

The background of the slide is a dark teal or navy blue color with a complex, organic, marbled pattern. The pattern consists of lighter, brownish-gold veins and swirls that create a textured, almost cellular appearance. The overall effect is sophisticated and modern.

BREAKWATER

June 2026

Earnings, Expectations, and Enterprise Value:

What Investors Are Underwriting and Repricing Now

About Breakwater Capital Markets

We have a global mandate.

We bring distinctive judgment and deep market insight to the decisions that shape valuation, command investor confidence, and position companies for enduring leadership.

Our proprietary Valuation Operating System (VOS) transforms how companies build, defend, and accelerate value, integrating market intelligence, compelling equity narratives, and precision investor engagement into a single, powerful engine. The result is sharper perception, stronger confidence, and resilient valuation in an increasingly uncertain and complex global environment.

Trusted by boards, management teams, and investors worldwide, we help leaders anticipate shifts, seize opportunity, create advantage, and excel on the most demanding global stage driving sustained value creation.

Key Takeaways

1

The market is moving from rewarding growth duration to rewarding cash duration.

2

AI is now becoming a capital-cycle test, not a technology theme.

3

The buy side is underwriting resilience instead of optionality.

4

The new multiple is being set by new disclosure.



YTD Reset

The market has not just lowered multiples it has changed the evidence required to earn them.

1

Growth

Quality of growth

2

TAM

Monetization durability

3

AI Label

AI unit economics

4

EPS Beat

Guidance reliability

5

Margin Story

Cash conversion

6

Expansion

Balance sheet resilience

7

Vision

Operating precision

8

Buyback Optics

Balance sheet resilience

9

Narrative Novelty

Capital allocation ROIC

10

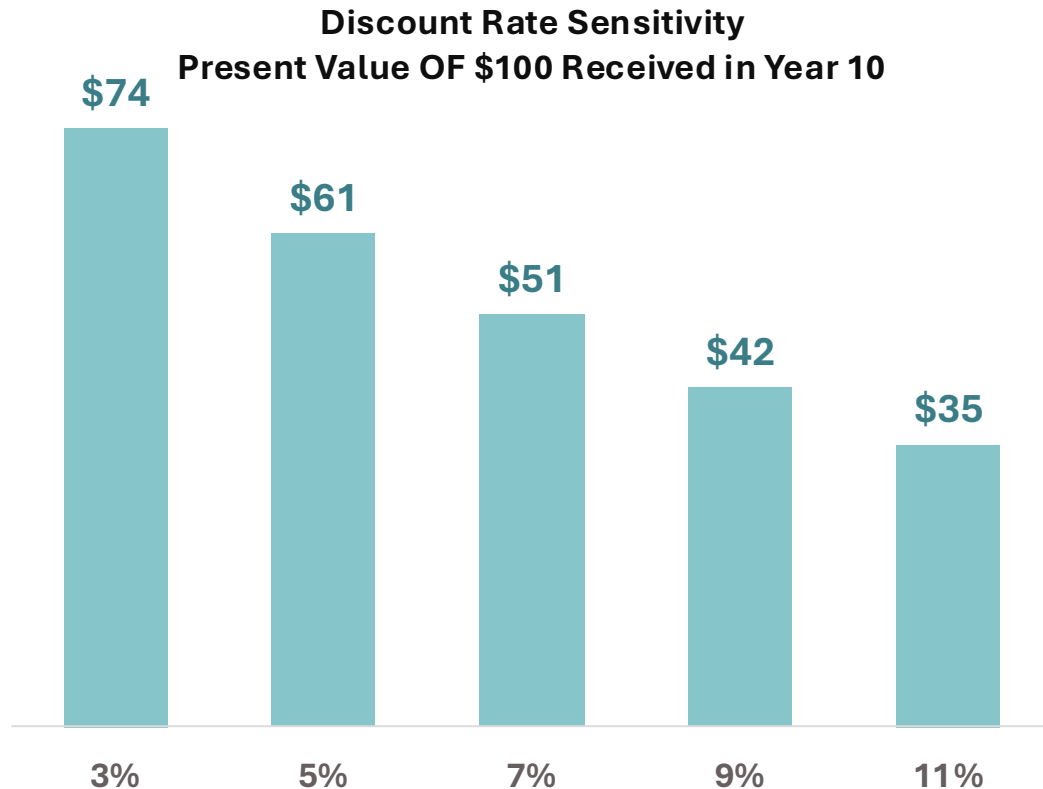
Disclosure Volume

Decision-useful transparency

Cost of capital, AI CapEx, and market concentration have combined to create a more unforgiving underwriting environment.



Longer duration and unproven cash flow are more expensive to underwrite.



3.5-3.75%

Fed Funds Target Range

4.57%

10Y Treasury Yield

Valuation Implication

- Small changes in terminal discount rates produce large changes in long-duration equity value.
- FCF timing has become a strategic variable: “when” matters as much as “how much.”
- Capital intensity is repriced because capex consumes near-term cash before productivity is proven.

Investors have shifted from predicting the macro path to underwriting who can self-fund through volatility.

Key Variable	6-18 months ago	Today
Rates	Higher-for-longer risk	FCF durability premium
Liquidity	Tighter risk budget	Quality and liquidity screens
Geopolitics	Fragmented supply chains	Resilience premium
Fiscal	Debt-service sensitivity	Balance sheet scrutiny
AI CapEx	CapEx intensity test	ROI disclosure demand
Productivity	Proof lag uncertainty	Unit productivity evidence
Labor	Low-hire / low-fire	Demand visibility focus
Regulation	Policy and antitrust risk	Scenario discount

AI CapEx can justify premium valuation, but only when the economics are specific, measurable and time-bound.

Multiple Impact by Capital Intensity and FCF Proof

	Low	Medium	High
Low CapEx/ High FCF	4	4	3
High CapEx/ Visible ROI	4	3	3
High CapEx/ Uncertain ROI	2	2	1
Negative FCF/ long duration	2	1	1

\$670B

Planned 2026 Cloud AI
CapEx

~40%

Expected contribution of AI
investments to 2026 S&P
500 EPS growth

Investor question has changed

- From: “How large is the opportunity?”
- To: “When does capital convert to incremental FCF, and how measurable is the conversion?”



