural factors (e.g., technology, demographics).
 - Cyclical Growth: Growth tied to economic cycles.
- Why Secular Growth Matters
 - Consistency
 - Predictability
 - Resilience

Key Factors Driving Secular Growth

- Technological Innovation: AI, Internet, Renewable Energy.
- Demographic Shifts: Aging populations, urbanization, rising middle class.
- Globalization: New markets, information flow.
- Regulatory Changes: Favorable environments, green energy.
- Consumer Preferences: Demand for sustainability, digital services.

The Role of AI and ML in Secular Growth

- Core Concepts:
 - AI/ML as key drivers of innovation.
 - Automation and efficiency improvements.
 - Enhanced decision-making capabilities.

AI and ML Applications Across Industries

- **Industries Covered:**
 - Healthcare: Personalized medicine, predictive analytics.
 - Finance: Fraud detection, algorithmic trading.
 - Retail: Customer insights, supply chain optimization.
 - Manufacturing: Predictive maintenance, quality control.
- **Impact:** How these applications contribute to long-term growth.

AI-Driven Growth Sectors

- **Technology:** NVIDIA, Alphabet (Google) – AI research and applications.
- **Healthcare:** Intuitive Surgical – AI in diagnostics and personalized medicine.
- **Financial Services:** JPMorgan Chase – AI in fraud detection, risk management, customer service.
- **Manufacturing:** Siemens – AI in product design, quality control, predictive maintenance.
- **Consumer Goods and Retail:** Amazon – Personalized customer recommendations, warehouse automation, supply chain optimization.

Long-Term Benefits of AI/ML-Driven Growth

- Scalability: How AI/ML allows for scalable growth.
- Competitive Advantage: Staying ahead of competitors.
- Innovation: Continuous improvement and innovation cycles.

Investment Risks and Challenges

- Regulatory Risks: Data privacy, biases, compliance costs.
- Technological Obsolescence: Rapid advancements.
- Cybersecurity: Vulnerabilities in AI systems.
- Labor Market Impact: Job displacement and policy responses.

Future Outlook

- Trends to Watch:
 - The evolution of AI and ML technologies.
 - Potential new applications and industries.
 - Long-term impact on global business strategies.

AAII's Growth Investing Strategy

- Objective Framework: Growth Grade, G-Score.
- Selection Criteria: Financial health, sustainable growth.
- Real-Money Model Portfolio: Criteria for inclusion.

