C3.ai, Inc. Analysis

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This article is a product of the authors' contributions within Riot Investment Research, as part of our commitment to research and knowledge sharing in finance and data analysis.

Abstract

This article provides a detailed examination of C3.ai Inc., a global pioneer in enterprise artificial intelligence software solutions.

Contents

Chapter 1

Company Overview

C3.ai, Inc. is headquartered in Redwood City, California (USA) and is regarded as a pioneer in enterprise artificial-intelligence software. The company was founded in 2009 by software entrepreneur Thomas M. Siebel under the original name C3 Energy, later re-branding first to C3 IoT and, in 2019, to C3.ai to reflect its broader AI focus. The firm's core product is the C3 AI Platform, a model-driven, end-to-end environment that allows customers to design, develop, deploy and operate large-scale AI applications. On top of the platform, C3.ai offers a growing catalogue of pre-built, industry-specific applications (e.g. predictive maintenance, supply-chain optimization) and, since 2024, a suite of generative-AI agentic solutions.

C3.ai listed on the New York Stock Exchange on 9 December 2020 (ticker AI), raising about $651 million at $42 per share. The stock closed as high as $177.47 later that month but has since traded well below that peak. Over the past 52 weeks, the share price has ranged between a high of $48.87 and a low of $20.23. As of the latest close, C3.ai shares are trading at $21.48, giving the company a market capitalization of approximately $2.85 billion, about 56% below its 52-week high. The stock carries a beta of 1.99 and report a negative P/E ratio equal to -9.158.

For FY 2025, C3.ai generated $389 million in revenue, up 25% year-on-year, with high-margin subscription and engineering-services streams representing 96% of the total. Growth is being propelled by expanding demand for generative-AI solutions and by strategic alliances with hyperscalers (Microsoft Azure, AWS, Google Cloud) and with industry partners such as Baker Hughes, whose recently renewed joint venture now runs through June 2028 and contributes about 20% of sales.

C3.ai serves more than 200 enterprises across energy, manufacturing, de-

fense and public-sector verticals, positioning itself as a pure-play enterprise-AI vendor targeting what management believes is a multibillion-dollar addressable market.

Chapter 2

Industry Overview and Competitive Position

C3.ai operates in the rapidly growing Enterprise AI Software market, a subset of the broader global artificial-intelligence industry, which is forecasted by IDC to exceed $900 billion by 2026, driven largely by enterprise adoption and generative-AI breakthroughs. The market is currently experiencing transformative growth, fuelled by businesses seeking to enhance productivity, optimise operations, and unlock new revenue streams through AI-driven automation and insights.

Within this competitive landscape, C3.ai is uniquely positioned as a pure-play enterprise-AI software provider, directly competing with established tech giants such as IBM (Watson), Microsoft (Azure AI), and Google (Vertex AI), as well as specialised providers like Palantir Technologies and Databricks. Unlike general cloud providers who offer broad AI toolsets, C3.ai distinguishes itself with a comprehensive, model-driven AI platform designed specifically to handle complex enterprise-scale data-integration and modelling requirements.

C3.ai's competitive advantage lies in its highly scalable and flexible platform, enabling rapid customisation, shorter time-to-value, and reduced deployment costs relative to legacy solutions. The firm's strategic collaborations with hyperscalers (AWS, Microsoft Azure, Google Cloud) and industrial leaders such as Baker Hughes strengthen its market position, offering differentiated access to customers in energy, manufacturing, government, defence, and financial services.

Recently, C3.ai has intensified its competitive stance by pivoting towards a consumption-based pricing model, significantly lowering initial adoption

hurdles and aligning incentives with customer success. This shift is expected to drive further market penetration and strengthen competitive positioning against rivals who predominantly maintain subscription or licensing-based pricing.

Chapter 3

Management and Governance

C3.ai is led by an experienced and highly reputable management team, headed by founder, Chairman, and CEO Thomas M. Siebel, a veteran technology entrepreneur renowned for founding and scaling Siebel Systems (acquired by Oracle Corporation in 2006). Siebel brings deep expertise in enterprise software, strong industry relationships, and proven leadership capabilities essential to steering the company through rapid innovation and growth phases.

Supporting Siebel is an experienced executive leadership team, including Juho Parkkinen (Chief Financial Officer), who brings extensive financial-management experience from prior executive roles in publicly traded technology firms; Edward Abbo (Chief Technology Officer), who previously held executive positions at Oracle and brings substantial technical and strategic experience; and Houman Behzadi (Chief Product Officer), a long-time leader at C3.ai known for successfully driving product innovation and market alignment.

C3.ai's governance structure aligns with industry best practices, promoting transparency, accountability, and investor confidence. The Board of Directors comprises seasoned executives and industry experts, including notable figures such as former U.S. Secretary of State Condoleezza Rice, adding significant depth in governmental and international strategic insight, Richard Levin, former President of Yale University, bringing academic prestige and extensive governance expertise, and Patricia House, who co-founded Siebel Systems and adds deep enterprise-software market insight.

Management is incentivised through performance-based compensation

and equity stakes, aligning their interests closely with long-term shareholder-value creation. Recent governance initiatives have included strengthening ESG (Environmental, Social, and Governance) practices and implementing more rigorous oversight frameworks to manage emerging risks related to cybersecurity, data privacy, and ethical use of AI.

