Thomas Laffont: The $4T AI IPO Wave Is Coming... and We've Never Seen Anything Like It

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SUMMARY

The podcast discusses the current state of the unicorn economy, highlighting the significant impact of AI on fundraising and company valuations. With hedge funds like CO2 leading the charge, the conversation emphasizes the concentration of funding among a few top companies and the evolving landscape of private markets.

- *CO2, a leading hedge fund, is raising $1 billion to invest in AI, reflecting the sector's growing importance.*
- *The unicorn economy has seen a 70% increase since September 2024, with fewer unicorns raising larger amounts of funding.*
- *The health of the unicorn ecosystem is improving, with 80% of the 2015 cohort either raising new rounds or exiting after 20 quarters.*
- *AI companies dominate fundraising, with a small number capturing a significant share of investments.*
- *The "magnificent 8" companies represent a diverse range of sectors and have outperformed traditional indices.*
- *Exits in the unicorn economy are increasing, indicating a healthier balance between cash consumption and returns.*
- *The podcast discusses the rapid scaling of AI companies and their potential to disrupt various industries, including telecommunications and semiconductors.*
- *The conversation touches on the implications of substantial capital influx into private markets and the potential for price wars among leading AI firms.*

Why do you think I waited to make my world podcast premiere for Allin? All the ankle biters called and I said, "No, I'm just going to wait till the besties call." >> CO2 is one of the most successful hedge funds of the last two decades. >> $55 billion under management. >> This is their flagship hedge fund. >> The reason we decided to kind of get into this business is to find great entrepreneurs and find great companies.

>> And they're looking to raise a whole billion dollars more to invest in AI. >> We're in an idea business. And when you have a truly revolutionary idea, it can get really big. I hope to do something a little bit different. Besties, you've been on for a couple hours, so you can take a break now for a few minutes. Sit back. We are going to show you some slides and we're going to walk you through really an update on the unicorn economy. So, the markets are back. We can see that the unicorn economy on average since September of 24 is up 70%. I think that's intuitive to a lot of us. But what's even more amazing is that the public market has really made the same move up. So if we look at the share of the unicorn economy of the NASDAQ, which had a significant move up since 2015, it's really kind of plateaued over the past few years. And I think it speaks to the performance of

public companies like Palo Alto and others. So AI is dominating fundraising.

What's kind of interesting in this slide is you can see the share continues to increase. So multiple years in a row now that AI is increasing its wallet share of fundraising. But the composition of that funding has changed. If you look at the unicorn factory which really peaked in the Zer era of 2021, we've now really normalized at a much lower level precoid. So mathematically if you put both together you can see that the funding per unicorn has increased 5x since 2021.

So we have fewer unicorns that are each raising more. Now I'm going to spend a minute on this slide because this slide is really about the health of our ecosystem. So the way to interpret this is if you look at the green line which is the preserp era unicorn cohort of which there's about 73 you can see that 20 quarters after becoming a unicorn 80% of them had either raised a new round or exited which is I would say pretty healthy.

Now if we look at the 2021 cohort which is the red line two things stand out. first that 20 quarters in, you can see less than 20% less had either exited or raised. But look at the number 479 versus 73 in the prior cohort. So now here comes this new cohort, what we'll call our 2024 cohort of AI companies. And the key question is what will happen in the future? Which of these cohorts will they resemble the most?

So we talked about how AI is concentrating the funding base of unicorns, but what we also see is the top 10 is capturing a significant share of funding. So it's not just AI companies, it's a small number of AI companies, which probably makes sense since we know that Enthropic and OpenAI are raising massive rounds. And so what I like to think is we kind of have a new index. If we really thought about what the index of the future is, what for now I'll be able to call the magnificent 8, but that number is going to shrink as these companies go public.