New Information Environment

AI shifted from catalyst to credibility test in less than two years

Q3 2025

306

Record at the time; AI-citing firms outperformed non-citers in several windows

Q4 2025

331 / 68%

New record; AI-citing firms underperformed non-citers during the Q4 window

Current implication

Proof > mention

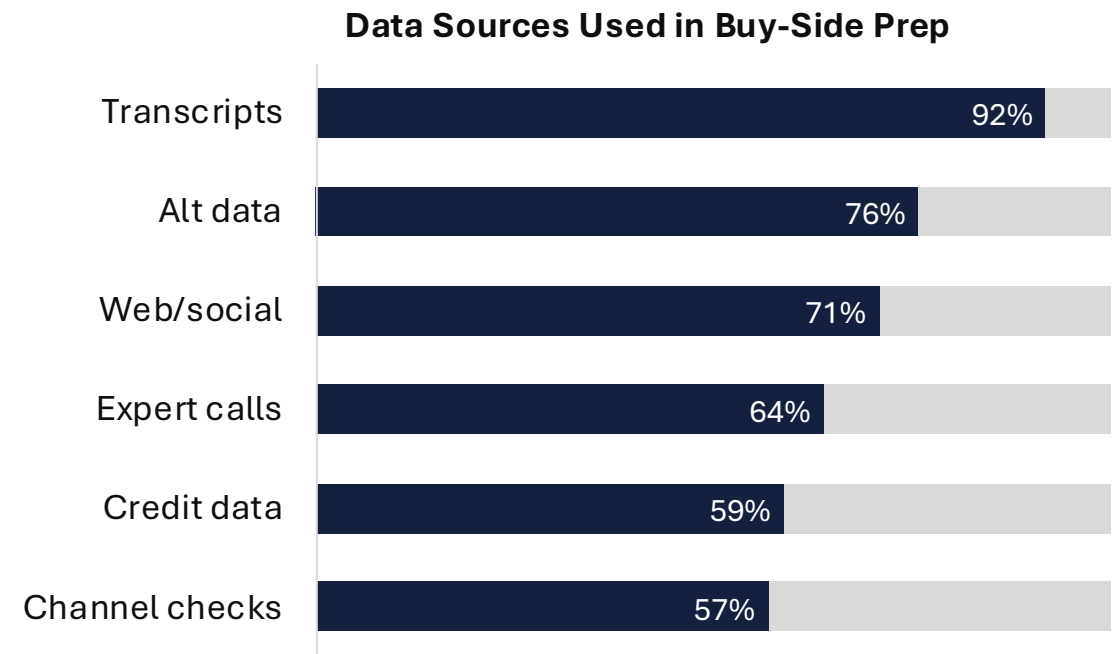
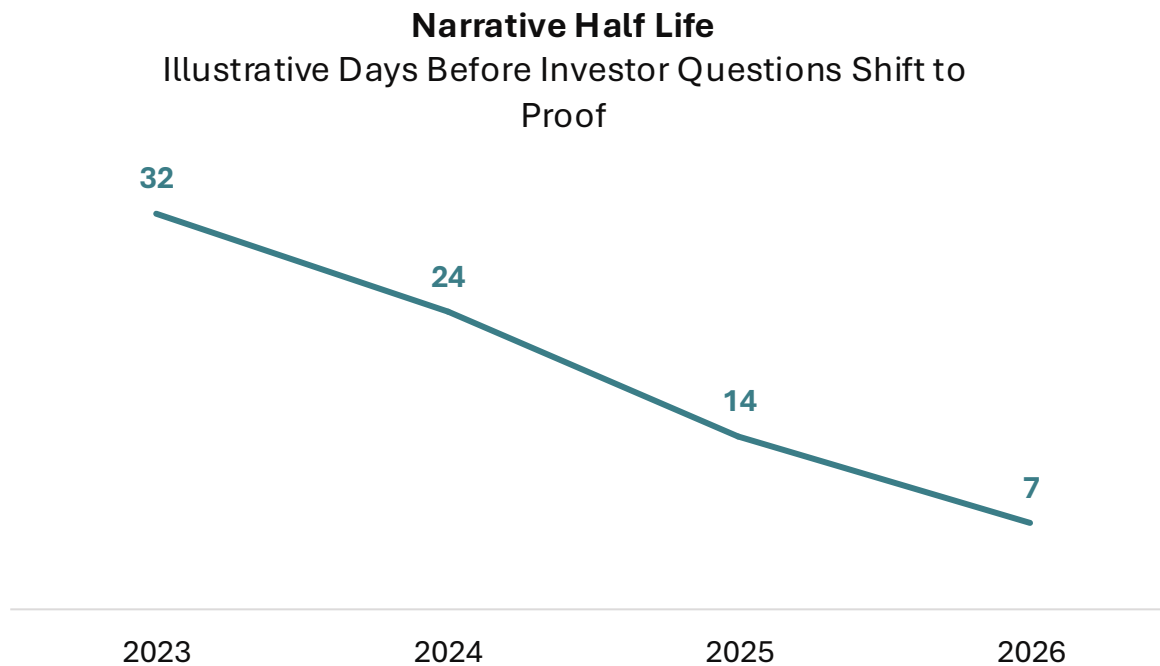
Investors are now parsing use case, monetization, capex intensity, and margin flow-through

AI mention count shifted from differentiated to saturated

The next market-moving question: where does AI show up in revenue, margin, customer retention, risk, and capital intensity?

Narratives are marked-to-market faster; imprecision now compounds into skepticism rather than optionality.

The asymmetry has inverted: management controls disclosure, but not interpretation velocity.



When benchmarks are concentrated, institutions require more explicit proof to own anything outside the consensus winners.