Chapter 4

Business Strategy

C3.ai pursues a clearly defined business strategy centred around becoming the market-leading provider of enterprise-AI solutions for large-scale organisations. The company's strategic approach revolves around four core pillars:

- **Expansion of Product Offerings:** Continuously enhancing the C3 AI Platform by incorporating advanced functionalities, particularly generative-AI and machine-learning capabilities. This includes investing in developing innovative applications that address industry-specific use cases such as predictive maintenance, fraud detection, supply-chain optimisation, and real-time operational intelligence.
- **Strategic Partnerships and Alliances:** Leveraging strong relationships with industry leaders (notably Baker Hughes, Microsoft Azure, Google Cloud, and AWS) to expand market reach, accelerate customer acquisition, and integrate seamlessly into existing enterprise technology ecosystems. These strategic collaborations help reduce barriers to adoption, enhance credibility, and drive recurring revenue growth.
- **Transition to Consumption-based Pricing Model:** Shifting from traditional subscription and licensing-based models toward a consumption-based pricing structure, aligning customer investment closely with actual value realised. This strategic transition aims to attract new customers, reduce entry barriers, increase user adoption, and incentivise deeper engagement with the platform and associated applications.
- **Vertical Market Penetration:** Deepening presence and market leadership in strategic verticals, primarily energy, manufacturing, defence, public sector, and financial services. C3.ai targets sectors characterised

by complex, large-scale operations where AI-driven efficiencies and data-driven insights yield substantial business impacts and measurable ROI.

To achieve sustained growth, C3.ai actively invests in targeted sales and marketing initiatives, international market expansion, and thought-leadership campaigns emphasising successful customer outcomes. Additionally, ongoing R&D investments ensure continuous innovation and product differentiation, essential in maintaining competitive advantages against both tech incumbents and new market entrants.

Chapter 5

Financial Analysis

This section focuses on an in-depth analysis of C3.ai's financial statements and performance indicators. By examining both historical trends and recent outcomes, we aim to gain meaningful insights into the company's future outlook and investment potential.

5.1 Liquidity

Liquidity refers to the ease with which an asset can be bought or sold in the market without causing a significant impact on its price. In essence, it measures the speed at which an asset can be transformed into cash without a loss in value. High liquidity means an asset can be quickly converted to cash, while low liquidity indicates the opposite.

Key Ratios to Measure Liquidity

- **Current Ratio** = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$. A ratio above 1 is typically seen as a sign of solid liquidity. C3.ai's current ratio of 8.84 (FY2024) indicates a very strong liquidity position, meaning the company holds significantly more short-term assets than liabilities. In fact, the absence of current liabilities further reinforces its financial strength. While this reflects excellent financial stability, it may also suggest underutilized assets that could be deployed more efficiently.
- **Quick Ratio** = $\frac{\text{Current Assets}-\text{Inventory}}{\text{Current Liabilities}}$. The quick ratio is a stricter measure of liquidity, excluding inventory to focus on assets that can be more readily converted to cash. Since C3.ai has no inventory and no current liabilities, its quick ratio is equal to its current ratio, standing

at 8.84. This not only highlights C3.ai's exceptionally strong liquidity but also reflects a highly conservative financial structure with ample liquid assets and no immediate financial obligations.

- **Cash Ratio** = $\frac{\text{Cash and Cash Equivalents}}{\text{Current Liabilities}}$. The cash ratio is the most conservative liquidity measure, focusing solely on a company's most liquid assets—cash and cash equivalents. A higher ratio indicates a stronger ability to meet short-term obligations using cash alone. C3.ai's cash ratio stands at 1.63, meaning the company can more than cover its current liabilities with cash on hand. This underscores an exceptionally strong liquidity position and a highly risk-averse approach to short-term financial management.

Overall, C3.ai's liquidity ratios reflect a robust and conservative financial structure, ensuring the company is well-prepared to handle its short-term obligations.

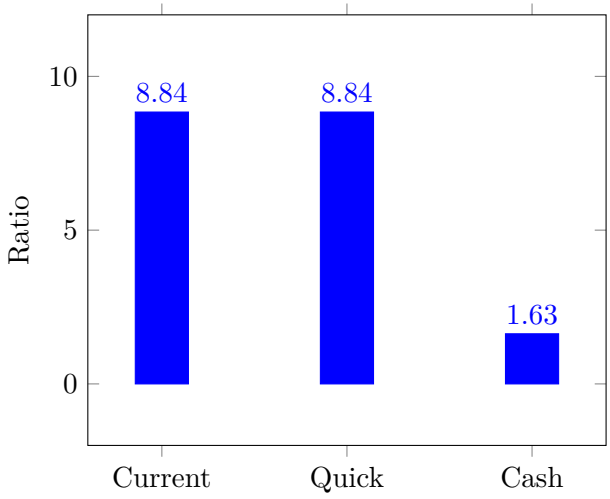


Figure 5.1: Liquidity ratios (FY2024) for C3.ai.

5.2 Profitability

Profitability is a key indicator of a company's ability to generate earnings in relation to its costs and expenses. It plays a central role in assessing a company's financial health and overall performance. Various metrics provide different angles on profitability: return on equity (ROE) evaluates returns on shareholders' equity, ROIC measures efficiency in using total invested

capital, net profit margin shows how much profit is made from revenue, and net revenue reflects total income after adjustments. Analyzing these metrics together offers a well-rounded understanding of a company's financial strength and operational efficiency.