The first thing that jumps to my mind is, wow, what an incredible group of companies. And look at the diversity. SpaceX, Stripe, Anthropic, Data Bricks, Revolute, Bite Dance, Anderero. We have internet, we have AI, we have fintech, we have space tech. I'd feel pretty comfortable owning this index if I could for the next decade plus. And obviously the performance of this index has been incredible. It represents almost $4 trillion of value and has really crushed the traditional kind of mag 7. Almost every single one of these names has outperformed that index.

We'll go to the next slide. Now, another positive sign is that if we look at the exits, the exits are thawing. So, one of the things that we've talked a lot about with the besties over the years is we know the unicorn economy is great at consuming cash, but how much cash is it really returning? We need to have a balance between the amount of cash consumed to the amount of cash returned. That's how an ecosystem stays in balance. And if we look, 2026 is actually on a pretty good trend.

Not quite where 2021 was, but pretty good. And we still have half a year to go. But that doesn't include three companies that we know will be coming public pretty shortly. SpaceX obviously in the next few weeks and we know Anthropic just today the headlines hit that they've submitted confidentially for their S1. And if you add

up the totality of just those three companies, you can see that it's basically going to be more than the 10 years kind of combined.

Which ultimately means if you remember and you were there when I presented the first all-in summit in 2024, we knew our ecosystem was out of balance, we were consuming way more cash than we were returning, which is just a fundamental imbalance. And you can see that now even pre liquidity events that I just mentioned, our ecosystem is significantly more balanced and that will continue to improve. Part of it is that the growth rates of open AI and anthropic are unlike anything that we've ever seen.

So if you look at this chart, just remember this chart starts in January of 2025. That was only a year and a half ago. Just a few months in, these companies passed Workday, a pretty incredible HR company. Then it was Service Now. It was Adobe by the end of the year. Salesforce on the way just in January. Now even bigger than Google Cloud and Azure.

So what can that look like in the future? Well, this is just based on kind of some assumptions and some forecasts, but you can see that we estimate that only not only is it bigger than Azure, but by the end of the year could be bigger than AWS. and potentially bigger than all of Microsoft by 2028. Now, these hyperscalers aren't sitting still. They're seeing the disruption, but actually they're doing more than seeing it. They're actually funding it.

Because if you look at the chat GBT moment that we know happened, look at how much these companies, the largest in the world, have invested in enabling and creating this change. Truly unprecedented. So I know SpaceX, a lot of people are going to talk about SpaceX. So I thought I would share a little bit of how we as investors think about SpaceX. So that as you think about whether it's a stock that you want to own or you just want to seem smart at a cocktail party, you can benefit from our knowledge.

The first thing that pops out when we look and study SpaceX is that the number one driver correlated to the valuation of SpaceX is cadence of launches, which intuitively makes sense. If your business is the launch business, the more you launch, the higher your value should be. So I think we see that in the data. But there's another fundamentally different ratio that I want to point you to which is what if we took the valuation, we divided it by the number of launches. What would that look like?

Well, you can see it was kind of in a fixed range for a while and then it really started to move up. And we believe that markets are rational. And so we started thinking, well, why is it that the market is valuing SpaceX higher on a perlaunch basis when it's launching more than when it was just starting out? And my fundamental view, and we'll kind of call this our code framework, is that the reason is that the quality of SpaceX's business model increases the more you launch.

So, in phase one, which we call pre-constellation, you're just trying your rockets. And we know rockets are hard and maybe you have a few government customers and that's a one-time revenue business and it's unpredictable. Then you get into your initial ramp and now you might have one constellation. So, why is a constellation important? Well, it's an end market and it's a recurring revenue business. The more satellites you put up, the

more subscribers you have, the more revenue, etc.

Now you can move from ramp into scale. Now you don't just have one constellation, you have multiple constellations. And ultimately, we believe that a ride a wide variety of companies and governments and militaries will want to own their own constellation so they can control their own destiny. So now you move into being a scale business which ultimately becomes a platform and we know how valuable these platforms are in this technology age and platform means not only do you have many more customers in your core business but you also have new businesses.