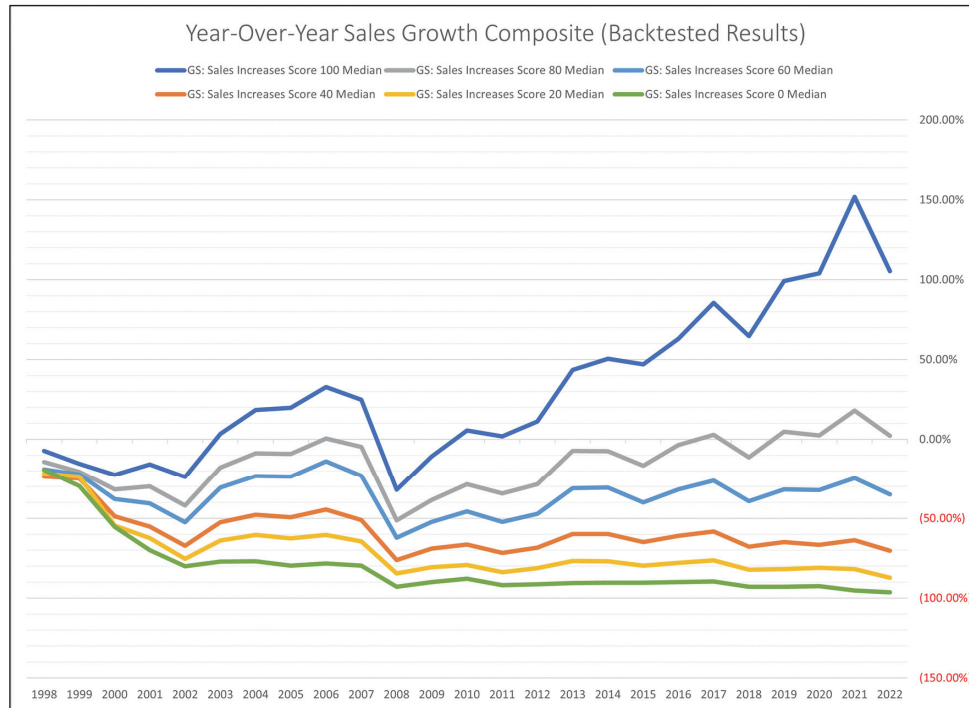
Growth Investing the “Right” Way

- Goal was to find a growth investing approach that overcomes the shortfalls of many growth-oriented approaches.
- Avoid the highest growth on an absolute basis.
- Look for consistent, sustainable growth.
- History of profitability and cash flow generation.
- Fundamental factors that indicate “quality growth” going forward.
- Have a long-term investing horizon that offsets the impact of high current valuations.

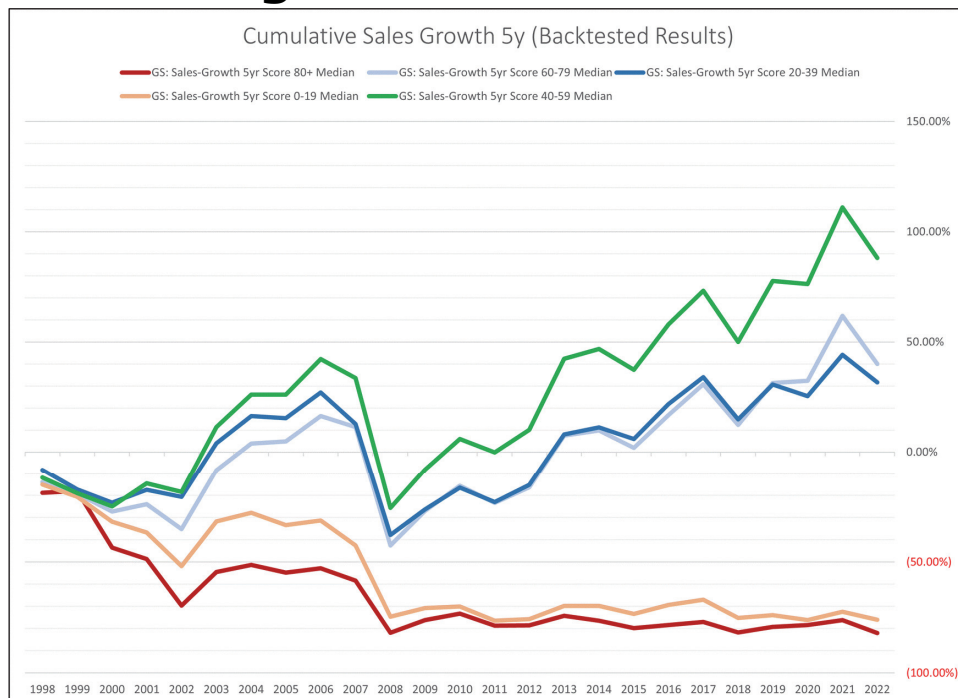
Identifying Sustainable Growth Stocks

- Cornerstone Element
- Growth Grade
 - Reward companies with strong and sustainable growth, not the highest absolute growth.
 - Higher grades, too, for a history of annual positive cash from operations and year-over-year sales growth.