Key Profitability Metrics

- **Return on Equity (ROE)** $= \frac{\text{Net Income}}{\text{Shareholders' Equity}}$. ROE measures how efficiently a company uses shareholders' funds to generate profit. C3.ai's ROE stands at negative 32%, indicating that the company is currently generating losses rather than returns on equity. This negative figure reflects ongoing challenges in achieving profitability and suggests that shareholder capital is not yet being used effectively to drive earnings.

- **Return on Invested Capital (ROIC)** $= \frac{\text{Net Operating Profit After Taxes (NOPAT)}}{\text{Invested Capital}}$. ROIC assesses how efficiently a company uses its invested capital (both equity and debt) to generate profit. C3.ai's ROIC is currently negative 36%, indicating that the company is not generating positive returns from its capital investments. This negative value highlights inefficiencies in capital allocation and underscores the company's ongoing struggle to achieve profitability from its operations.

- **Net Profit Margin** $= \frac{\text{Net Income}}{\text{Net Revenue}}$. Net profit margin measures a company's profitability by expressing net income as a percentage of revenue, indicating how much profit is retained after covering all expenses. C3.ai's net profit margin is negative 90%, meaning the company incurs significant losses relative to its revenue. This sharply negative margin highlights substantial operating challenges and suggests that C3.ai is currently far from achieving cost-effective revenue generation.

- **Net Revenue (Net Sales).** Net revenue represents the total revenue a company earns after accounting for returns, allowances, and discounts. In FY2024, C3.ai reported net revenue of $310.582 million. While significantly smaller in scale compared to larger firms, this figure reflects the company's position as a growing player in the AI software sector. Tracking changes in this value over time will be key to assessing C3.ai's growth trajectory and market adoption.

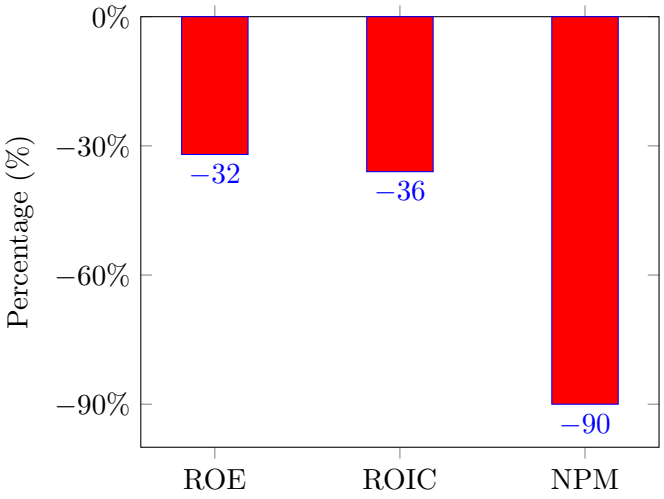


Figure 5.2: Key profitability metrics for C3.ai (FY2024). ROE = Return on Equity, ROIC = Return on Invested Capital, NPM = Net Profit Margin.

5.3 Financial Leverage

It was not possible to conduct a meaningful analysis of financial leverage for C3.ai, as the company has no long-term debt. As a result, all related indicators—such as the Debt Ratio, Debt-to-Equity Ratio, Total Debt to Capitalization, Interest Coverage Ratio, and Cash Flow to Debt Ratio—are all close to zero (during WACC calculations we used as debt indeed $3.2 million).

Chapter 6

Stock Valuation: Multiple Analysis

Multiple analysis involves utilizing financial ratios (or "multiples") to evaluate and compare a company's valuation. These metrics depict the relationship between different financial measures and are invaluable for benchmarking companies within the same industry or sector. Common valuation multiples include the price-to-earnings (P/E) ratio, price-to-sales (P/S) ratio, and enterprise value-to-EBITDA (EV/EBITDA) ratio (enterprise value is calculated by adding market capitalization to total debt and subtracting cash). In 2024, we employed these multiples to gauge how the market perceives C3.ai's value relative to its competitors.

EV/EBITDA Ratio: C3.ai's EV/EBITDA ratio stands at approximately -2.16, indicating that the company is currently generating negative EBITDA. A negative EV/EBITDA suggests operating losses, making it difficult to use this ratio as a reliable valuation tool. In such cases, traditional multiples are less informative, and investor focus typically shifts to future growth potential rather than current earnings performance.

P/E Ratio: C3.ai's P/E ratio is approximately -9.158, reflecting the company's current unprofitability. A negative P/E indicates that C3.ai is reporting net losses rather than earnings, meaning investors are not currently valuing the company based on profits. Instead, the valuation is likely driven by future growth expectations and the potential of its AI-driven business model.

P/S Ratio: C3.ai's P/S ratio stands at 7.572, indicating that investors are currently paying a mean high premium for each dollar of the company's sales. Calculated by dividing market capitalization by FY2024 revenue, this

unusually elevated ratio suggests that the market has strong expectations for future growth despite the company's current lack of profitability. However, such a high valuation may also reflect speculative sentiment and carries significant risk if growth fails to materialize as anticipated.