45%

Five largest stocks as share
of Russell 1000 Growth

51%

Tech sector share of
Russell 1000 Growth

Portfolio Construction Sequence

Core Compounders

High credibility + self-
funded growth



Cyclical Recovery

Balance sheet + demand
visibility



AI infrastructure

CapEx ROI must be
auditable



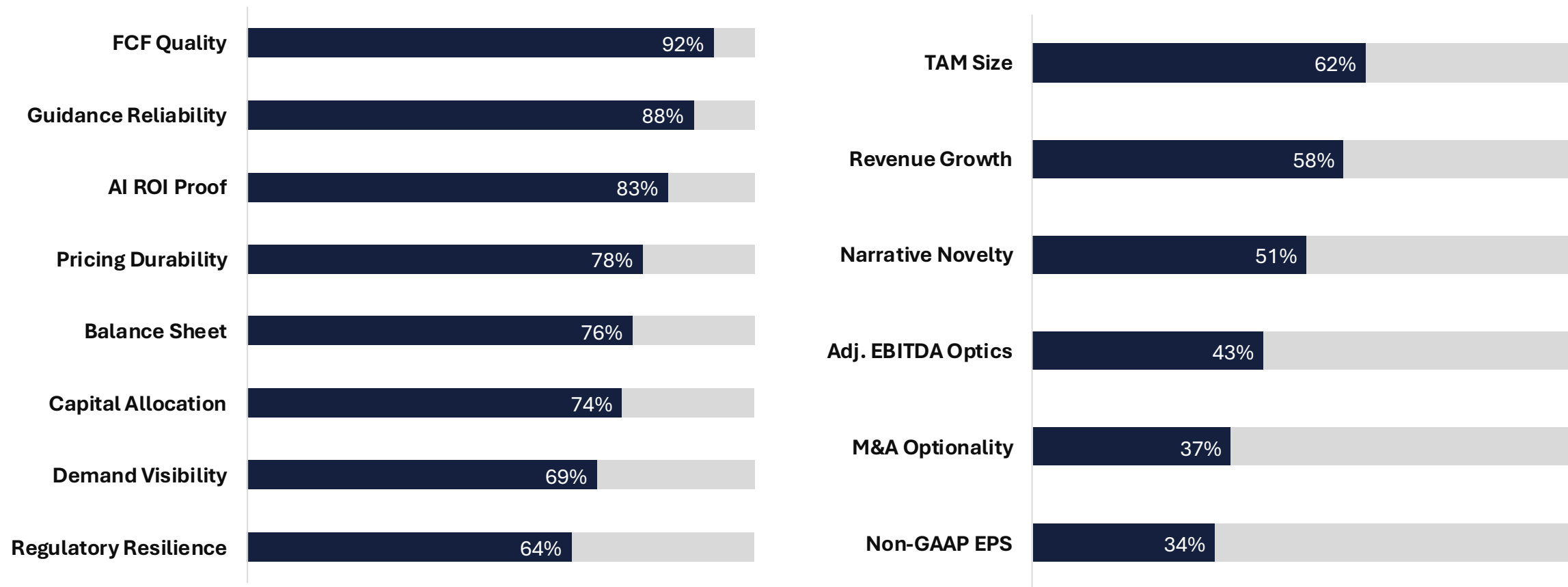
Idiosyncratic Alpha

Activist / restructuring
discipline



Underwriting Reset

The investor scorecard has shifted from addressable-market to measurable earnings power.



A valuation premium is increasingly earned by reducing uncertainty, not amplifying optionality.

Key Variable	Old Premium Signal	New Premium Signal
Growth	High revenue growth	High-quality growth + retention
AI	AI roadmap	AI ROI by use case
Margins	Expansion targets	Sustainable cash margins
Guidance	Beat-and-raise	Narrow and reliable range
Balance Sheet	Optional debt capacity	Liquidity and maturity ladder
Capital Allocation	Buyback / M&A story	ROIC-based capital sequencing
Investor Narrative	Large TAM	Proof of conversion
Risk Disclosure	Low disclosure	Transparent downside cases

The hierarchy of disclosure has inverted: strategic optionality is credible only after cash mechanics are understood.

1 FCF conversion Cash tax, working capital, capex intensity, SBC dilution

2 Unit economics Cohort profitability, retention, ARPU, utilization

3 Operating leverage Fixed-cost absorption, automation, productivity

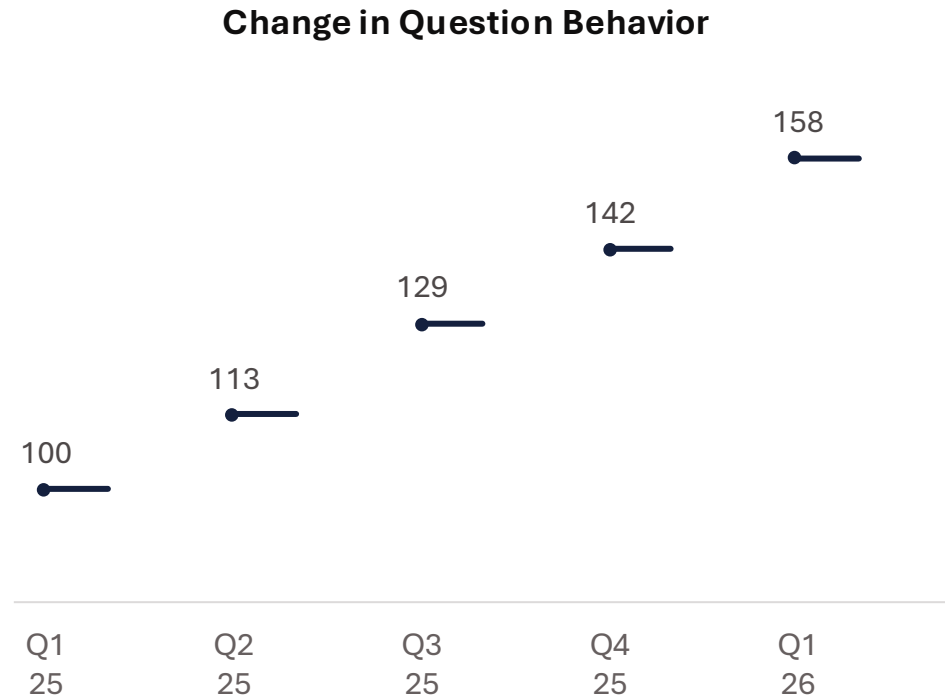
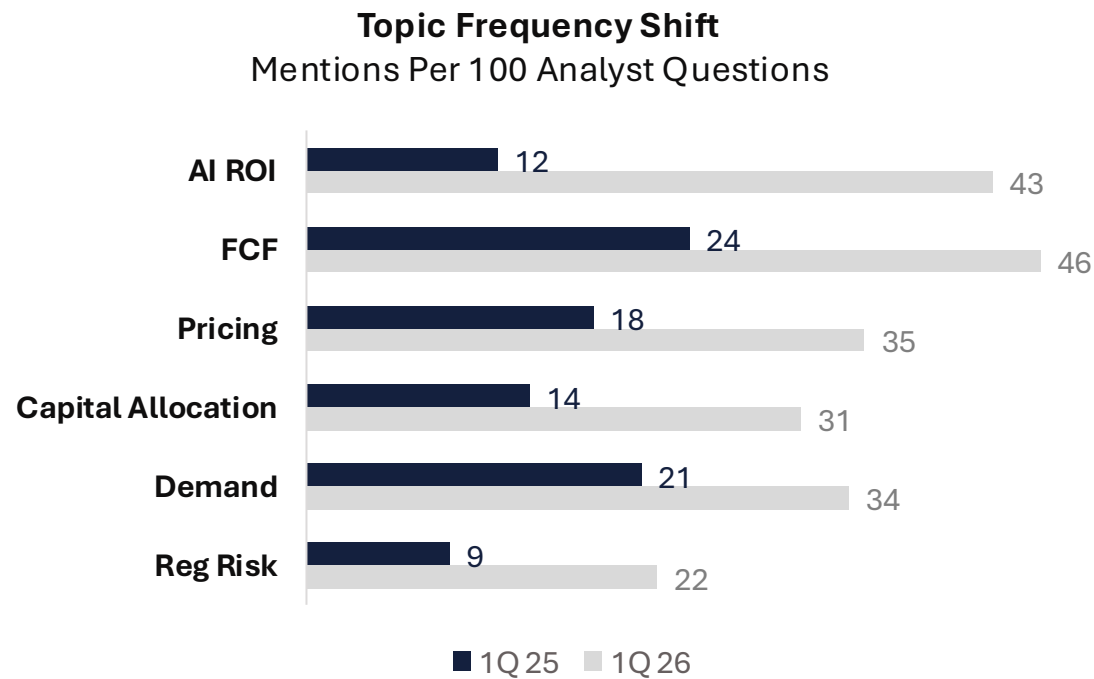
4 Revenue quality Pricing, volume, renewal, backlog, mix

