The Hyperscaler Paradox

- Strong fundamentals persist despite rising AI CapEx concerns.
- Previous AI investments are already driving revenue growth.
- Prefer MSFT defensively; META and GOOGL offer greater upside.

When the market fears what drives future growth

In the short run, the market is a voting machine, but in the long run, it is a weighing machine." Benjamin Graham's observation captures today's hyperscaler market. Despite resilient fundamentals, shares of Microsoft (MSFT), Alphabet (GOOGL), Amazon (AMZN), and Meta (META) have declined as investors focus on rising financing costs, accelerating AI CapEx, and deteriorating FCF. We believe these concerns are legitimate, but **spending that weakens a business and spending that builds future earnings capacity are not the same**.

The numbers tell a different story

Looking beyond the sell-off, underlying demand remains strong. In 3Q26, AWS revenue accelerated +39% y-y, Azure grew +48%, Google Cloud expanded +103%, and Meta's advertising revenue increased +26% y-y. These results suggest that previous AI investments are already contributing to growth, while the current infrastructure buildout could support further expansion during 2027E–2028E. **The question is no longer whether AI demand exists, but whether future earnings can justify the enormous investment required.**

Negative FCF does not always mean a weaker business

We believe the market may be overlooking the difference between negative FCF caused by operating deterioration and negative FCF driven by growth investment. Hyperscalers continue to generate substantial operating cash flow, but accelerating AI CapEx has pressured their FCF. While this spending could support future earnings, rising financing costs, depreciation, and capacity utilization remain important risks. **Ultimately, returns on invested capital, rather than spending alone, will determine shareholder value.**

Four hyperscalers, four different opportunities

Although all four hyperscalers are investing heavily in AI, their strengths and risks differ. Microsoft offers the greatest near-term financial resilience, supported by recurring enterprise revenue and positive FCF. Amazon benefits from accelerating AWS demand but faces higher financing requirements. Alphabet combines strong Cloud and TPU growth with its Search business, while Meta is already demonstrating tangible benefits from AI investment through improved advertising performance. **We believe these differences will become increasingly important as investors shift their focus from CapEx to returns**.

Our view: The correction creates selective opportunities

We remain constructive on hyperscalers and believe the recent correction presents attractive entry opportunities. **We prefer MSFT as our defensive choice** during the current period of financing uncertainty, while META and GOOGL offer greater recovery potential as market confidence improves. Our target prices imply upside of **+35.7% for META ($855), +21.1% for GOOGL ($350), +13.4% for MSFT ($630), and +12.8% for AMZN ($300)**. In this report, we examine whether today's substantial AI investments can translate into sustainable earnings and shareholder returns.

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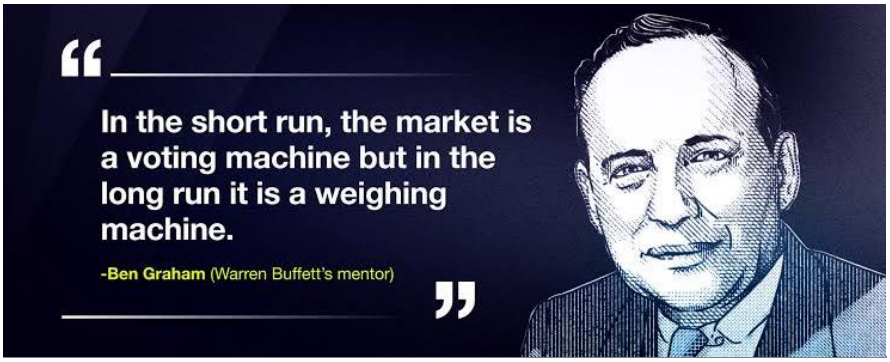
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In this report, we aim to share our perspective on the market's recent reaction to hyperscaler earnings and whether the concerns driving the latest sell-off are justified.

Exhibit 1: Benjamin Graham's Quote on The Market



Sources: X

We believe this is an appropriate time to revisit Benjamin Graham's famous observation: **"In the short run, the market is a voting machine. In the long run, it is a weighing machine."** In other words, market sentiment and investor expectations can determine share prices in the short term, but over the longer term, business fundamentals and earnings ultimately matter more. We believe the current market environment reflects this distinction.

Investors are facing several concerns simultaneously. Rising interest rates are increasing the cost of funding, while accelerating capital expenditure (CapEx) among hyperscalers is raising questions about future free cash flow (FCF), financing requirements, and investment returns. Geopolitical uncertainty adds another layer of pressure.

Meanwhile, the Democratic Party's victory in the US midterm elections has introduced additional political uncertainty, with investors questioning whether a divided government could slow President Trump's pro-AI agenda. Together, these developments have encouraged investors to focus more heavily on the risks associated with AI investment, despite generally strong underlying business performance.

However, we believe it is important to distinguish short-term market concerns from long-term structural changes.

We believe the fundamental AI investment thesis remains intact. Recent hyperscaler earnings continue to demonstrate strong demand for cloud computing and AI infrastructure, suggesting that the current investment cycle is supported by real business demand rather than speculation alone.

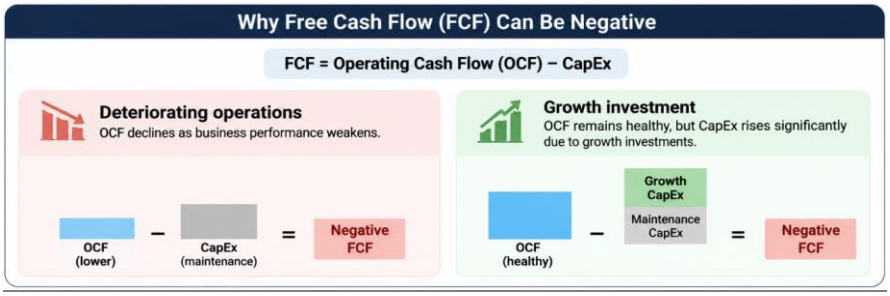
This brings us to the central question of this report: **Are hyperscalers investing too aggressively, or is the market underestimating their ability to finance and monetize these investments?**

Not All Negative FCF Is Bad

Before diving into each hyperscaler, we believe it is important to first understand what the market is worried about. The latest earnings season has triggered a sell-off in major hyperscalers, including Alphabet (GOOGL), Microsoft (MSFT), Amazon (AMZN), and Meta (META), as investors grow increasingly concerned about accelerating AI capital expenditure (CapEx), deteriorating free cash flow (FCF), and rising funding costs.