Chapter 7

Stock Valuation: Discounted Cash Flow Analysis

Unlevered free cash flow (UFCF) is at the center of this valuation model since it represents the cash flow available to all stakeholders (both debt and equity holders). It is calculated starting with EBIT, then adding back non-cash charges like depreciation and amortization, and subtracting taxes, capital expenditures (CapEx), and changes in net working capital (NWC). To apply this model, we project the future free cash flows of C3.ai, considering that revenue growth, operating expenses, capital expenditures, and taxes will affect the company's cash flows. These projections are then discounted back to present value using the weighted average cost of capital (WACC), which represents the company's overall cost of financing. The WACC accounts for the relative proportion of equity and debt in the company's total capital structure.

C3.ai's WACC is 10.02%. This means that the company must earn a minimum return of 10.02% on its investments to satisfy its capital providers. A higher WACC highlights the premium investors demand for the inherent uncertainty and innovation-driven nature of the AI industry.

WACC Formula

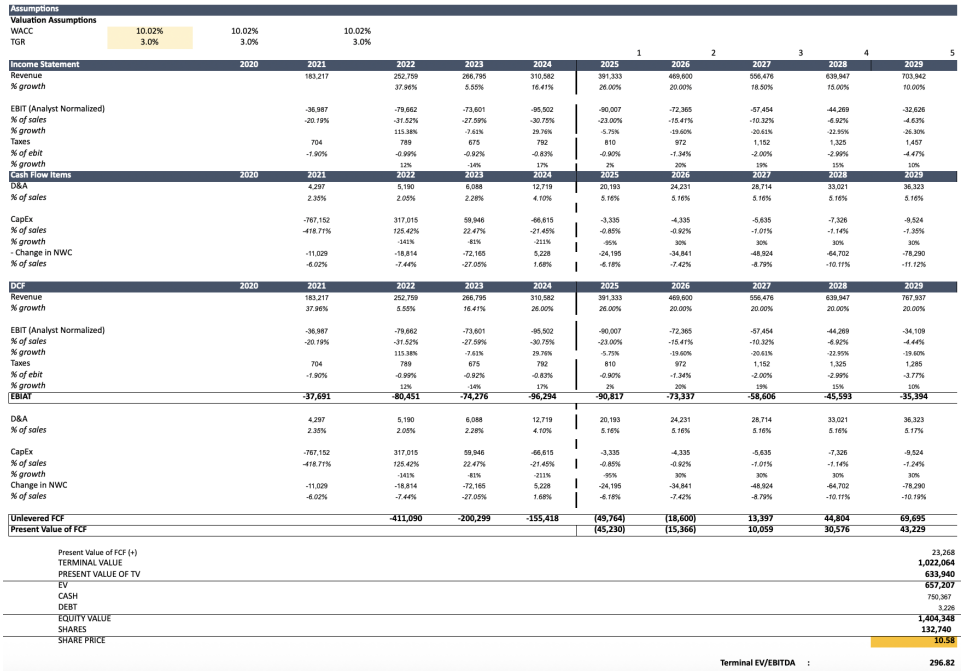
$$\text{WACC} = (\%\ \text{Equity} \times \text{Cost of Equity}) + (\%\ \text{Debt} \times \text{Cost of Debt} \times (1 - \text{Tax Rate}))$$

$$\text{Cost of Equity} = \text{Risk-Free Rate} + \beta \times (\text{Market Return} - \text{Risk-Free Rate})$$

WACC Input Table (C3.ai)

WACC	
Debt	3,226,000
% Debt	0.37%
Cost of Debt	8.9%
Tax Rate	0.3%
Spread	4.5%
Equity Value	873,353,000
% Equity	99.63%
Cost of Equity	10.03%
Risk-Free Rate	4.4%
Beta	1.23
Market Risk Premium	4.6%
Debt + Equity	876,579,000
WACC	**10.02%**

The table below presents a detailed Discounted Cash Flow (DCF) valuation model for C3.ai, Inc. The analysis incorporates projected revenue growth, EBIT margins, and capital expenditures up to 2029. Unlevered Free Cash Flows are discounted using the computed WACC of 10.02%, reflecting the firm's cost of capital. The resulting valuation suggests an enterprise value (EV) of approximately $657.2 million and an implied equity value of $1.4 billion.