5 Strategic optionality AI, M&A, TAM expansion, new products



Earnings Call Transformation

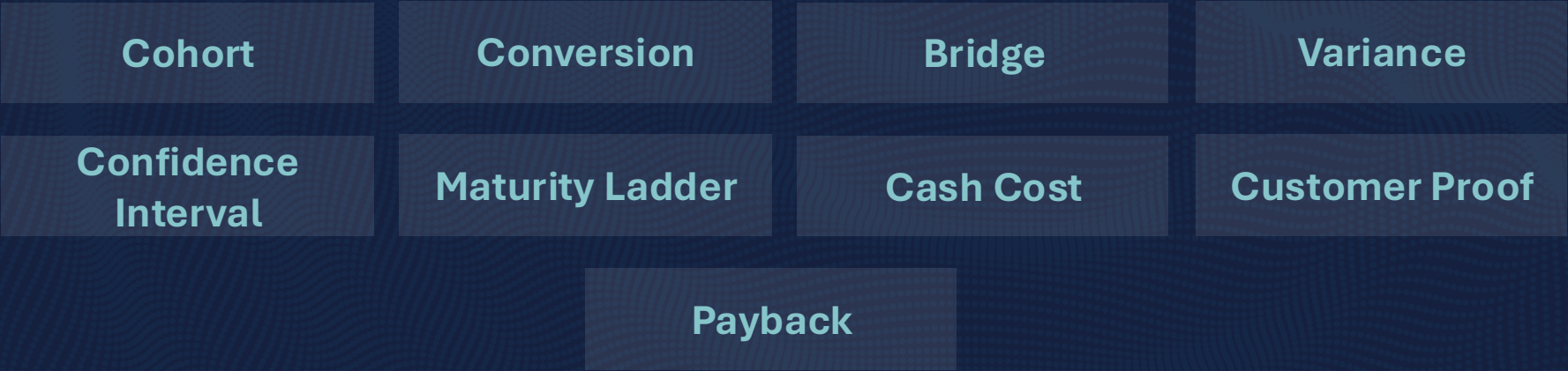
Questions are more specific, follow-ups are more frequent, and tolerance for unresolved claims is lower.