However, we believe the market may be overlooking an important distinction: **declining FCF does not necessarily indicate deteriorating business fundamentals.** All four companies continue to demonstrate strong underlying revenue and operating cash flow generation, while their increasing investment requirements are putting pressure on near-term FCF.

Exhibit 2: What Causes Negative FCF?



Sources: Globlex Research

Understanding Negative FCF: Growth vs. Maintenance CapEx

To understand this, we must first distinguish why FCF declines. Free cash flow is calculated as operating cash flow minus capital expenditure. A decline in FCF can arise from two fundamentally different situations.

The first is deteriorating operations, where a company generates less cash from its existing business, potentially indicating weakening demand, declining profitability, or structural problems.

The second is growth investment, where operating cash flow remains healthy or continues to increase, but CapEx rises even faster as the company invests in future capacity and revenue opportunities. Although both situations can result in lower or negative FCF, their implications for long-term shareholder value are very different.

Another important distinction is between maintenance and growth CapEx. Maintenance CapEx is required to sustain existing operations, including replacing aging equipment and maintaining current capacity. Growth CapEx, on the other hand, is intended to expand future earnings capacity.

In the case of hyperscalers, much of the current spending is directed toward AI infrastructure, data centers, servers, and networking equipment to support rapidly growing computing demand. While this puts pressure on near-term cash generation, these investments are also intended to strengthen competitive advantages and support future revenue growth. Nevertheless, some AI infrastructure spending will eventually become recurring replacement expenditure as equipment ages.

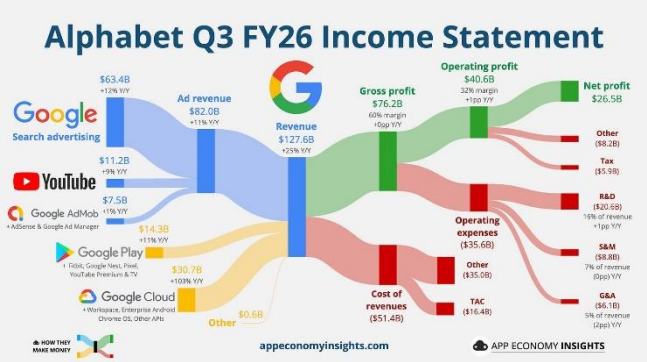
Our view is that the current FCF pressure should not automatically be interpreted as a sign of financial weakness. However, growth CapEx is not automatically value-creating. The critical question is whether these investments can eventually generate returns above their cost of capital, as borrowing costs rise. We believe this is where investors should focus, rather than judging the investment cycle solely by near-term FCF.

Alphabet: Strong Fundamentals, but Can AI Spending Deliver?

Alphabet (GOOGL) delivered strong 3Q26 results, with revenue increasing +25% y-y to $127.6b, marking its 13th consecutive quarter of double-digit growth. Operating income rose +30% y-y to $40.6b, with a 31.8% operating margin. Google Cloud was the standout performer, with revenue accelerating +103% y-y to $30.7b and its operating margin expanding from 23.7% to 36.2%.

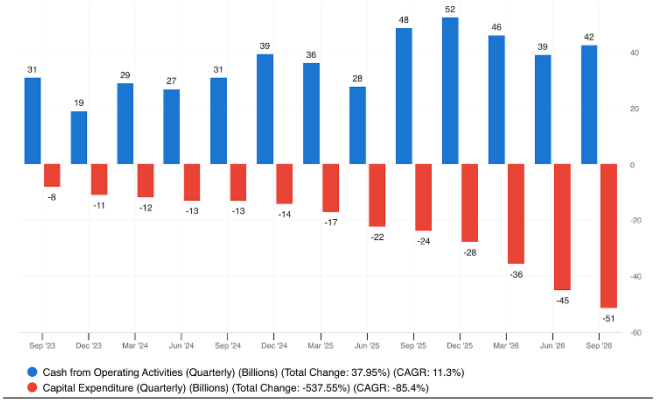
Meanwhile, Google Search revenue increased +12% y-y to $63.4b. Despite these strong fundamentals, shares declined 10% in after-hours trading as investors focused on weaker-than-expected Search revenue, declining reported EPS, negative FCF, and accelerating AI capital expenditure.

Exhibit 3: Alphabet 3Q26 Income Statement



Sources: App Economy Insights

Exhibit 4: Alphabet Operting Cash Flow vs. CapEx



Sources: Fiscal.ai

The Market's Concerns: What Actually Happened?

We believe the market's concerns should be separated into temporary financial distortions and genuine structural risks.

Exhibit 5: Alphabet: The fear vs what actually happened

The fear	What actually happened	Cyclical or structural?
EPS fell 26% and missed expectations	An unrealised mark-to-market loss on Alphabet's SpaceX stake. However, operating income, still grew 30% y-y.	Mostly one-off / non-operating. business.
Operating cash flow fell 13% y-y	1) a $5.2b cash payment related to the EU fine, and 2) a sharp build-up in TPU inventory to support already contracted demand.	Mainly cyclical / timing-related. The fine is one-off.
Search growth slowed from 17% to 12%	Search growth decelerated. The slowdown was driven by FX headwinds, softer spending from some APAC retail advertisers, and AI Overview monetising at a lower rate than classic search.	The monetisation gap is a real issue, but this looks more like a monetisation lag than evidence that Search is structurally broken.

Sources: Globlex Research

First, reported EPS declined -26% y-y to $2.12, largely due to an unrealised mark-to-market loss on Alphabet's equity investments, including SpaceX. However, operating income, which better reflects underlying business performance, still grew +30% y-y.

Second, operating cash flow declined -13% y-y to $42.3b, partly due to a $5.2b payment related to an earlier European Commission fine and inventory accumulation ahead of TPU system deliveries. We view both developments as largely non-operating or timing-related rather than weakening demand.

The third concern, however, deserves closer attention. Google Search revenue growth decelerated from +17% y-y in 2Q26 to +12% in 3Q26, raising questions about AI cannibalisation of traditional Search.