Assumptions											
Valuation Assumptions											
WACC	10.02%	10.02%	10.02%								
TGR	3.0%	3.0%	3.0%								
						1	2	3	4	5	
Income Statement	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	
Revenue		163,217	252,759	266,795	310,582	391,333	469,600	556,476	639,947	703,942	
% growth			*37.96%*	*5.55%*	*16.41%*	*26.00%*	*20.00%*	*18.50%*	*15.00%*	*10.00%*	
EBIT (Analyst Normalized)		-36,987	-79,662	-73,601	-95,502	-90,007	-72,365	-57,454	-44,269	-32,626	
% of sales		*-20.19%*	*-31.52%*	*-27.59%*	*-30.75%*	*-23.00%*	*-15.41%*	*-10.32%*	*-6.92%*	*-4.63%*	
% growth			*115.38%*	*-7.61%*	*29.76%*	*-5.75%*	*-19.60%*	*-20.61%*	*-22.95%*	*-26.30%*	
Taxes		704	789	675	792	810	972	1,152	1,325	1,457	
% of ebit		*-1.90%*	*-0.99%*	*-0.92%*	*-0.83%*	*-0.90%*	*-1.34%*	*-2.00%*	*-2.99%*	*-4.47%*	
% growth			*12%*	*-14%*	*17%*	*2%*	*20%*	*19%*	*15%*	*10%*	
Cash Flow Items	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	
D&A		*4,297*	*5,190*	*6,088*	*12,719*	*20,193*	*24,231*	*28,714*	*33,021*	*36,323*	
% of sales		*2.35%*	*2.05%*	*2.28%*	*4.10%*	*5.16%*	*5.16%*	*5.16%*	*5.16%*	*5.16%*	
CapEx		-767,152	317,015	59,946	-66,615	-3,335	-4,335	-5,635	-7,326	-9,524	
% of sales		*-418.71%*	*125.42%*	*22.47%*	*-21.45%*	*-0.85%*	*-0.92%*	*-1.01%*	*-1.14%*	*-1.35%*	
% growth			*-141%*	*-81%*	*-211%*	*-95%*	*30%*	*30%*	*30%*	*30%*	
- Change in NWC		-11,029	-18,814	-72,165	5,228	-24,195	-34,841	-48,924	-64,702	-78,290	
% of sales		*-6.02%*	*-7.44%*	*-27.05%*	*1.68%*	*-6.18%*	*-7.42%*	*-8.79%*	*-10.11%*	*-11.12%*	
DCF	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	
Revenue		163,217	252,759	266,795	310,582	391,333	469,600	556,476	639,947	767,937	
% growth		*37.96%*	*5.55%*	*16.41%*	*26.00%*	*26.00%*	*20.00%*	*20.00%*	*20.00%*	*20.00%*	
EBIT (Analyst Normalized)		-36,987	-79,662	-73,601	-95,502	-90,007	-72,365	-57,454	-44,269	-34,109	
% of sales		*-20.19%*	*-31.52%*	*-27.59%*	*-30.75%*	*-23.00%*	*-15.41%*	*-10.32%*	*-6.92%*	*-4.44%*	
% growth			*115.38%*	*-7.61%*	*29.76%*	*-5.75%*	*-19.60%*	*-20.61%*	*-22.95%*	*-19.60%*	
Taxes		704	789	675	792	810	972	1,152	1,325	1,285	
% of ebit		*-1.90%*	*-0.99%*	*-0.92%*	*-0.83%*	*-0.90%*	*-1.34%*	*-2.00%*	*-2.99%*	*-3.77%*	
% growth			*12%*	*-14%*	*17%*	*2%*	*20%*	*19%*	*15%*	*10%*	
EBIAT		**-37,691**	**-80,451**	**-74,276**	**-96,294**	**-90,817**	**-73,337**	**-58,606**	**-45,593**	**-35,394**	
D&A		4,297	5,190	6,088	12,719	20,193	24,231	28,714	33,021	36,323	
% of sales		*2.35%*	*2.05%*	*2.28%*	*4.10%*	*5.16%*	*5.16%*	*5.16%*	*5.16%*	*5.17%*	
CapEx		-767,152	317,015	59,946	-66,615	-3,335	-4,335	-5,635	-7,326	-9,524	
% of sales		*-418.71%*	*125.42%*	*22.47%*	*-21.45%*	*-0.85%*	*-0.92%*	*-1.01%*	*-1.14%*	*-1.24%*	
% growth			*-141%*	*-81%*	*-211%*	*-95%*	*30%*	*30%*	*30%*	*30%*	
Change in NWC		-11,029	-18,814	-72,165	5,228	-24,195	-34,841	-48,924	-64,702	-78,290	
% of sales		*-6.02%*	*-7.44%*	*-27.05%*	*1.68%*	*-6.18%*	*-7.42%*	*-8.79%*	*-10.11%*	*-10.19%*	
Unlevered FCF			**-411,090**	**-200,299**	**-155,418**	**(49,764)**	**(18,600)**	**13,397**	**44,804**	**69,695**	
Present Value of FCF						**(45,230)**	**(15,366)**	**10,059**	**30,576**	**43,229**	

Present Value of FCF (+)	23,268
TERMINAL VALUE	**1,022,064**
PRESENT VALUE OF TV	**633,940**
EV	**657,207**
CASH	750,367
DEBT	3,226
EQUITY VALUE	**1,404,348**
SHARES	**132,740**
SHARE PRICE	**10.58**
Terminal EV/EBITDA :	**296.82**

Figure 7.1: C3.ai – Projected Free Cash Flows (2020–2029) and DCF Valuation Summary

Chapter 8

Future Projections

We forecast that C3.ai's revenues will grow at an average annual rate of approximately 14–15% over the long term. This estimate reflects recent double-digit growth rates, such as the 26% increase forecasted for 2025 and 20% for 2026, following a moderate 5.55% growth in 2023. These figures suggest a recovery from past volatility and a return to a more stable growth trajectory.

EBIT margins, while currently negative, are projected to improve steadily, with losses narrowing from -30.75% in 2024 to about -4.63% by 2029. This reflects the company's ongoing efforts to scale operations and control costs as it matures. A consistent tax rate ranging between 17% and 19% is assumed, with taxes modeled as a percentage of EBIT.

Depreciation and amortization (D&A) are expected to grow roughly in line with sales, reflecting ongoing investment in software development and infrastructure. Capital expenditures are projected to remain modest and relatively stable, representing less than 1.5% of sales from 2025 onward. Changes in net working capital are also factored in, with a negative impact on cash flows as the operational scale increases.