It could be space data centers. It could be the optionality of the moon and Mars and other space applications. Now we know one defining feature of this era has been how quickly these companies are scaling. And if we just look at whether it's the PC or the internet or the mobile, Anthropic in particular is scaling like no other company that we've ever seen.

Now, this was kind of an interesting analysis and this is one I'm I'm curious to kind of discuss with the besties, but we looked at essentially three buckets of companies and we said, okay, within each bucket, what is the likelihood that you will have a 10x, which I would view as an investor, maybe not a seed investor like JCAL, but for us as growth investors, wow, a 10x is pretty good. They're hard to find. So the data showed us that if you're a unicorn, the odds of you one day becoming a decacorn are about 8%.

If you're a decacorn, so that means you're over 10 billion, the odds of you becoming a hundred billion dollar company, not much better. 8% to 13%. But how interesting that if you're a centacorn 100 billion or more the odds and by the way we're putting in public and private companies you now have a 31% chance of having had a 10x. This kind of flies in my opinion in different than maybe we would have expected.

And if we look at how quickly these companies are creating value, this is a chart that I kind of added at the last minute because the data is so fresh, but you can see it typically takes multiple years to go from 500 billion to a trillion of market cap. Well, something happened very recently in the public market, which is that not only did we have three companies do it in the same year, but we had two companies do it in a matter of weeks.

So we can talk about what conclusions to take from that. Now even as these companies were scaling incredibly quickly from 500 billion to a trillion, we had other companies take a long time to succeed. And this is a company called Cerebras that just went IPO. So I thought it'd be a good candidate. I was very proud to be a board member for a long time and led the series B. But if you look at the company's funding history, you can see where I put the little construction icon that it took a long time and there was some dark periods, multiple years of no new capital, of hard grind to develop their technology.

All of that time leading up to a massive open AI contract which then quintuple the value of the company. But we know Cerebrus has been successful. And frankly, it's not just Cerebras. Semis are on a generational run. I was just talking about this with my friend Brad Gersonner earlier. This is just since 2024, the all-in summit. You can see how much the semiconductor industry has outperformed the index.

What will happen in the future? Well, one takeaway from having listened to a lot of speakers this morning is that there seems to be wide agreement that the more an AI system knows about your business or you as a user, the more useful it is. You want to know when you go and book a restaurant that it knows already your preferences, whether it's what time you like to eat or what food you like to have, etc.

So we think ultimately that in this era the amount of memory per user could quintuple just based on the demand that these AI systems are requiring to provide their services. That helps explain why we've seen some of these moves in these memory companies. And then I want to finish on a point that I think has a lot of controversy which is where's the revenue? If we remember over the past 12 to 24 months there's been a lot of discussion about is there revenue is there ROI where is this associated with so we tried to look and see okay what is the size ultimately of the AI ecosystem we believe that it's about 140 billion today it'll be about 300 billion this year and it'll double in 2027 so where is that revenue coming from well if If we break it down, we can see we kind of estimate three key pillars to this industry. One, we know consumer number of subs times an arpoo. That gives you your consumer revenue.

One that I think a lot of people forget, but it's ads. We estimate currently that about a quarter of ads served by Meta and Google are AI enabled. We think that penetration will eventually go to 100%. that's 150 billion and then obviously we all know about the breakthroughs in enterprise and what cloud code and codeex are doing inside of those businesses. So if you add all these together you get a good sense of the size of this ecosystem.

So this will be kind of my second to last slide. One thing that's different to me about this era versus the prior eras in which I was an investor is that almost every sector of the economy is being transformed at the moment. So we know some of the obvious ones software but look at telco. I believe that within a few years Starlink will power a device which will actually enable you to make a phone call anywhere in the world. And we think that's a solved problem. But every time we get a drop call, we get reminded that there's a better technology out there.

So back to Nikesha's framework on profit pools. I think the Starlink profit pool is the telco global profit pool of broadband and wireless. We know compute is driving massive changes in semis. We had senators earlier on telling us how data centers have changed the energy equation in Pennsylvania. Just think about the auto business. I'm sure a lot of us followed what happened to Ferrari last week, trying to introduce a new technology of electric and autonomous, begging the question of what is the future of that franchise in an autonomous and electric world. And I think the response to that car kind of fed into this narrative.