Impact of Consistent Annual Revenue Growth

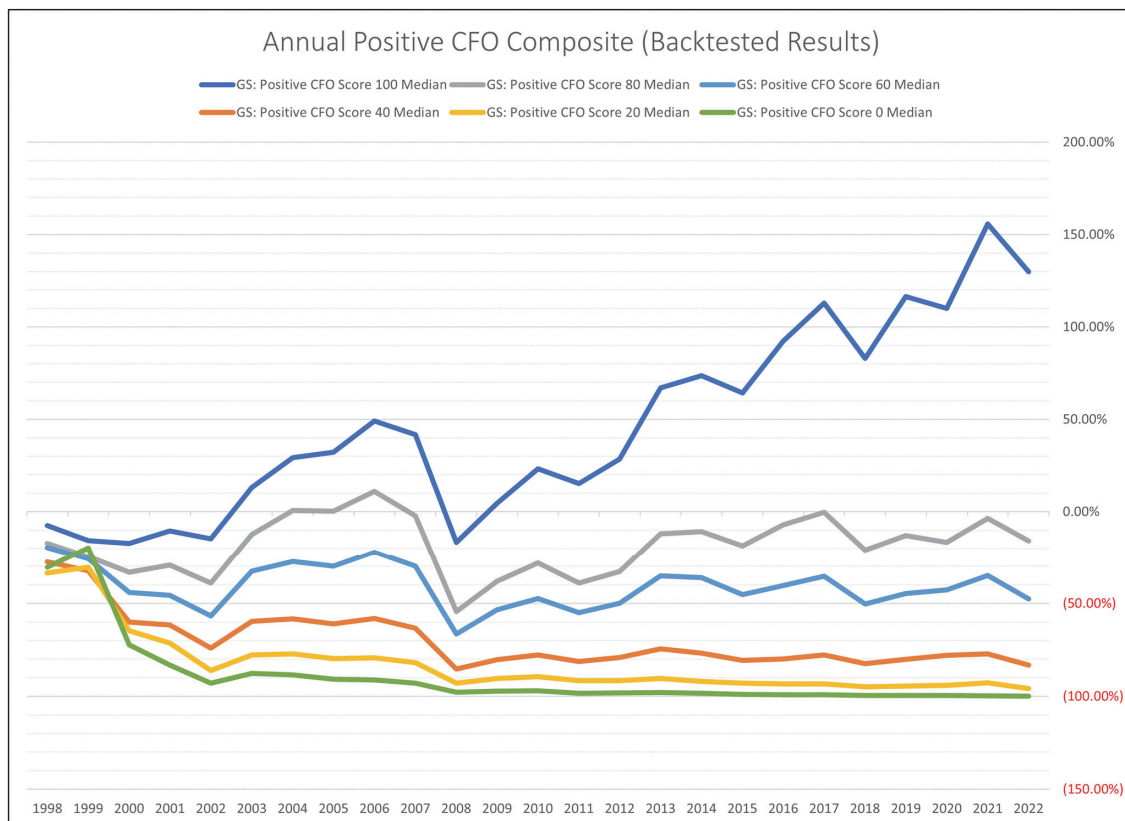


Highest Growth Doesn't Necessarily Mean Highest Performance



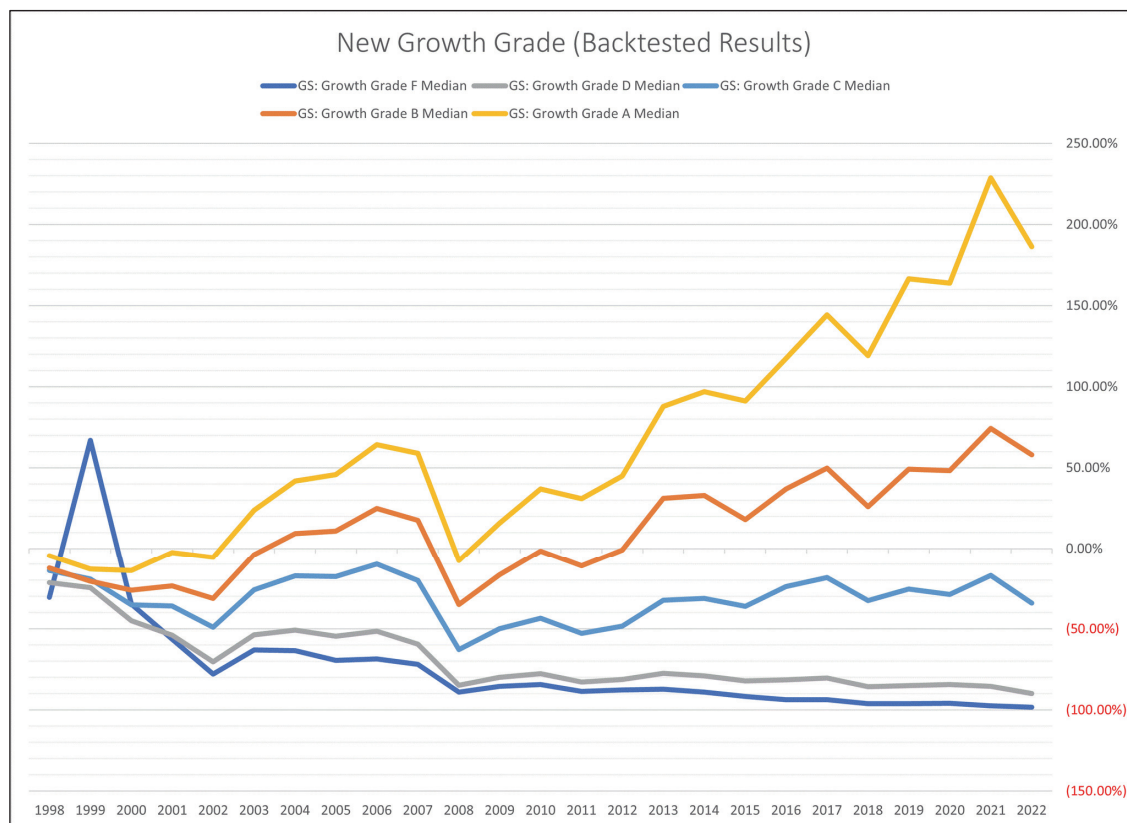
Cash (From Operations) is King

- Indicates an ability to sustain growth organically without relying on external financing.
- A key indicator of a company's financial health and operational efficiency.
- Allows companies to invest in new opportunities, technology and innovation.



The A+ Investor Growth Grade

- Reward companies with strong and sustainable growth, not the highest absolute growth.
- Higher grades, too, for a history of annual positive cash from operations and year-over-year sales growth.



High Growth Potential Often Means High Valuations

- The AAI Growth Investing approach is not “growth at a reasonable price” or GARP.
- Given the requirements for strong, sustainable revenue growth and positive cash flows for Growth Investing candidates, high multiples to earnings, book value, sales and cash flow are not surprising.
- High valuations could trigger short-term price volatility, especially around earnings announcements.
- However, longer holding periods offset the near-term impact of valuations on price performance.

High Growth Expectations = High Valuations

Name	Ticker	Value		Sector
		Score	Grade	
		3	F	Technology
		4	F	Healthcare
		4	F	Technology
		4	F	Technology
		5	F	Technology
		7	F	Consumer Cyclical
		8	F	Technology
		8	F	Industrials
		9	F	Technology
		10	F	Technology
		11	F	Consumer Cyclical
		11	F	Technology
		15	F	Consumer Non-Cyclical
		17	F	Technology
		20	F	Technology
		21	D	Technology
		23	D	Consumer Cyclical
		33	D	Financial
		35	D	Healthcare
		47	C	Basic Materials

Top-Line Growth: Powering Long-Term Stock Performance

Sources of Total Shareholder Return of Top-Quartile Performers
S&P 500 (1990–2009); BCG Analysis & Morgan Stanley Research