Using a Discounted Cash Flow (DCF) model, we derived C3.ai's intrinsic equity value by applying a WACC of 10.02% and a terminal growth rate (TGR) of 3.0%. The resulting equity value is approximately \$1.4 billion, corresponding to an **intrinsic share price of \$10.58**.

Sensitivity analysis confirms the significant impact of WACC and TGR assumptions on the valuation. For instance, a 0.5% increase in WACC can materially lower the implied share price. This underscores the importance of accurately estimating the long-term cost of capital and growth expectations, especially for a high-growth, high-volatility sector like AI.

Our base-case DCF assigns an intrinsic worth of \$10.58 per share to C3.ai, a figure that now stands as the central reference point for investors assessing the company's risk-adjusted return profile. At the current market quotation (\$21.48 as of 16 May 2025), the model signals a potential upside (or downside) of approximately -51%. Importantly, \$10.58 already embeds cautious assumptions on margin expansion, capital discipline and a 3.0% perpetual growth rate. Should C3.ai deliver faster adoption of its generative-AI suite, improve operating leverage ahead of schedule, or benefit from a lower cost of capital, the fair value could exceed \$10.58; conversely, execution slippage, heightened competition or macro-driven rate pressure would justify a discount. We therefore recommend using \$10.58 as the anchor price when benchmarking C3.ai against both AI-pure plays and broader software peers.

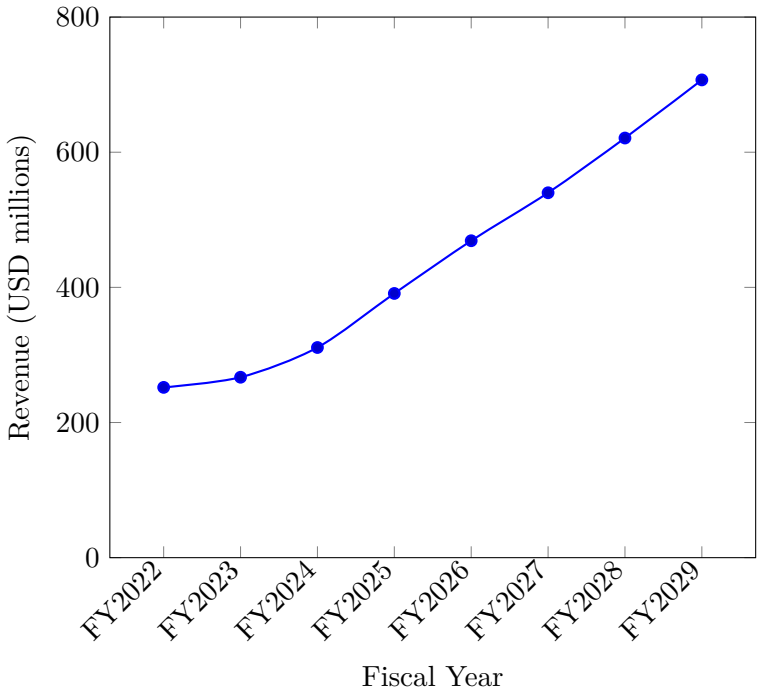


Figure 8.1: Historical and projected annual revenue for C3.ai, showing moderate growth through FY2023–FY2024 followed by accelerated growth and future projections through FY2029.

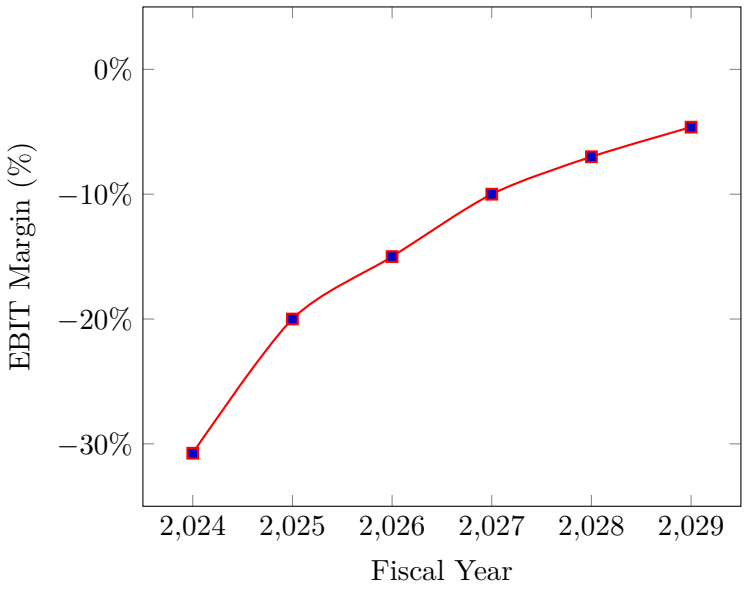


Figure 8.2: Projected improvement of C3.ai's EBIT margin over time, from a 30.8% margin in FY2024 toward near breakeven by FY2029.