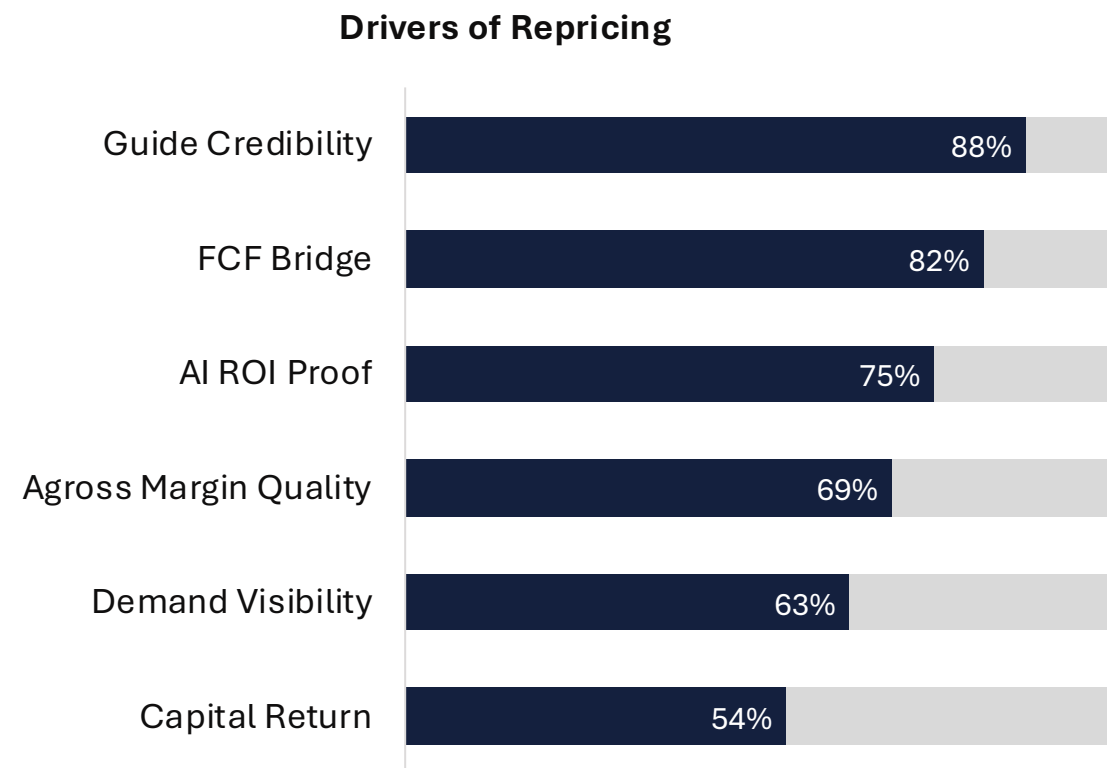
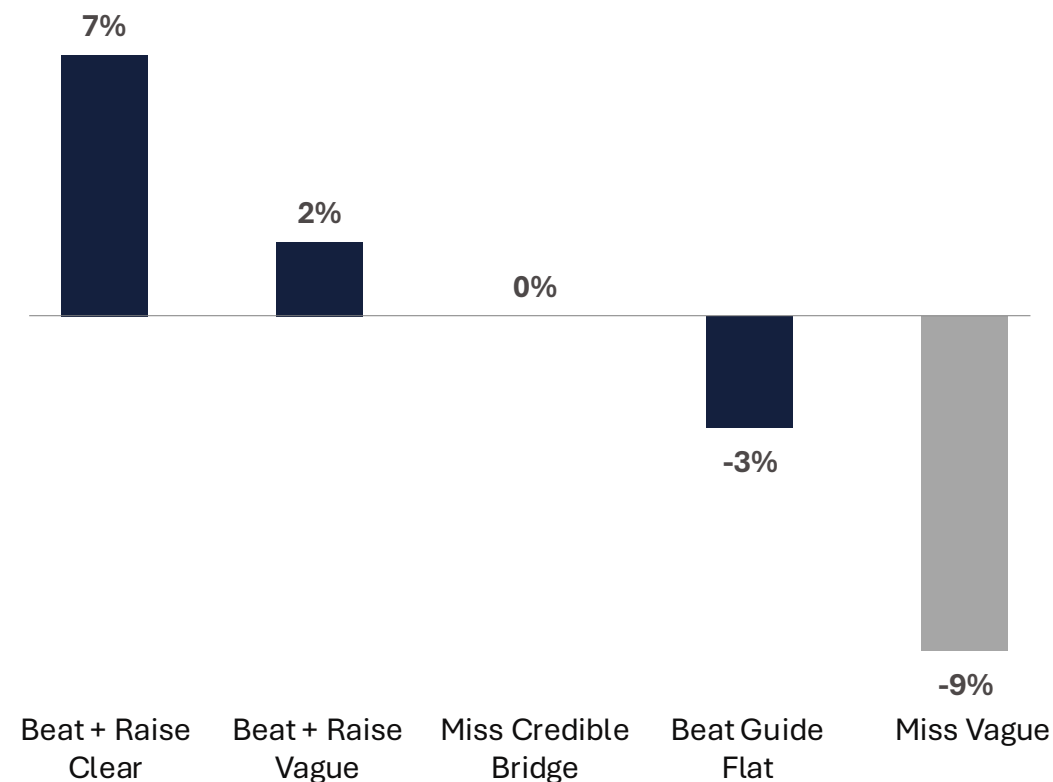
The most valuable language is not more confident; it is more testable.

Management Language	“We see a large opportunity”
Analyst Language	“What is the TAM?”
Best Answer Pattern	Narrative + metric
Red-Flag Answer Pattern	Long-term vision without math

Credibility
Words
Gaining
Value



A credible miss can trade better than a beat with a flat guide; the market is pricing information quality.

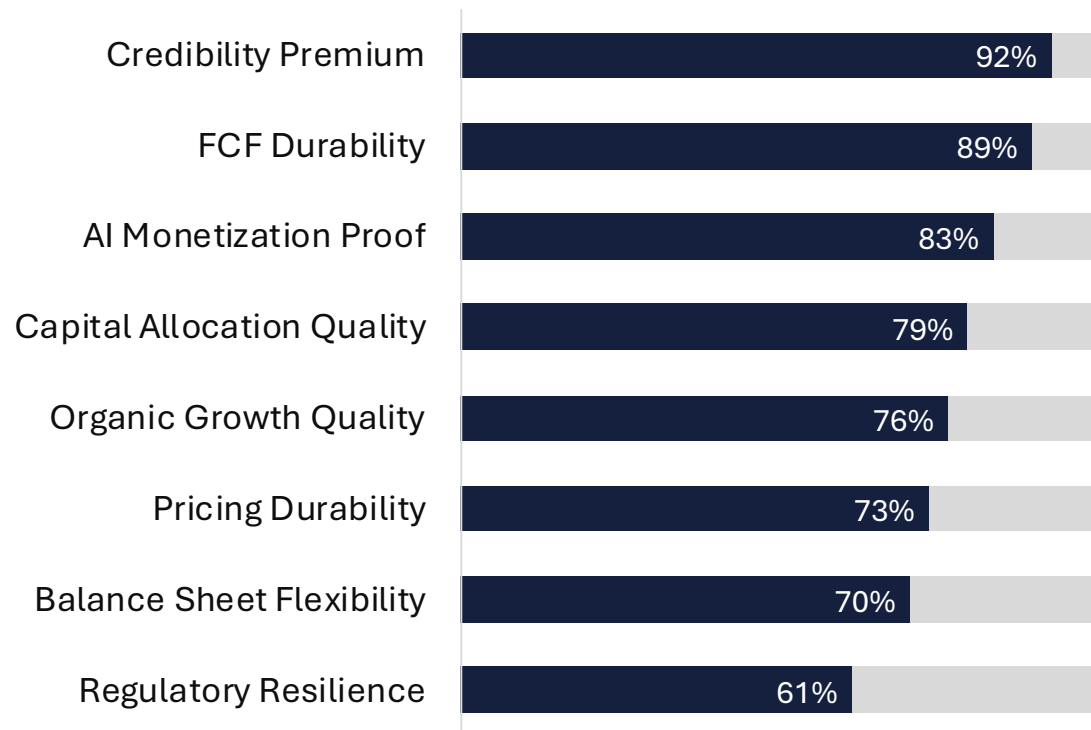




Drivers of Repricing

The market has shifted from paying for growth quantity to paying for the ability to underwrite.