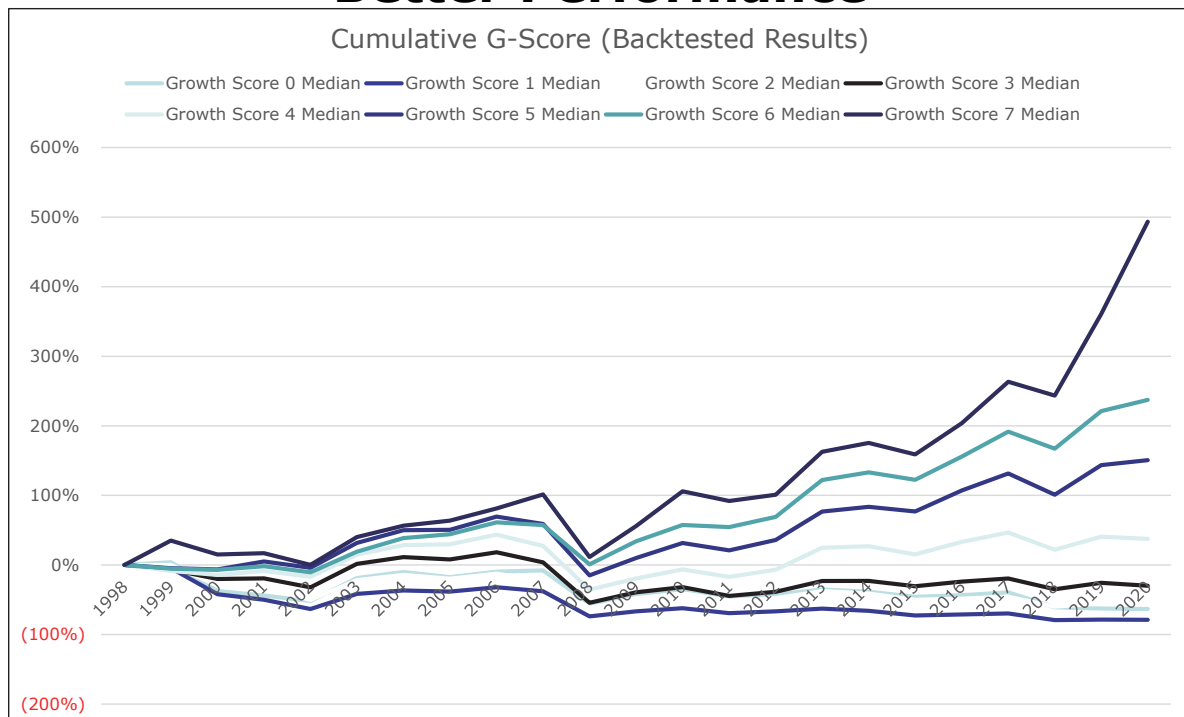
Separating Winners & Losers Among Growth Stocks

- Mohanram's G-Score
 - An eight-factor model using financial statement analysis for analyzing growth companies.
 - A means of evaluating the "quality" of a company's growth prospects by looking at elements of profitability, operating stability and accounting conservatism.

G-Score Tests

- Profitability
 - ROA > Industry
 - Cash Flow ROA > Industry
 - Operating Cash > Net Income
- Earnings Stability
 - Earnings Variability < Industry
 - Sales Growth Variability < Industry
- Accounting Conservatism
 - R&D Intensity > Industry
 - Capex Intensity > Industry
 - Advertising Expenditure Intensity > Industry

Higher G-Score Companies Generate Better Performance



Growth Investing Selection Criteria

- G-Score of 7 or 8
- Growth Grade of A (score of 81 or higher)
- Quality Grade of A or B (score of 61 or higher)
- Positive year-over-year sales growth for the latest quarter
- Positive trailing 12-month cash from operations
- Minimum market cap and liquidity requirements
- Up-to-date SEC filings
- Exclude OTC stocks, REITs, Russian and Chinese firms

When to Sell

- G-Score falls below 5 (from 7+)
- Growth Grade falls to D or lower (score below 41, from 81+)
- Quality Grade falls to F (score below 21, from 61+)
- Five-year sales growth falls to bottom 20%
- Negative year-over-year sales growth for four consecutive quarters
- Negative trailing 12-month cash from operations
- Relative strength from latest high falls below 50%
- After being held for three years, stock has underperformed iShares Core S&P 500 ETF (IVV) benchmark

Since Inception Performance

- Since its inception on October 26, 2022, the Growth Investing model portfolio generated a cumulative return of 62.6% versus 46.6% for the iShares Core S&P 500 ETF benchmark, through August 30, 2024.
- Year-to-date, the portfolio has risen 12.9% versus 19.6% for the benchmark.
- For August, the portfolio was up 4.2%, while the benchmark gained 2.4%.

Using AAI Growth Investing to Analyze AI & ML Companies

INTUITIVE

Intuitive Surgical (ISRG) Overview

- **Da Vinci Surgical System**
 - Enables surgeons to perform complex, minimally invasive procedures.
 - Urologic
 - Gynecologic
 - Cardiothoracic
 - General surgery
 - Costs between \$500,000 and \$2.5 million.
 - In March 2024, ISRG received FDA approval for the da Vinci 5 next-gen system.
- **Market Penetration**
 - Installed base of 8,606 da Vinci Systems (12/31/2023).
 - Up 14% from 2022.
 - Completed ~1,875,000 surgical procedures in 2022.
 - Up 17.6% from 2021.