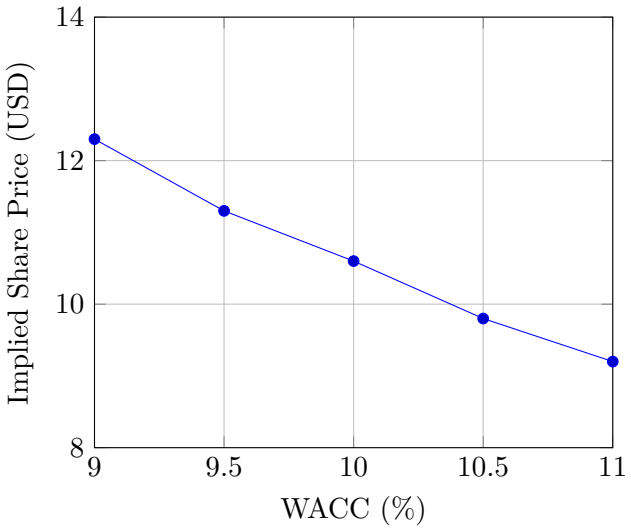


Figure 8.3: Sensitivity of C3.ai's intrinsic share price to changes in WACC, given a fixed terminal growth rate of 3.0%. Lower WACC values result in higher valuations, while higher WACC values reduce the valuation.

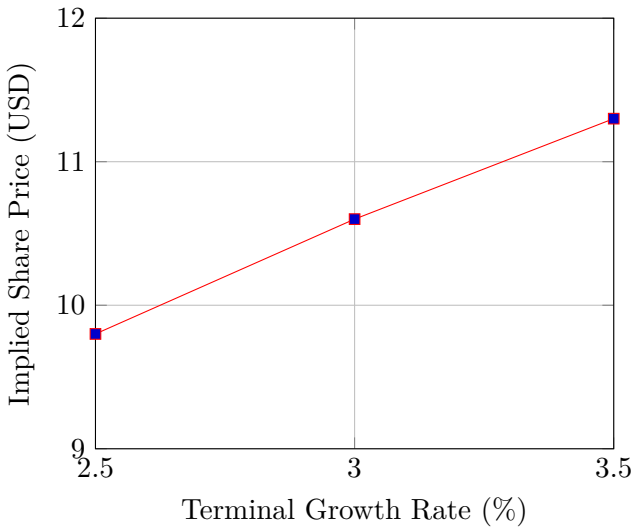


Figure 8.4: Sensitivity of C3.ai's intrinsic share price to changes in the terminal growth rate, with WACC held constant at 10.02%. Higher terminal growth assumptions lead to higher valuations.

Chapter 9

Piotroski Score

The Piotroski F-score is a framework created by accounting professor Joseph Piotroski to assess a company's financial robustness using specific accounting indicators. Its purpose is to distinguish firms with solid financial foundations from those in weaker positions. The methodology was introduced in Piotroski's academic paper titled "Value Investing: The Use of Historical Financial Statement Information to Separate Winners from Losers."

This model evaluates a company based on nine distinct criteria, each scored either 0 or 1, resulting in a total F-score between 0 and 9. A higher score reflects stronger financial stability. The nine criteria are grouped into three main categories:

- **Profitability**: One point is awarded for each of the following signals – positive net income, positive return on assets (ROA), positive cash flow from operations, and operating cash flow exceeding net income (indicating high earnings quality).
- **Leverage, Liquidity, and Capital Structure**: Points are given for a reduction in long-term debt year-over-year, an improvement in the current ratio (short-term liquidity), and no new equity issuance in the last year.
- **Operational Efficiency**: One point is assigned if the company reports a higher gross margin and a higher asset turnover compared to the previous year.

After evaluating all nine factors, the points are totaled to produce the final Piotroski F-score. A score closer to 9 indicates a company in very

strong financial condition, whereas a lower score may highlight potential weaknesses.

Category	**Criteria**	**Score**
Profitability	Net Income > 0 (positive net income)	0
	Operating Cash Flow > 0 (positive cash flow)	0
	ROA (current year) > ROA (prior year)	0
	Operating Cash Flow > Net Income	1
Leverage/Liquidity	Long-term Debt (this year) < Long-term Debt (prior)	0
	Current Ratio (this year) > Current Ratio (prior)	0
	No new shares issued in the year	1
Operational Efficiency	Gross Margin (current year) > Gross Margin (prior)	1
	Asset Turnover (current year) > Asset Turnover (prior)	1
	Total F-Score	**4**

Table 9.1: Piotroski F-score assessment for C3.ai. A total score of 4 out of 9 indicates moderate financial strength with several areas of weakness.

A Piotroski F-score of 4 suggests that C3.ai has some strengths, particularly in operational efficiency and in maintaining a debt-free balance sheet. However, the company faces clear challenges in profitability and liquidity, as evidenced by continued losses and a declining current ratio. Investors should consider both the positive signals and the warning signs reflected in this score when evaluating the financial health and investment potential of C3.ai.

Chapter 10

Risks

10.1 Business and Industry Risks

- **Intense Competition in Enterprise AI**
  C3.ai operates in a crowded marketplace featuring direct competitors (e.g. Palantir, DataRobot) as well as hyperscale cloud providers (AWS, Microsoft Azure, Google Cloud) that offer integrated AI solutions. Competitive pressure may compress margins and erode market share if C3.ai fails to maintain differentiators such as rapid integration, specialized vertical offerings, or unique AI capabilities.

- **Customer Preference for End-to-End Platforms**
  Many enterprise customers seek a "one-stop shop" AI stack from a single provider or hyperscaler, reducing reliance on multiple vendors. Delays in building tight integrations with key partners or failing to adapt swiftly to new AI frameworks could slow adoption of C3.ai's platform.