Nevertheless, we believe the latest growth remains relatively healthy compared with the generally low-to-mid-teens or weaker growth recorded during 2022–2023, before widespread adoption of generative AI search. Management also reported the strongest Search query growth in five years.

While AI Mode currently monetises at a lower rate than traditional Search, the slowdown also reflected FX headwinds, advertising demand fluctuations, and a tougher comparison. **Our view is that Search faces a monetisation challenge rather than clear evidence of structural deterioration.** However, the pace at which AI advertising monetisation improves remains an important risk to Alphabet's long-term profitability.

Previous CapEx built today's growth engines

Looking beyond quarterly results, we believe Alphabet's current growth demonstrates the importance of infrastructure investments made over previous years. Between 2021 and 2025, Alphabet invested approximately $232b in CapEx, supporting the expansion of data centers, computing capacity, networking infrastructure, and its broader technology ecosystem.

Over the same period, Google Cloud revenue increased from $19.2b to $58.7b, while consolidated revenue rose from $257.6b to $402.8b. Although this does not represent a direct return on CapEx, as spending supports multiple businesses, it illustrates how accumulated investment has accompanied a substantially larger revenue base.

Exhibit 6: Alphabet — Revenue and CapEx (2021–2028E)

Year	Total revenue	Google Cloud revenue	Cash CapEx	CapEx / revenue
2021	257.6	19.2	24.6	9.6%
2022	282.8	26.3	31.5	11.1%
2023	307.4	33.1	32.3	10.5%
2024	350.0	43.2	52.5	15.0%
2025	402.8	58.7	91.4	22.7%
2026E	500.0	112.0	200.0	40.0%
2027E	640.0	175.0	265.0	41.4%
2028E	785.0	230.0	285.0	36.3%

Sources: GOOGL; Globlex Reseach

The current investment cycle is considerably more aggressive. Management expects 2026 CapEx of $195–205b, more than double the $91.4b spent in 2025, and anticipates another significant increase in 2027. This spending has contributed to negative FCF of $9.1b in 3Q26.

However, operating cash flow for the 9M26 still increased +13% y-y to $127.1b, suggesting that underlying cash generation remains healthy. We believe the more important question is whether the additional infrastructure can generate sufficient incremental revenue and operating profit to justify its cost, particularly as depreciation and funding expenses increase.

Strong financial position supports expansion despite rising funding costs

Alphabet remains financially healthy, supported by substantial internal cash generation and access to external capital. During 9M26, operating cash flow reached $127.1b against cash CapEx of $132.0b, equivalent to **96% CapEx coverage from operating cash flow**, leaving a relatively small $4.8b funding gap before other cash requirements.

Nevertheless, Alphabet has accelerated external financing, raising $85.2b through debt issuance and $61.9b through common and mandatory convertible preferred equity during 9M26. These proceeds also support acquisitions, liquidity reserves, and other corporate requirements, rather than CapEx alone. The cost of funding is rising, with its 3Q26 USD debt issuance carrying a weighted-average coupon of 5.55%.

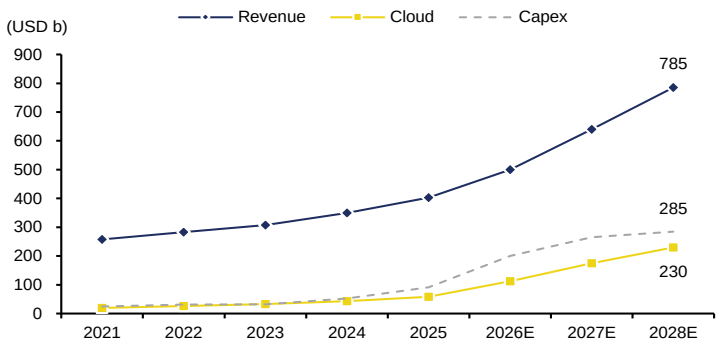
Despite higher leverage, we believe Alphabet retains considerable financial flexibility. As of 30-Sep-26, it held $265.1b in cash and marketable securities against $126.1b in interest-bearing debt, including current maturities. However, $90.4b of its marketable securities consisted of equity investments, including restricted SpaceX holdings, which should not be treated as immediately available cash.

Even excluding these securities, Alphabet retained $174.7b in cash and other marketable securities, exceeding its debt balance. **We therefore see funding capacity as a relative strength, rather than an immediate concern.** The more important risk is whether rising depreciation, financing costs, and potential shareholder dilution can be justified by returns on incremental investment.

Today's investment could drive another growth phase in 2027E–2028E

We believe investors may be underestimating the time lag between infrastructure investment and revenue generation. Data centers and computing capacity can take several years to construct, install, and fully monetise. More importantly, Alphabet's current expansion is supported by tangible demand. Google Cloud reported a backlog of $561b in 3Q26, with management expecting just over 55%, equivalent to more than $308b, to be recognised as revenue over the following 24 months. Meanwhile, TPU system sales are expected to scale further in 4Q26, followed by a meaningful revenue ramp in 2027.

Exhibit 7: Alphabet revenue and CapEx expansion



Sources: Globlex Research

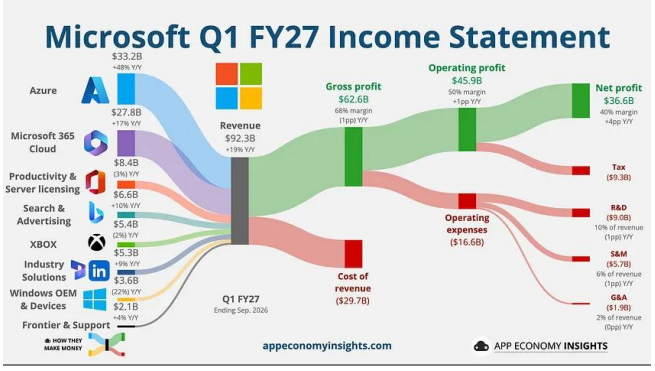
Based on our illustrative scenario, Google Cloud revenue could increase from approximately $112b in 2026E to $175b in 2027E and $230b in 2028E. Although percentage growth would moderate as the revenue base expands, annual incremental revenue could remain substantial. **We believe 2027E–2028E will be the critical period for determining whether the current CapEx cycle can generate attractive returns.** Strong Cloud demand and multiple AI monetisation channels support our positive medium-term view, but higher infrastructure costs, potential Search cannibalisation, and the sustainability of Cloud margins remain key risks.