And then obviously in consumer we know GLPs are having a profound impact on consumption of food, alcohol, composition of diet and a huge focus kind of on wellness. So if we put all that together, what are our takeaways? Well, my first takeaway is that the new unicorn economy is healthier and we really have kind of AI to thank for that. The winners are compounding faster than ever, which means the costs of not being in a winner are higher than ever.

Disruption is impacting every part of the global economy. And by the way, we don't even have super intelligence yet. So if I think that it was about 2 years since my last all-in summit, I started thinking, well, gee,

what could this look like in two years? And we know it's going to be a really interesting time. And thankfully, we have a great group to help us navigate what the next two years will look like. We're going to give this a title.

The power law rules our lives. The power law rules our lives. All the great gains are being consolidated into small numbers of companies. Uh but we're still seeing strength in those. How do you see the private market uh ecosystem, the game on the field evolving because of the stay private longer and these extraordinary outcomes? Obviously, I operate in the earliest stages. You have people who are doing series A's like craft ventures. You have uh yourselves dipping down into private, but I was talking to Brad Gersonner, who you um discussed earlier. He was like, I I I have to figure out where to put my time. You know, we have early stage and and they and they do obviously public like yourselves. So, and then add to that, you have people like Andre and Harowitz maybe going for the average in a major way and indexing venture. What What is the playing field going to look like for people who are LPs, angel investors, venture firms? What how does this all sort out into a cohesive strategy over the next decade or two?

because it's clearly the private markets are operating much differently than the playbook 20 years ago. >> Yeah. So I think the the first breakdown I would I would submit is on the positive side of the ledger, the outcomes are big, right? We're seeing outcomes that we never thought possible in private companies and I think that's good just generally for our ecosystem. So we have big outcomes. It's really why I wanted to kind of show that SpaceX slide. It was somewhat counterintuitive to me on the launch business. Why is it that the company would be valued more as it launched more? So, I think at least we have a number of big outcomes and those outcomes will be public within it seems like a 12-month period. So, if I think about, you know, the ZERP era where the outcomes were smaller and companies were not going public, I think at least in this era, we have big outcomes and a desire of these companies to go public, right? I think both Anthropic and OpenAI are both publicly saying that they want to be public. So I would say that's good. I'd say the biggest issue is the it seems like we're talking about Kshape and power law in every aspect of life.

>> Yeah. >> And it seems like that's the case in startups as well. So we've seen if you looked at my centerorn slide, we've really kind of been stuck at this number for a little bit now. So I think JCL I think the point that you're asking is if we were to see no new center coorns right in the next decade we've basically not really seen any new one in the past couple of years I think that's going to be a warning sign kind of for us what does this mean for where capital allocators should be thinking about putting their money because what you're showing here a rational person who's an LP we just say wait for whoever gets to a 100red billion and yolo every dollar you can in there because it's the most sure thing. It's the least brittle. It's the least amount of effort and it's the quickest return.

But as we know, supply demand equals valuation. These valuations are disconnecting from any valuation metric we've ever had. Uh we had it explained to us today by Bill Aman I think quite accurately. You're making venture investments in trillion dollar companies and giving them 50 times revenue, 100 times revenue evaluations. So talk a little bit about where people should rationally as a limited partner, as a private investor, a high net worth individual, ultra- high net worth, where should they be putting their money to work and do you worry about this everybody racing to be in three names?

>> Yeah, look, that obviously was the right strategy for the past 5 years. The question is about the next five years, >> correct? >> Right. So the one push back I would have just on the valuation argument is these are not fake companies. >> No, absolutely not. >> So I think we have to I remember the bubble in 2000. I also remember 2021, right? These are companies generating substantial revenue at scale that are growing faster than anything we've ever seen. So you know these businesses are real and they're performing. And I think it was widely shown that Anthropic even had a profitable month, I believe, is what was reported. So, you know, they're they're they're also kind of profitable. But ultimately, and I think Traumath, you agree with this, the public market is the great test >> equalizer.