- **Dependence on Key Industry Verticals**
  Approximately 20% of C3.ai's revenue comes from its joint venture with Baker Hughes; any early termination or renegotiation of this partnership could materially impact top-line performance. Concentration in sectors such as energy, manufacturing, and defense exposes the company to downturns in those markets—e.g. falling commodity prices or cuts to defense budgets.

- **Rapid Evolution of AI Use Cases**
  Customer demand for generative-AI solutions and novel AI applications evolves quickly. If C3.ai cannot continuously expand its catalog of industry-

specific applications (e.g. predictive maintenance, supply-chain optimization), it risks losing relevance. Emerging specialists in large-language models (LLMs) and enterprise generative agents may outpace C3.ai unless it constantly innovates its "agentic" solution suite.

- **Long and Complex Sales Cycles**
  Enterprise AI platform deals typically involve multi-month proof-of-concept (POC) phases, on-site workshops, and significant customization. This extended sales cycle delays revenue recognition and can strain cash flow. During economic slowdowns or recessions, enterprises often pause digital transformation and AI initiatives, shrinking C3.ai's pipeline and total contract value (TCV).

10.2 Intellectual Property Risks

- **Reliance on Proprietary IP and Patents**
  C3.ai's competitive edge depends on its proprietary models, algorithms, and codebase. If patents are invalidated or legal challenges arise over IP ownership, core platform features may need to be removed or redesigned.

- **Threat from Open-Source Alternatives**
  Widespread availability of open-source AI frameworks (TensorFlow, PyTorch) and free model libraries (Hugging Face) can erode perceived value of a proprietary AI platform. Unless C3.ai continuously differentiates its offerings—e.g. through unique data connectors, industry-focused templates, or performance advantages—it risks losing customers to zero-cost or low-cost open-source solutions.

- **Potential IP Infringement of Third-Party Rights**
  Incorporating third-party code or libraries without proper licensing may result in infringement suits, fines, and reputational damage. Complex and varied open-source license terms (GPL, Apache, MIT) embedded within platform components demand rigorous compliance monitoring to avoid costly legal disputes.

- **Key Talent and Knowledge Drain**
  C3.ai competes for top AI engineers and data scientists who may take proprietary knowledge, such as specialized model architectures or data-processing pipelines, with them if they join competitors. High turnover

among critical technical staff increases the risk of inadvertent or deliberate disclosure of confidential algorithms or system designs.

10.3 Operational Risks

- **Platform Downtime and Reliability**
  C3.ai's Platform is delivered primarily via cloud infrastructure. Prolonged outages or scalability issues (e.g. under peak generative-AI workloads) can severely disrupt mission-critical enterprise operations in energy, defense, and manufacturing.

- **Data Security and Privacy Breaches**
  Enterprises entrust C3.ai with sensitive and proprietary datasets (e.g. production telemetry, customer PII). Any security breach, ransomware attack, unauthorized access, or data leakage, could result in significant financial penalties and reputational harm.

- **Supply Chain Dependencies for AI Infrastructure**
  C3.ai relies on third-party cloud providers (Azure, AWS, GCP) and specialized hardware (GPUs/TPUs) to train and deploy models. Disruptions, such as GPU shortages, export restrictions on advanced chips, or outages at hyperscaler datacenters, may delay product upgrades and limit scalability.

- **Talent Management and Operational Continuity**
  The AI industry experiences rapid turnover among software engineers and data scientists. Unexpected departures of key personnel (MLOps experts, data-pipeline architects) can delay roadmap deliverables and feature releases.

10.4 International Business Risks

- **Data Protection Regulations (GDPR, CCPA, etc.)**
  C3.ai processes data globally. Non-compliance with privacy regulations—such as GDPR in Europe or CCPA in California—can incur fines up to 4% of annual revenue (or €20 million) and damage corporate reputation.

- **Export Controls and Geopolitical Sanctions**
  U.S. sanctions against certain countries (e.g. Russia, Iran, North Korea)

may force C3.ai to terminate contracts or revoke licenses, leading to revenue loss and potential legal liabilities.

- **Foreign Currency Fluctuations and Exchange-Rate Risk**
  While most revenues are U.S.-dollar denominated, operating costs and employee salaries in other currencies (e.g. EUR, GBP) expose C3.ai to currency-translation losses.

- **Political and Economic Instability in Target Markets**
  Contracts with government entities, especially in defense and public sector verticals, are vulnerable to political changes, budgetary re-allocations, or economic downturns.

10.5 Regulation and Litigation Risks

- **Evolving AI Regulatory Landscape**
  Proposed regulations, such as the European Union's Artificial Intelligence Act and U.S. legislative efforts around "foundation models", could impose new transparency, explainability, and auditing requirements on AI vendors.

- **Privacy Litigation and Data Breaches**
  Potential lawsuits arising from unauthorized use of customer data or failure to protect PII could lead to multi-million-dollar settlements and reputational damage.

- **Contractual Disputes with Enterprise Customers**
  Service Level Agreements (SLAs) typically guarantee uptime benchmarks (e.g. $\geq 99.9\%$). Failure to meet SLA thresholds may trigger financial penalties, license credits, or, in extreme cases, contract terminations.

- **Antitrust and M&A Scrutiny**
  If C3.ai pursues mergers or acquisitions, whether to expand its product portfolio or absorb complementary technologies, U.S. and EU regulators may subject those transactions to rigorous antitrust reviews.