Microsoft: Playing Defense while Building for Growth

Microsoft (MSFT) delivered another strong quarter in 1Q27, with revenue increasing +19% y-y to $92.3b and operating income growing +21% y-y to $45.9b, representing a 49.8% operating margin. GAAP EPS increased +32% y-y to $4.92, while adjusted EPS rose +18% y-y to $4.89.

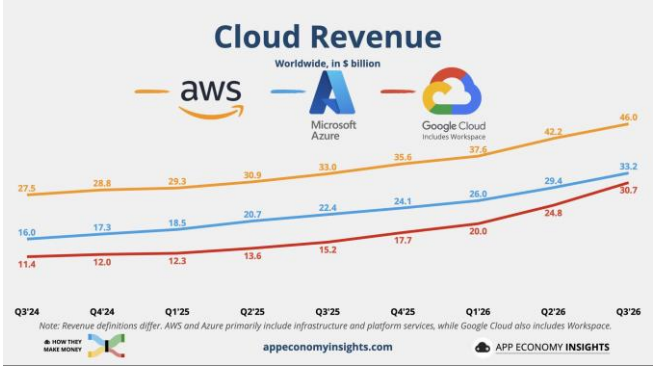
Azure remained the key growth driver, with revenue accelerating +48% y-y to $33.2b, while Microsoft Cloud revenue increased +30% y-y to $63.9b. More importantly, Microsoft generated $58.0b in operating cash flow and maintained positive FCF of $18.6b despite accelerating AI investment. We believe these results demonstrate Microsoft's ability to support substantial infrastructure expansion without sacrificing its underlying financial strength.

Exhibit 8: Microsoft 1Q27 Income Statement



Sources: App Economy Insights

Exhibit 9: Cloud Revenue



Sources: App Economy Insights

The market's concerns: CapEx, capacity constraints and customer concentration

Despite strong operating results, investors remain concerned about whether Microsoft's AI investment cycle can sustain attractive returns. First, FCF declined -27% y-y as infrastructure spending increased, although operating cash flow continued growing +29% y-y.

Second, quarterly CapEx of $45.2b was below management's earlier expectations, primarily due to **delayed third-party data-center capacity** deliveries. While this temporarily reduced cash outflows, the delays also constrained available computing capacity, with management confirming that Azure demand continues to exceed supply.

Third, commercial bookings declined -12% y-y, partly due to unusually large Azure contracts signed in the prior year. However, commercial remaining performance obligations increased +73% y-y to $677b, suggesting that underlying contracted demand remains strong. We believe the first two concerns largely reflect investment timing, while customer concentration and infrastructure execution remain longer-term risks.

Exhibit 10: Microsoft — The fear versus what actually happened

The fear	What actually happened	Cyclical or structural?
FCF declined 27%y-y	FCF fell to $18.6b as CapEx increased, but operating cash flow grew +29% y-y to $58b. Cash generation remains sufficient to cover cash CapEx.	Structural investment cycle. The business remains healthy
CapEx fell short of expectations due to capacity delays	CapEx reached $45.2b, below the earlier ~$50b plan, primarily because third-party data-center deliveries were delayed. Azure demand still exceeds available supply.	Mainly timing-related. However, prolonged delays could restrict Azure growth and market-share gains.
Commercial bookings declined 12% y-y	The decline reflected a difficult comparison against large prior-year Azure contracts. Meanwhile, commercial backlog increased +73% y-y to $677b.	Mostly timing-related. Contract concentration and OpenAI-related exposure remain longer-term risks.

Sources: Globlex Research

Previous investment is already supporting cloud growth

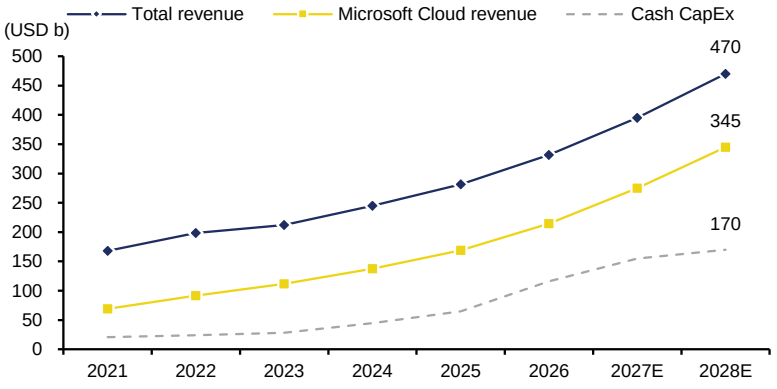
Similar to Alphabet, Microsoft's current growth reflects infrastructure investment accumulated over previous years. Between FY21 and FY26, annual cash CapEx increased from $20.6b to $115.9b, supporting the expansion of data centers, servers, and cloud computing capacity.

Over the same period, Microsoft Cloud revenue increased from $69.1b to $214.4b, while total revenue nearly doubled from $168.1b to $331.8b. Although these figures do not establish a direct return on CapEx, they illustrate how Microsoft's growing infrastructure base has accompanied sustained revenue expansion.

Looking ahead, the investment cycle remains substantial. Management expects $170b in calendar 2026 CapEx, including finance leases, with spending accelerating further in the second half of FY27 as delayed capacity deliveries resume.

We believe this investment should support further Azure expansion during 2027E–2028E, particularly given the $677b commercial backlog. However, around three-quarters of 1Q27 CapEx was directed toward shorter-lived assets, primarily CPUs and GPUs, which will require replacement and increase depreciation over time. Therefore, sustaining strong revenue growth alone will not guarantee attractive investment returns.

Exhibit 11: Microsoft — Revenue and CapEx Expansion (2021–2028E)



Sources: Globlex Research

Strong internal funding provides financial flexibility

We believe Microsoft's financing capacity is among its greatest competitive advantages. During 1Q27, operating cash flow of $58.0b covered cash CapEx of $39.4b by 147%, leaving positive FCF of $18.6b. As of 30-Sep-26, Microsoft held $64.5b in cash and short-term investments against approximately $35.5b in conventional interest-bearing debt, excluding lease liabilities. This provides meaningful financial flexibility despite the increasing scale of its AI infrastructure commitments.