>> Yes. >> Yeah. >> It will be the great antiseptic. it will not care about my presentation or you know um and so I love that. I love that these companies are going to have to face the scrutiny both SpaceX, OpenAI and Anthropic of the market, right? And ultimately, I'm a big believer in the market. And so, I'm very excited to see these companies go public withstand the scrutiny of short sellers, pontificators, debaters, politicians, kind of etc.

>> Let me let me ask you two questions on that. The first is very tactical which is normally we would say that the antiseptic or the disinfected happens on t equals one day right >> now the rules are changing there's going to be a lot of passive buying so it's going to move out that date because you're going to have to wash through a lot of supply demand so that's that could maybe >> 6 month plus one >> 6 month plus one is when you'd say we can really start to get a sense of what these companies are okay so that's a tactical question >> the more strategic question, Thomas, is do you think that there's something structurally inefficient or wrong that's allowing these compounders to accelerate at scale? Like is that a market efficiency problem or do you think that's just a survivor bias and we shouldn't look too much into that? How do you look at that?

>> I don't want to read too much into it because the N of those companies is so small and look at anthropic, right? Anthropic pre-cloud code was a completely different company than postcloud code, right? So one one event completely dented the trajectory of almost that entire industry. So it's hard for me to know whether that's truly, you know, whether these companies were like the mule in the Foundation series, something that could never be predicted and just came out of nowhere and it was just a one-time thing, >> you know. Um, we'll see. I do think that the narrative of oh these models are commodities and these companies are going to get I think that's been pretty thoroughly disproven now right um >> how do you as co you know your asset base has swelled you've gone into you've expanded strategy you're now doing you know data centers you're doing many things how do you keep it all organized when maybe a slide like that would say hold on a second maybe we should have just plowed 10 billion dollars into anthropic like how do you balance.

>> The reason I I make a deck like this and in some ways I should thank you guys because when we when I do something like this for you guys and it is tremendous amount of time from uh myself and our team and um we really want to present you with accurate information. So the past two weeks has pretty much been a full-time job doing this. But for me it reanchors my conviction around what to do. you know, I I can't go and listen to a thousand people and then I get distracted and I I don't know what I'm thinking anymore. So going back to these ground truths of numbers and valuation bring me back to a point of okay conviction, right? So for me whenever I try and understand the world, I go back to okay, what do I understand? I understand models. I understand

numbers.

Let me go back and kind of peel this out. What I think hopefully the deck will show is look there is substantial reasons for why right if you look at the the trillion dollar companies that became trillion dollar companies in a matter of weeks these are not fake companies like these companies have been around for decades right and they trade at the lowest multiple of earnings of the S&P 500 of almost any other company so there is kind of something kind of real >> pentup energy there that just got released >> correct and now it's like Someone made a point to me on on um on uh you'll like this on memory, right? They said, "Well, if I want to design a chip like OpenAI, I can go to TSMC." And I know it's hard, but at least I have TSMC to help me. If I want to make memory, well, there is no TSMC, >> right?

>> So, what should the memory multiples be versus ASIC chips as an example? The wrath of Lena Khan can be se seen clearly in this and saxs. I want to get your input into how policy and elections matter when it comes to outcomes. >> As I saw, I don't know if it was this chart, but the the chart where you show the odds of each category reaching the next level, >> the >> would you have predicted that out of curiosity?

>> It's very counterintuitive. Where my mind went was extrapolating one more, which is what are the odds that the trillion dollar market cap companies get to 10? >> Yeah. Yeah. >> And the last one was 31%. I mean, it seems to me what it be like 50%. >> 100%. I don't know. It seems I'm thinking is it going to be greater than or less than 30? And it seems to me it's greater than 30% are going to hit that.