Growth Analysis of Intuitive Surgical

- **AI Initiatives:** Minimally invasive robotic-assisted surgeries.
 - Surgical assistance and precision
 - Data-driven insights
 - Automation and workflow optimization
 - Learning and adaptation
 - Post-operative analysis
 - Continuous improvement
- **Growth Trajectory:** Innovative medical technologies.
- **Outlook:** Enhanced medical procedures through AI.

Growth Analysis of Intuitive Surgical

- **Growth Score/Grade:** 85/A
- **Five-Year Sales Growth:** 13.9% CAGR (68th percentile)
- **Year-Over-Year Sales Increases:** 5/6 years of annual revenue increases
 - 2.7% decline in 2023 (COVID)
 - Average annual increase of 15.1%
- **Five-Year Positive Cash From Operations:** 7/7 years
 - \$1.66 billion TTM

G-Score Analysis of Intuitive Surgical

- Return on Assets (+1)
 - 13.4% vs. (36.4%) for industry.
- Cash Flow ROA (+1)
 - 12.0% vs. (16.4%) for industry.
- Accruals (0)
 - TTM CFO of \$1.66 billion vs. net income of \$2.09 billion.
- Earnings Variability (+1)
 - ROA variance of 6.0% vs. 177.3% for industry.
- Sales Growth Variability (+1)
 - Annual sales growth variance of 157.9% vs. 412.5% for industry.
- R&D Intensity (0)
 - 7.6% vs. 11.9% for industry.
- Capex Intensity (+1)
 - 8.9% vs. 1.1% for industry.
- Advertising Intensity (0)
 - TTM advertising expense not available.

Quality Analysis of Intuitive Surgical

- Growth Score/Grade: 85/A
- Five-Year Sales Growth: 13.9% (68th percentile)
- Year-Over-Year Sales Increases: 5/6 years of annual revenue increases
 - 2.7% decline in 2020 (COVID year)
 - Average annual increase of 15.1%
- Five-Year Positive Cash From Operations: 7/7 years
 - \$1.66 billion TTM
- A+ Value Score/Grade: 55/C
- A+ Quality Score/Grade: 91/A

AAII Growth Analyzer Tool



Growth Investing Special Report

- **Comprehensive Analysis:** This report provides in-depth insights into how AI and machine learning are driving secular growth across multiple sectors, offering long-term investors valuable perspectives.
- **Evidence-Based Strategy:** Introduces the AAI Growth Investing approach, an evidence-backed strategy designed to help investors identify companies with sustainable long-term growth potential.
- **Sector-Specific Insights:** Detailed case studies of Alphabet (Google), Intuitive Surgical, and Nvidia; sector analysis highlights key growth opportunities, enabling investors to make informed decisions.
- **Risk Assessment:** Provides a thorough examination of potential risks, including regulatory challenges, helping investors navigate the evolving landscape.
- **Actionable Information:** The report offers actionable investment strategies tailored to the rapidly advancing AI sector, positioning investors for long-term success.

Visit: invest.aaii.com/growth-investing-report

Purchase the Report for \$25 and receive a complimentary 3-month trial to AAI Growth Investing

The image shows the cover of a report titled "Identifying Sustainable Growth in AI" by AAI Growth Investing. The cover features a dark blue background with a faint image of a robotic hand holding a smartphone. A line graph with green and red bars is visible in the upper right. Text on the cover includes the AAI logo, the title "Identifying Sustainable Growth in AI", a call to action "Download the Report for \$25", and a note about a complimentary 3-month trial. A phone number "Call 312-766-8874" is in the top right corner.

AAII GROWTH INVESTING

Identifying Sustainable Growth in AI

Download our special report, "The Rise of AI and Machine Learning in Growth Stocks," to get started and learn to use a rules-based strategy to navigate market volatility.

With your special report purchase, get full access to AAI Growth Investing for three months to see how our strategy can help you identify stocks with long-term growth potential.

Download the Report for \$25

Receive a complimentary 3-month trial

Call 312-766-8874

The Special Report pdf link will be sent to current AAI Growth Investing and Platinum subscribers later this week.

Conclusion

- Summary: AI and ML are pivotal in driving growth.
- Opportunities: Numerous avenues for sustained returns.
- Call to Action: Explore AI-driven growth with Growth Investing special report and Growth Investing tools.

Q&A

Thank You!

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