Nevertheless, Microsoft is also turning to external capital to preserve liquidity. On 29-Oct-26, the company announced a $25b senior unsecured debt offering, with fixed-rate coupons ranging from 4.85% to 6.35%. These financing costs are materially higher than those associated with earlier periods of ultra-low interest rates. In addition, Microsoft had $71b in finance lease liabilities and $364.6b in leases not yet commenced, primarily related to data centers. While these commitments are spread over multiple years, they demonstrate that Microsoft's total investment obligations remain substantial. **We therefore view Microsoft's strength as its ability to finance the investment cycle, rather than necessarily spending less aggressively than peers.**

Our view: The strongest near-term defensive positioning, but potential opportunity costs

Among the four hyperscalers, **we currently prefer Microsoft in the short term**, particularly while rising funding costs and market concerns over AI CapEx persist. Unlike Alphabet, which relies heavily on advertising, or Amazon, which maintains substantial exposure to e-commerce, **Microsoft's core businesses are closely tied to enterprise spending** through Azure, Microsoft 365, security, and business applications. We believe its recurring subscription revenue, established enterprise relationships, and high switching costs provide more stable cash generation, allowing Microsoft to sustain AI investment even under less favorable financing conditions.

However, this defensive advantage also presents a potential trade-off. Microsoft's infrastructure expansion has been affected by third-party capacity delays, while management continues to prioritize efficiency and capital discipline. Although these constraints have not prevented strong Azure growth, they could limit Microsoft's ability to capture incremental AI demand if competitors bring capacity online more rapidly. Once financing concerns ease and investors refocus on growth opportunities, companies expanding more aggressively could potentially outperform Microsoft in revenue growth and share-price performance.

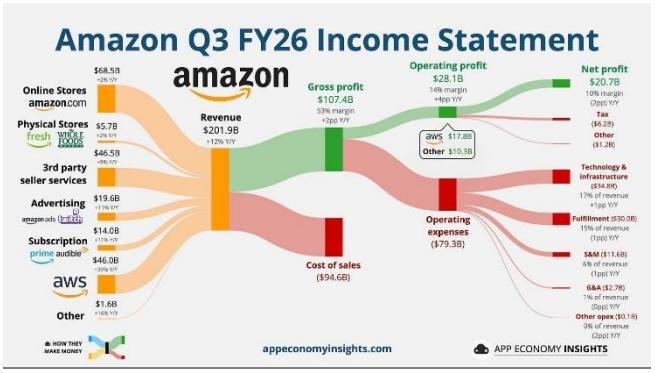
We therefore favor Microsoft for its near-term financial resilience rather than its potential to deliver the highest growth among hyperscalers. Management expects Azure growth of +49–50% in constant currency in 2Q27, while substantial contracted demand provides visibility into future revenue. Nevertheless, data-center delivery schedules, AI infrastructure utilization, rising depreciation, and incremental returns on invested capital remain important variables. We believe Microsoft offers the most attractive defensive positioning during the current funding-cost uncertainty, but its longer-term relative performance will depend on whether infrastructure expansion can keep pace with demand.

Amazon: Strong AWS, but Can It Justify CapEx?

Amazon (AMZN) shares declined 7% in after-hours trading following its 3Q26 results, as investors focused on weaker-than-expected earnings and accelerating AI CapEx. Revenue increased +12% y-y to $201.9b, slightly below market expectations, while operating income surged +61% y-y to $28.1b. Operating margin reached a record 13.9%, reflecting improving profitability across AWS and retail operations.

AWS remained the standout performer, with revenue accelerating +39% y-y to $46.0b, its fastest growth in nearly five years, while operating income increased +55% y-y to $17.8b, representing a 38.7% operating margin. Despite these strong operating results, reported EPS declined -3% y-y to $1.89, reinforcing market concerns over earnings quality and the sustainability of future investment returns.

Exhibit 12: AMZN 3Q26 Income Statement



Sources: App Economy Insights

Exhibit 13: AWS Revenue and Operating Income



Sources: App Economy Insights

The market's concerns: Temporary earnings distortions or structural weakness?

We believe Amazon's earnings disappointment should be separated from its underlying operating performance. First, the EPS decline was largely due to a difficult comparison, as 3Q25 included a $9.5b pre-tax gain from Amazon's investment in Anthropic.

Second, weaker consolidated revenue and advertising growth reflected the timing **shift of Prime Day from 3Q25 to 2Q26**, alongside a $0.9b FX headwind. Management estimated that revenue growth would have been 4ppt higher without the Prime Day shift. We therefore view these two concerns as largely temporary rather than evidence of deteriorating fundamentals.

However, the third concern deserves greater attention. Amazon's trailing-twelve-month FCF declined from positive $14.8b to negative $42.4b, despite operating cash flow increasing +29% y-y to $168.3b. The deterioration was primarily driven by accelerating AI infrastructure investment, with net purchases of property and equipment increasing by $94.8b y-y. While these investments are supporting strong AWS demand, their scale raises legitimate questions about future depreciation, financing costs, and capital efficiency. We believe the underlying business remains healthy, but the investment cycle is becoming increasingly demanding.

Exhibit 14: Amazon — The fear versus what actually happened

The fear	What actually happened	Cyclical or structural?
EPS fell 3% y-y and missed expectations	3Q25 benefited from a $9.5b pre-tax gain on Amazon's Anthropic investment. Excluding the comparison distortion, operating income grew +61% y-y.	Non-operating comparison. Core operating profitability continues improving.
Revenue missed; advertising growth slowed to 12%	Prime Day shifted into 2Q26, reducing reported 3Q26 revenue growth by 4ppt. FX added a $0.9b headwind. Advertising growth is expected to recover to the high teens in 4Q26E.	Mostly timing-related. However, advertising recovery still needs confirmation.
FCF turned deeply negative	TTM operating cash flow grew +29% to $168.3b, but FCF declined to -$42.4b as AI infrastructure CapEx accelerated.	Structural investment cycle. Strong demand supports spending, but returns remain key risk.