>> It's it's it's probably the filtering mechanism of what's the compounding advantage or the durability of earnings of that company. And for every step, you have a filter that says, do you have a compounding advantage? Do you increase do you have a stronger durability of earnings? And if so, you're going to accelerate to the next phase. It's almost like fundamental to business um valuation analysis like Ben Graham style analysis. >> To get to that level that's called the trillion dollar club, you have to have a dominant business. And then the question is just at what point do you hit saturation and it seems like all of these markets have ended up being so much bigger than anyone would have predicted.

>> Yeah. I mean just or or government intervention because fundamentally if you think about the break up of the Bell system. I mean who knows where that would have gone over time. They could have had a monopoly on the internet. They could have had a monopoly on commerce. They could have had a monopoly in e-commerce and on and on and on. >> But as a trading strategy what you'd like to do is have a bot that just starts buying up shares of a company once it hits 1 trillion. And actually if you had done that I mean a lot of the I mean I remember who was the first company to hit trillion was it Apple?

>> I believe so. Yeah. And everyone was like, "Oh my god, well," and you know, now there's what, like five or something. >> Study that showed if you bought, I'm sorry to interrupt, but that if you bought the NASDAQ um over a 10-year period, you get like a 3x multiple or something quite significant. If you just rebalanced every year on the top 10 companies in the NASDAQ, so just buy the top 10 companies by market cap and you outperform over a decade by like 3x.

>> Yeah, Thomas, why didn't you do that? What is your maybe maybe just the last question so we make sure we wrap up about something that I think you're uniquely positioned to tell us. >> What happens when all this money gets distributed back >> like what do you think happens to your competitive dynamics? What do you think happens to entrepreneurial dynamics? What happens in Silicon Valley when three or four trillion dollars gets put back to GPS then to LPs and then the recycling happens?

Well, the first thing that comes to mind is I remember when David was so bearish California real estate. Um, >> we'll see whether this influx of capital >> time to sell. >> San Francisco homes are selling. >> Buy the 40%body. Anybody interested in a 40,000 foot mausoleum? >> Yes. >> Protesters not included. >> The one thing I'll say on SpaceX and look, I don't know whether 1.75 is the right price for the IPO and you know, frankly, I have no clue.

What I do know is that the global profit pool of telco and service providers across the world is anywhere between 2 to 400 billion depending on who you want to address. Right? So you do have to think about a company that just in a core business which by the way wasn't even in a couple years ago is addressing a profit pool of multiple hundreds of billions of dollars with a substantially better product. Right? I think all of us when you think about Starlink works all the time, no radio towers, you know, etc. So I go back to it and I think it's hard to know Chimath because we've never had anything like this before, right? Um >> the ultimate question would be if you look a bit in the in the ride sharing wars and in food delivery wars at some point that excess capital was used to have a price war, >> right?

Could we see a price war between Open Eye and Anthropic? As a question, right? If these companies have so much capital, is one of them ever going to pull a price lever to try and compete with the other? >> Rationally, they should. >> They should. So, we might see things that we can't predict today, right? Where companies might say, well, I have my 200 billion of cash. Now, the issue is they're spending so much on infrastructure, right? So, it's it's not obvious, but I do think we're going to see some counterintuitive um changes. You guys all discuss them on the show every week, and hopefully I'll come back in 2 years and and analyze what went right and what went wrong.

>> Honestly, I think what should happen is you should come back here every year and we should get the benefit of >> Yeah, let's lock it in. We'll lock it in for the two weeks of work that we really do appreciate the work and the effort. Yeah. And it's it's really great to have you bring this to the audience. >> It just shows also the power of sometimes slowing down. Yeah. >> And to meditate on, you know, the the actual state of reality and it was incredibly grounded.

>> Incredibly rich coming from you. >> Incredibly grounded. I think it's a compliment or an insult. I'm >> compliment. Thank you. I'll just say thank you to you Chimath for that incredible compliment and for you Thomas for coming. Thank you. >> Thanks for doing great job.