Drivers of Repricing



The New Multiple Equation

$$\begin{aligned} & \mathbf{P / FCF} \\ &= \mathbf{Growth\ quality} \\ &\times \mathbf{Cash\ durability} \\ &\times \mathbf{Credibility\ premium} \\ &\div \mathbf{Discount\text{-}rate\ risk} \end{aligned}$$

The denominator is no longer passive: rate volatility, fiscal risk, capex intensity and geopolitical exposure now directly change the required evidence burden.

Today, the credibility premium is driven by new sources.

Guidance Dispersion / Surprise Volatility			
	Low Dispersion	Medium Dispersion	High Dispersion
High	4	3	2
Medium	3	2	1
Low	2	1	1

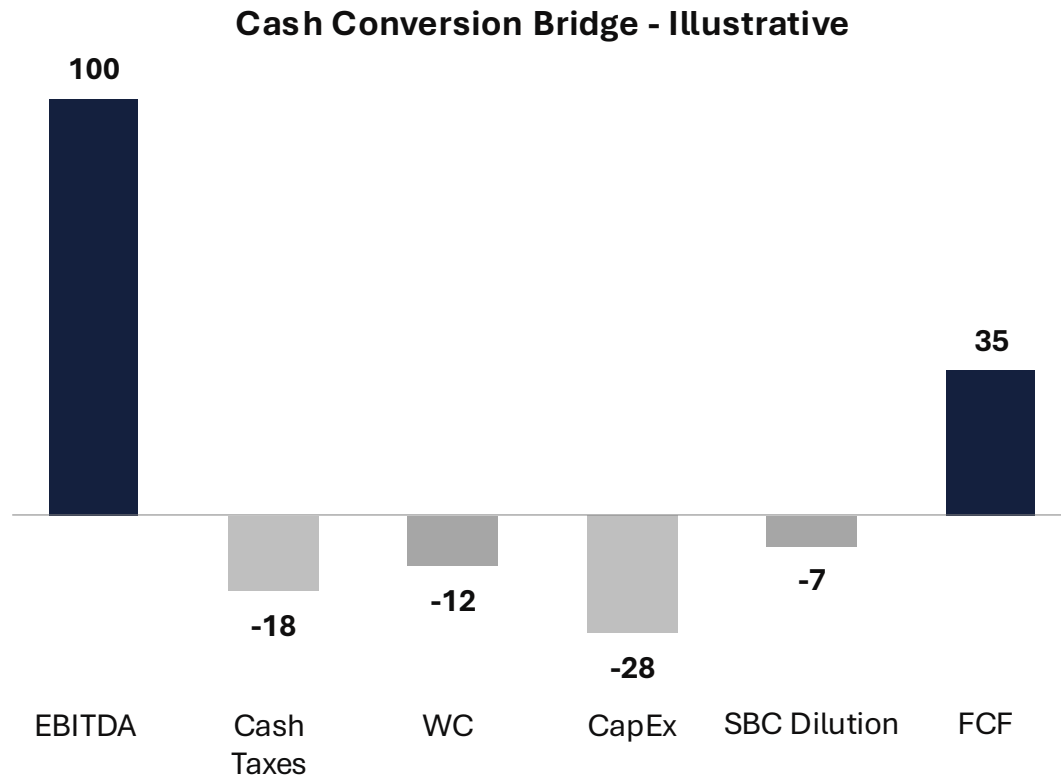
Valuation Premium Sources

- 1 Five-quarter guidance accuracy
- 2 CFO bridge quality
- 3 KPI continuity and auditability
- 4 Specific AI/productivity metrics
- 5 CapEx and strategy consistency
- 6 Disclosure of downside scenarios

“AI-enabled” is no longer a premium label; AI must show a cash conversion bridge.

Minimum Disclosure Test	Premium Disclosure Test
Use Case	Named initiatives
CapEx / OpEx Investment	Total spend
Productivity Mechanism	Generic efficiency
Measurement KPI	Pilot metrics
FCF Timing	Long-term promise

The market is no longer satisfied with EBITDA; it wants the bridge from accounting earnings to durable cash.



Durability Questions

- How much FCF is recurring vs working-capital timing?
- What CapEx is maintenance, growth or AI-related?
- How sensitive is cash conversion to demand softness?
- What portion of margin is price vs mix vs cost-out?

Capital allocation is increasingly in focus.

Investor Question	Valuation Answer
Organic Growth	Is growth self-funded?
AI / Productivity CapEx	What is the hurdle rate?
M&A	What is the integration risk?
Buybacks	Why now?
Deleveraging	Why this pace?
Dividends	Is payout sustainable?

In tech, investors are no longer underwriting “exposure”; they are underwriting conversion.

Industry	Previously	New KPI Hierarchy
Software	ARR growth / NRR	Net revenue retention quality + FCF
Semiconductors	Cycle recovery + AI demand	Backlog durability + capacity discipline
Cloud/ Infrastructure	Scale and CapEx	Utilization + energy / Depreciation intensity
IT Services	Digital transformation	Productivity, automation, pricing resilience

The underwriting reset is universal, but the risk factor with the largest valuation impact is sector-dependent.

	AI ROI	FCF	Pricing	Balance Sheet	Regulatory	Demand
Tech	4	4	3	2	2	3
Software	4	4	2	2	2	3
Semis	4	3	3	3	2	3
Healthcare	2	3	2	2	4	2
Industrials	3	3	4	3	2	3
Consumer	2	3	4	2	2	4
Financials	2	3	2	4	4	3
Energy	2	4	3	4	3	3
Media	3	3	3	3	3	4
Retail	2	4	4	3	2	4



Credibility Economy

Failure modes have different market consequences; IR should prioritize the highest-volatility mistakes

	Price volatility	Analyst downgrades	Regulatory risk	Credibility damage
Guidance bridge absent	VH	VH	M	VH
Non-GAAP prominence	H	H	VH	H
AI claim unsupported	H	H	VH	VH
CEO defensive tone	H	VH	L	VH
Metric overload	M	H	L	H
Macro generic	H	M	M	H

Prioritization rule

- Fix the bridge before the tone
- Fix GAAP / non-GAAP balance before headline emphasis
- Fix AI substantiation before AI ambition
- Fix the Q&A decision tree before the call

Executive implication

The highest-risk communication failures are usually prepared before the call, not during it.