Sources: Globlex Research

AWS growth demonstrates the benefits of previous investment

Similar to Alphabet and Microsoft, Amazon's current growth reflects infrastructure investments accumulated over previous years. Between 2021 and 2025, Amazon invested $390b in cash CapEx, supporting AWS expansion, fulfillment infrastructure, and its broader operations.

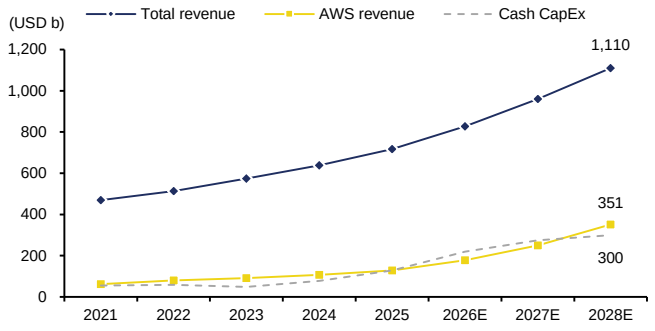
During this period, AWS revenue increased from $62.2b to $128.7b, while consolidated revenue expanded from $469.8b to $716.9b. Although these figures do not measure the direct returns from individual investments, they demonstrate how accumulated infrastructure spending has accompanied a substantially larger revenue base.

More importantly, the current investment cycle is supported by **visible demand**. AWS backlog reached $578b in 3Q26, up from $496b in the previous quarter, while its annualized revenue run rate reached approximately $184b. Management indicated that newly installed AI computing capacity is being absorbed rapidly by customers, while growth in traditional computing and storage has also accelerated. We believe this combination of existing cloud demand and new AI workloads provides greater confidence that a meaningful portion of current CapEx can translate into revenue over the next several years.

Strong cash generation, but rising dependence on external financing

Amazon's investment requirements are substantially larger than in previous cycles. Management expects $220b in cash CapEx during 2026 and indicated that spending could **increase meaningfully** in 2027. During 9M26, operating cash flow reached $113.8b against cash CapEx of $175.7b, **covering 65%** of expenditure internally. Meanwhile, Amazon raised $135.8b through gross debt financing during the period, with net financing cash inflows reaching $111.8b. These proceeds also support acquisitions and other investment requirements rather than CapEx alone.

Exhibit 15: Amazon — Revenue and CapEx Expansion (2021–2028E)



Sources: Globlex Research

As of 30-Sep-26, Amazon held $114.2b in cash and marketable securities against roughly $181b in long-term debt obligations, including current maturities. The company also disclosed an infrastructure supplier-financing facility of up to $80b available during 2027–28. While Amazon retains substantial financial flexibility and strong operating cash generation, increasing reliance on external capital creates greater sensitivity to borrowing costs. We believe the main concern is not Amazon's immediate ability to fund its expansion, but whether AWS can generate sufficient incremental cash flow to offset rising interest expenses, depreciation, and infrastructure replacement costs.

Our view: AWS offers strong growth potential, but returns must catch up

We remain positive on Amazon's medium-term growth outlook, particularly given the acceleration in AWS demand. **Management expects AWS revenue growth to exceed 40% in both 2027 and 2028**, which would represent substantial additional revenue from an already large business.

The broader industry outlook is similarly encouraging, with Microsoft guiding for Azure growth of +49–50% in constant currency in its fiscal 2Q27, despite continued capacity constraints. We believe these developments reinforce that AI computing demand remains strong across major cloud providers, rather than being concentrated in one company.

However, Amazon's investment approach is **more aggressive** and financially demanding than Microsoft's. While Microsoft continues to generate positive FCF, Amazon is increasingly relying on external financing to support its expansion. This creates greater sensitivity to higher funding costs, even as AWS profitability improves. **Our view is that Amazon could offer stronger medium-term growth potential if AWS sustains its acceleration and infrastructure utilization remains high.**

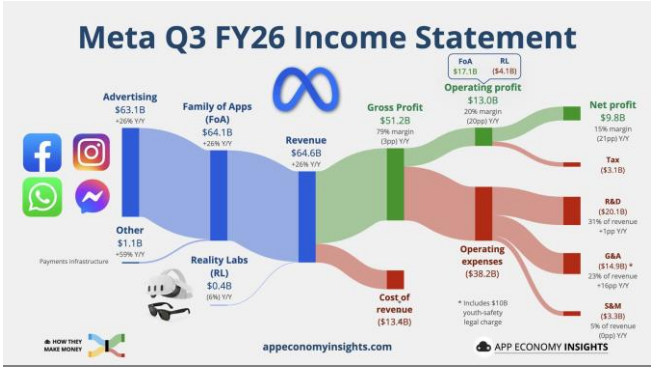
Nevertheless, we prefer Microsoft for near-term financial resilience while rising interest rates and financing concerns dominate market sentiment. Once these concerns ease, Amazon could become relatively more attractive, provided its accelerating AWS revenue translates into stronger earnings and ultimately improving FCF.

Meta: AI Investment Is Paying Off, but Dilution Raises the Stakes

Meta (META) shares declined 7% following its 3Q26 earnings release, despite stronger-than-expected revenue growth. Revenue increased +26% y-y to $64.6b, marking the third consecutive quarter of growth above 25%, while advertising revenue rose +26% y-y to $63.1b.

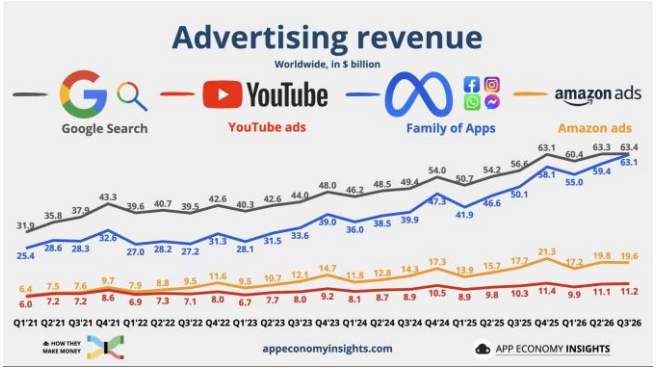
However, reported operating income declined -37% y-y to $13.0b, largely due to a $9.89b charge related to its teen mental health settlement. Excluding this charge, operating income would have increased +11% y-y to $22.9b. Despite strong underlying performance, investors focused on negative FCF, accelerating AI CapEx, and Meta's plans to raise substantial additional equity capital, raising concerns about shareholder dilution and future investment returns.