Signal beats noise when it is measurable, causal, and linked to future economics

	Measurable	Causal	Forward-looking	Credibility
AI monetization proof	VH	VH	VH	VH
Pricing power	VH	VH	H	VH
Cash conversion	VH	H	VH	VH
Backlog quality	H	VH	H	H
Margin bridge	VH	VH	VH	VH
Regulatory nuance	M	H	H	H
Generic AI vision	L	L	M	L
Excess jargon				

Signal test

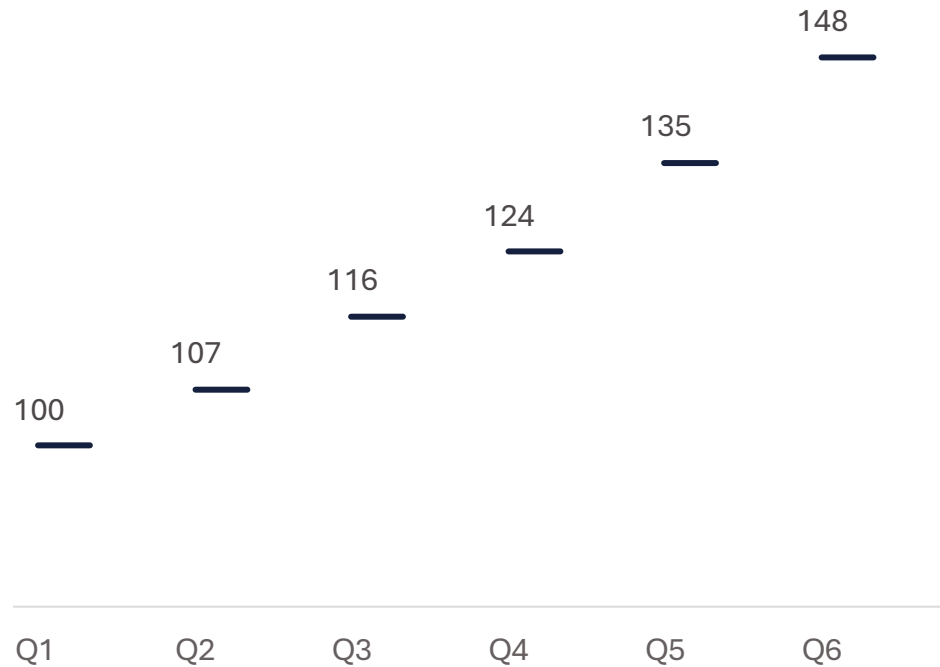
- Can the claim be modeled?
- Can management explain the mechanism?
- Can investors verify it later?
- Does the answer reduce estimate dispersion?

Noise is not harmless

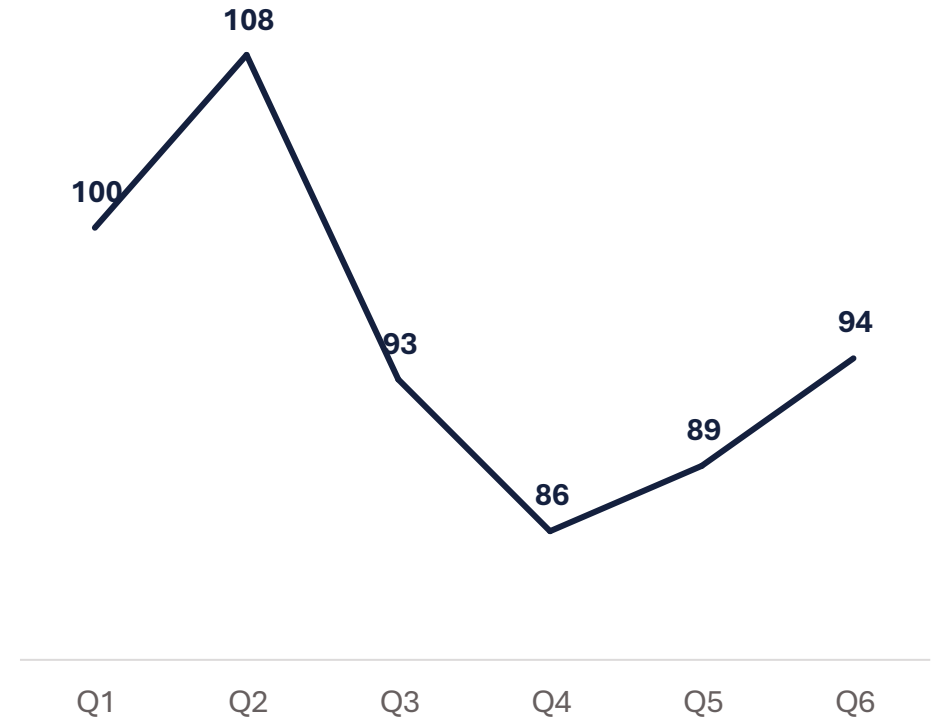
Unsubstantiated claims raise the burden of proof in the next quarter.

Credibility compounding requires consistency; credibility repair requires evidence density.

Credibility Compounding Model



Credibility Impairment Path



The market is rewarding management teams that reduce the cost of diligence for investors.

Communication Variable	Valuation Focus
Guidance	Narrow ranges with variance drivers
Transparency	Disclose downside cases
Specificity	KPIs tied to cash outcomes
Accountability	Own misses and update plan
Capital discipline	ROIC discipline and clear sequencing
Communication cadence	Consistent proof cadence

Sector nuances determine which signals matter most

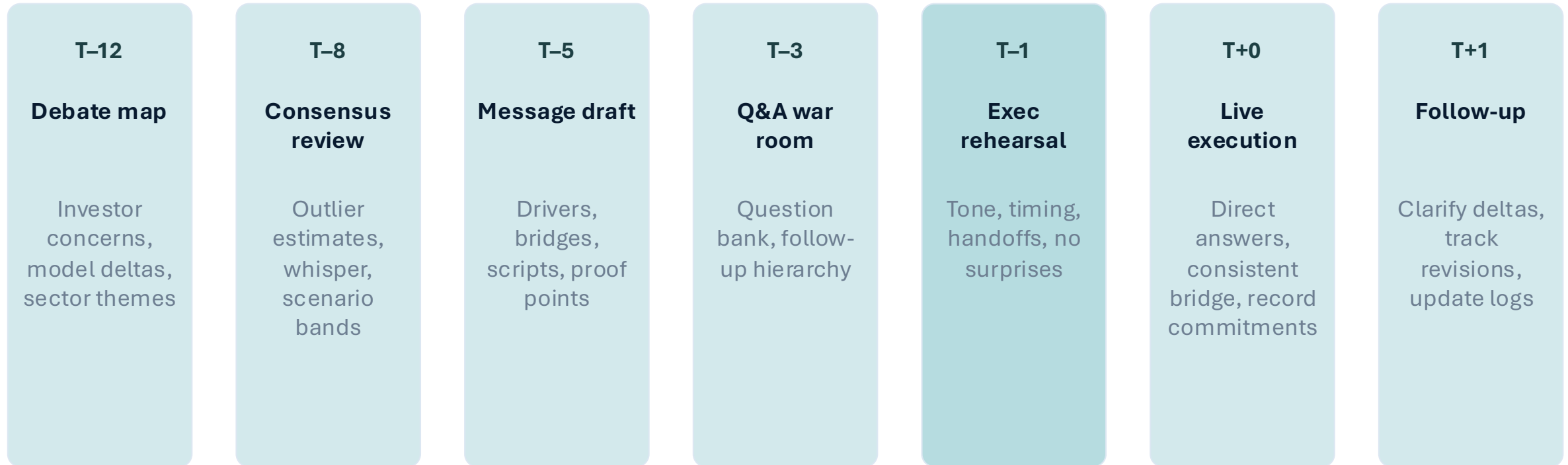
Sector	Top signal	Core risk	Q&A trap
Technology	AI monetization / NRR	Capex intensity	Overclaiming TAM
Healthcare	Pipeline milestones	Regulatory timing	Over-reading endpoints
Industrials	Backlog / price-cost	Cycle / tariffs	Blaming macro only
Financials	NII / credit / capital	CRE / credit losses	Abstract risk language
Consumer	Elasticity / traffic	Promo / inventory	Mixing volume and price
Energy	FCF / discipline	Commodity volatility	Implied price forecast

Takeaway: sector fluency is not cosmetic; it tells IR which model variables investors will test hardest.



The Playbook

The earnings communication playbook begins twelve weeks before the release



Operating takeaway: the quarter is communicated once but prepared in layers.

The fastest path to valuation durability is to reduce model uncertainty before investors ask for it.

1

Re-cut investor materials around FCF quality and cash conversion

2

Create an AI economics disclosure pack with baseline, spend, KPI, and payback

3

Publish capital allocation principles with hurdle rates and sequencing

4

Refresh KPI architecture: retire vanity metrics, add cash-linked metrics

5

Run transcript-based skepticism analysis before earnings

6

Create a downside case communication protocol

7

Measure guidance accuracy and variance by quarter

8

Prepare sector-specific investor FAQ with quantified bridges

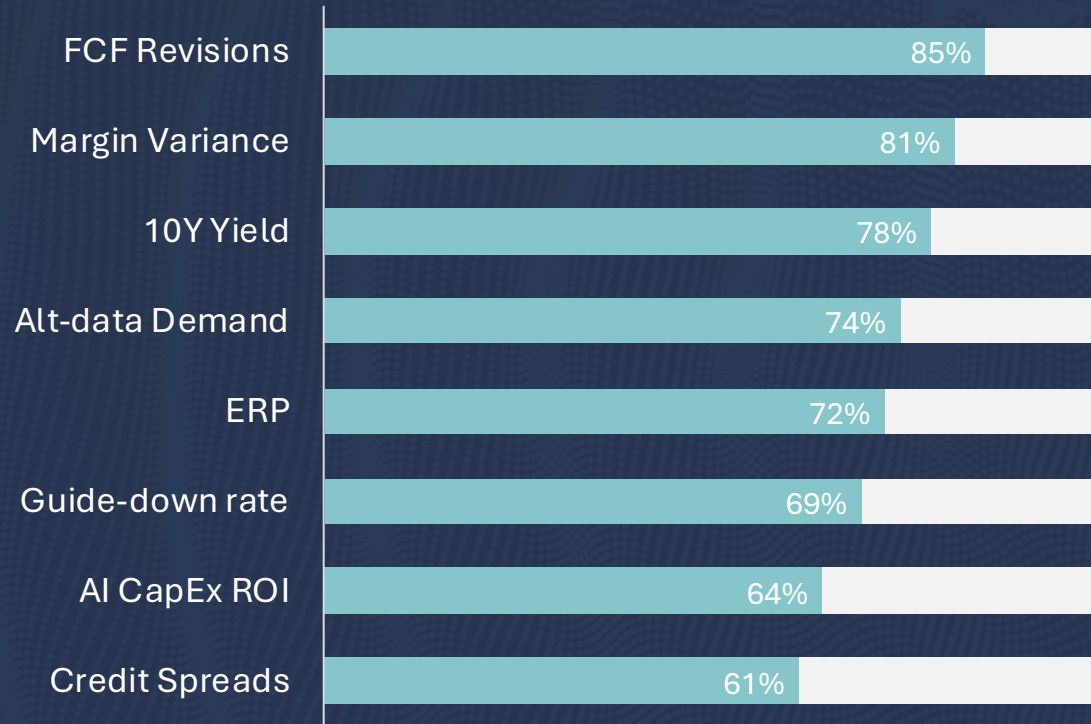
The market's next split is not AI versus non-AI; it is proven productivity versus capitalized hope.

Scenario Matrix: 2026 – 2028

Market implication	Winners	Losers
AI productivity delivered	Multiples stabilize for proven FCF growers	Self-funded AI adopters
AI productivity delayed	CapEx scrutiny intensifies	Asset-light cash generators
Rates re-accelerate	Duration compresses again	Low leverage / pricing power
Demand slows	Operational alpha returns	Share gain + cost control

The next repricing will be visible first in revisions, questions and capital intensity, not headline EPS.

Data Sources Used in Buy-Side Prep



Early Warning Questions

- 1 Are FCF revisions diverging from EPS revisions?
- 2 Is CapEx rising faster than auditable productivity?
- 3 Are analysts asking the same follow-up twice?
- 4 Are management teams changing KPIs without history?
- 5 Is demand visibility deteriorating before revenue?
- 6 Are credit markets pricing risk before equities?

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For additional information, please
contact mark@breakwaterstrategy.com

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