Exhibit 16: META 3Q26 Income Statement



Sources: App Economic Insights

Exhibit 17: Advertising Revenue



Sources: App Economic Insights

The market's concerns: Temporary charges, but structural financing risks

We believe the market's concerns should be separated into temporary earnings distortions and longer-term capital allocation risks. First, the decline in operating income was largely attributable to the one-time legal settlement charge, rather than deterioration in advertising profitability.

Second, Meta announced $37.5b in common and mandatory convertible preferred stock offerings, alongside plans to raise up to $60b through a new non-voting Class C share program. While these arrangements increase financial flexibility, they also introduce potential dilution for existing shareholders. Importantly, the Class C program represents potential future issuance rather than capital already raised.

The third concern is the deterioration in FCF. During 3Q26, operating cash flow reached $32.8b, but CapEx, including finance-lease principal payments, increased to $34.9b, resulting in negative FCF of $2.1b. Unlike the legal charge, this reflects an increasingly capital-intensive investment cycle. We believe the key concern is not Meta's immediate financial health, but whether the additional AI investments can generate sufficient incremental earnings to offset rising depreciation, financing costs, and potential dilution.

Exhibit 18: Meta — The fear versus what actually happened

The fear	What actually happened	Cyclical or structural?
Operating income fell 37% y-y	A $9.89b legal charge reduced reported profit. Excluding the charge, operating income rose +11% y-y to $22.9b.	Largely one-off. Core advertising performance remains strong, although litigation risks persist.
$37.5b equity offerings and Class C financing (up to $60b)	Meta priced $25b of common equity through forward sales and $12.5b of mandatory convertible preferred stock. It also plans a Class C ATM program of up to $60b.	Structural financing risk. Creates potential dilution; the full Class C amount has not been issued.
FCF turned negative	Operating cash flow reached $32.8b, but CapEx including finance-lease principal payments totaled $34.9b, resulting in -$2.1b FCF.	Structural investment cycle. Strong operating cash generation, but higher capital requirements increase pressure on future returns.

Sources: Globlex Research

Previous AI investment is finally showing returns

Unlike traditional cloud providers, Meta primarily monetises AI infrastructure through improvements to its existing advertising business rather than selling computing capacity to external customers. We believe its latest results provide some of the clearest evidence that previous AI investments are beginning to pay off. In 3Q26, advertising revenue increased +26% y-y, supported by +10% growth in ad impressions and a +14% increase in average price per advertisement. Daily active users across Meta's platforms also increased +3% y-y to 3.64b.

More importantly, management attributed stronger advertiser demand partly to improvements in advertising performance driven by **AI-powered targeting** and measurement tools. Better recommendations increase engagement, while more effective advertising helps improve conversion rates and supports higher pricing. This suggests that accumulated investments in AI infrastructure and recommendation models are already strengthening Meta's core business.

Although we cannot directly calculate the return on each dollar of previous CapEx, **Meta is demonstrating tangible AI monetisation through an established, highly profitable business, rather than relying entirely on future AI products.** We view this as an important advantage. However, the returns from frontier AI models, Muse, and other new consumer applications remain less proven and may require a substantially longer investment horizon.

Strong cash generation, but the financing strategy is changing

Meta remains financially healthy, supported by substantial operating cash generation. During 9M26, operating cash flow reached $96.9b against $85.8b in CapEx, including finance-lease principal payments, representing approximately 113% internal cash-flow coverage. As of 30-Sep-26, Meta held $82.5b in cash and marketable securities against approximately $83.7b in interest-bearing debt. While this represents a significant increase in leverage from previous years, we do not see an immediate liquidity concern.

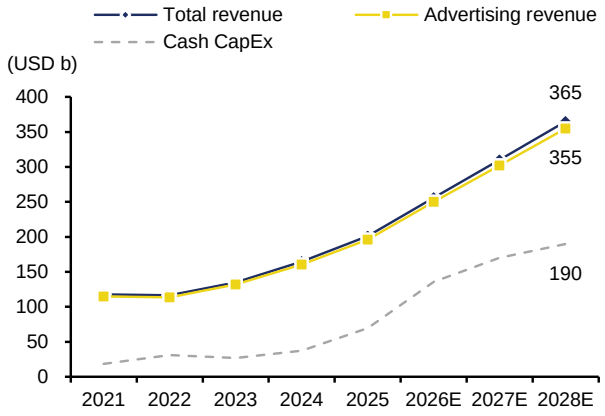
Nevertheless, Meta's financing strategy is becoming more aggressive. In addition to the announced common and mandatory convertible preferred stock offerings and the planned Class C program, the company raised $15b through a bond issuance in early November. The new debt included coupons of 5.85% and 6.25% on selected maturities, while the mandatory convertible preferred shares carry a 6.50% dividend rate. These financing costs increase the return required to justify additional investments.

Exhibit 19: Meta — Revenue and CapEx (2021–2028E)

Year	Total revenue (USD b)	Advertising revenue (USD b)	Cash CapEx (USD b)	CapEx / revenue
2021	117.9	114.9	18.7	15.90%
2022	116.6	113.6	31.2	26.80%
2023	134.9	131.9	27	20.00%
2024	164.5	160.6	37.3	22.60%
2025	201	196.2	69.7	34.70%
2026E	256	250	136	53.10%
2027E	310	302	170	54.80%
2028E	365	355	190	52.10%

Sources: Globlex Research

Exhibit 20: Meta — Revenue and CapEx (2021–2028E)



Sources: Globlex Research

We believe the financing arrangements provide Meta with greater flexibility to pursue its AI ambitions without relying entirely on internally generated cash. However, the trade-off is higher financing costs and potential dilution.

Our view: Proven advertising returns support long-term potential

We remain positive on Meta's underlying business and believe it provides a particularly compelling example of previous AI investment translating into measurable operating benefits.

Management expects 4Q26 revenue of $73–76b, while 2026 CapEx guidance has increased to $135–145b, with further aggressive investment expected in 2027E. We believe continued improvements in advertising recommendations, targeting, and engagement could support strong revenue and operating profit growth during 2027E–2028E, even as percentage growth gradually moderates.

However, we distinguish between investment in Meta's established advertising business and spending on new AI products. While advertising improvements are already generating tangible benefits, the returns from frontier AI development and new consumer applications remain uncertain. Moreover, increasing reliance on external financing could weigh on valuation while interest rates remain elevated.

Our view is that Meta offers attractive long-term growth potential, supported by proven AI monetisation within its advertising business, but its aggressive investment strategy introduces greater capital allocation risks. Meta could become increasingly attractive as investors refocus on underlying earnings growth, particularly if advertising profitability continues improving and its new AI products begin contributing meaningful revenue.

Fundamentals Will Outweigh Market Fears

Despite rising financing costs and accelerating AI CapEx, we remain constructive on the hyperscaler sector and believe the recent correction offers attractive entry opportunities.

Our analysis suggests that all four companies continue to demonstrate strong underlying fundamentals, supported by accelerating cloud demand, expanding AI monetization, and substantial operating cash generation. While each faces different challenges, we believe the market has become overly focused on near-term FCF pressure, potentially overlooking the earnings opportunities created by infrastructure investments made over previous years. More importantly, the current investment cycle could support another phase of revenue growth during 2027E–2028E, although higher financing costs and capital intensity remain important risks.

Exhibit 21: Who can internally fund the investment cycle?

Metric	MSFT	GOOGL	AMZN	META
Operating cash flow	58.0	42.3	42.4	32.8
CapEx cash outflow*	39.4	51.4	77.3	34.9
OCF / CapEx	147%	82%	55%	94%
Cash flow less CapEx*	+18.6	-9.1	-34.8	-2.1
Cash and marketable securities	64.5	265.1	114.2	82.5
FCF position	Positive	Negative	Negative	Negative

Sources: Globlex Research

MSFT remains our preferred defensive exposure

In the near term, **we prefer Microsoft (MSFT) as the most defensive hyperscaler**, particularly while rising interest rates and financing concerns continue to weigh on technology valuations. Its enterprise-focused business, recurring subscription revenue, and positive FCF provide greater earnings stability than the more advertising- or consumer-exposed business models of its peers. However, Microsoft's relatively disciplined infrastructure expansion and ongoing data-center capacity delays could limit its ability to capture incremental AI demand. While we see MSFT as the most resilient choice during the current market uncertainty, its upside is comparatively limited at +13.4%, based on our $630 TP.

META and GOOGL offer the strongest recovery potential

Once broader market concerns ease, we expect investor attention to shift back toward earnings growth and AI monetization. **Our preferred recovery opportunities are META, followed by GOOGL**, with respective TPs of $855 and $350, implying potential upside of +35.7% and +21.1%. Meta is particularly attractive as its previous AI investments are already generating measurable benefits through stronger advertising performance, engagement, and pricing.

Although rising CapEx and potential shareholder dilution remain concerns, we believe its established advertising business provides a strong foundation for future AI monetization. Alphabet also offers substantial growth potential through Google Cloud and TPU demand, while its Search business continues to generate significant cash flow. We believe the recent correction has created opportunities in both companies, although the returns from their next investment cycle remain to be demonstrated.

AMZN offers strong growth, but with greater financing requirements

We remain positive on Amazon (AMZN), particularly given the accelerating growth of AWS and substantial contracted demand. Unlike Meta, which primarily monetizes AI through advertising, Amazon benefits more directly from rising enterprise demand for cloud computing capacity. Its expanding infrastructure could support significant incremental revenue and operating profit during 2027E–2028E.

However, Amazon's aggressive CapEx and increasing external financing requirements create greater sensitivity to higher funding costs. While we view AWS as a strong medium-term growth engine, our $300 TP implies +12.8% upside, below META and GOOGL. We therefore remain constructive on AMZN but see relatively less valuation upside at current levels.

Exhibit 22: Hyperscaler target prices and potential upside

Company	Share price	Globlex TP	Upside	Investment positioning
META	$630.00	$855	+35.7%	Preferred recovery play
GOOGL	$288.93	$350	+21.1%	Cloud and AI growth
MSFT	$555.80	$630	+13.4%	Preferred defensive play
AMZN	$266.03	$300	+12.8%	AWS growth exposure

Sources: Globlex Research (USD per share; closing prices as of 4-Nov-26)

From CapEx to returns: The next test for hyperscalers

Ultimately, we believe the next phase of the AI investment cycle will be determined by how effectively hyperscalers convert infrastructure spending into sustainable earnings and FCF. Previous investments are already supporting substantial revenue expansion, while the current buildout could provide another growth phase over the next one to two years. Nevertheless, strong revenue growth alone does not guarantee shareholder value creation, particularly as depreciation and financing costs increase.

Our strategy is to favor MSFT for near-term resilience, while positioning META and GOOGL as our preferred recovery opportunities when confidence returns, with AMZN offering further exposure to accelerating cloud demand. As Benjamin Graham's observation reminds us, market sentiment may drive share prices in the short term, but long-term performance will ultimately depend on business fundamentals and the ability to generate returns above the cost of capital.

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Analyst Certification

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RECOMMENDATION STRUCTURE

Stock Recommendations

Stock ratings are based on absolute upside or downside, which we define as (target price* - current price) / current price.

BUY: Expected return of 10% or more over the next 12 months.
HOLD: Expected return between -10% and 10% over the next 12 months.
REDUCE: Expected return of -10% or worse over the next 12 months.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.
* In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

Sector Recommendations

Overweight: The industry is expected to outperform the relevant primary market index over the next 12 months.
Neutral: The industry is expected to perform in line with the relevant primary market index over the next 12 months.
Underweight: The industry is expected to underperform the relevant primary market index over the next 12 months.

Country (Strategy) Recommendations

Overweight: Over the next 12 months, the analyst expects the market to score positively on two or more of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

Neutral: Over the next 12 months, the analyst expects the market to score positively on one of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

Underweight: Over the next 12 months, the analyst does not expect the market to score positively on any of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.