

JAG Growth Equity Thematic Insights: Q2 2025

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Investing in Transformations That Matter

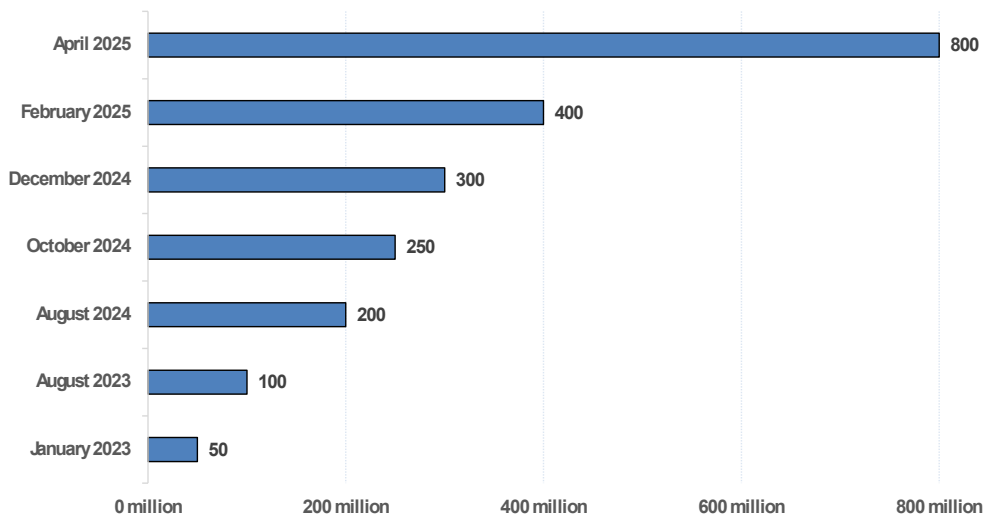
Beyond the Headlines, the AI Revolution Continues

Although tariff policy, government spending, and politics have dominated the news coverage in recent weeks, we are closely monitoring longer-term catalysts for innovation and disruption, including Artificial Intelligence (AI).

We first examined the **investment implications of AI** in early 2023 as ChatGPT captured the public's imagination. Two years later, we see Generative AI (Gen AI) - the type of AI that can create new content by learning patterns from existing data - becoming integrated across almost all industries. According to McKinsey, 78% of organizations use AI in at least one business function. The usage of Gen AI has also jumped from 33% in 2023 to 71% currently. AI-related capital expenditures continue to be robust, with IDC projecting AI-related spending to grow at 29% CAGR in the 2024-2028 period. **Nvidia (NVDA)**, the world's leading AI chip manufacturer, said the demand for its products remains exceptionally strong and above prior expectations. This was evidenced by the company's strong earnings report with quarterly sales guidance beating expectations despite a sizeable (\$8B) revenue loss in China due to additional export restrictions. In addition to enterprises, governments across the globe are also ramping up AI investments as evidenced by recent large project announcements in the Middle East. Although the investment markets have been very turbulent in 2025, we currently see no signs of material deceleration in AI-related spending and expect companies to continue prioritizing AI product rollouts.

While AI adoption is still in the early innings, use cases are steadily broadening beyond just the initial winners that were primarily concentrated in the public cloud and tech hardware/semiconductor spaces. For example, Taser and body camera maker **Axon (AXON)** introduced its new AI transcription software called Draft One, with early trials showing as much as 80% decrease in report writing time for police officers. **Spotify (SPOT)** uses Gen AI to significantly accelerate product deployment times and create AI-powered playlists tailored to user's individual preferences and listening habits. Software providers **ServiceNow (NOW)** and **Salesforce (CRM)** are heavily integrating AI into their products to automate workflows and customer interactions, reducing labor costs, and improving operational efficiency.

ChatGPT's Weekly Active Users



Source: demandsage

Some of the world's largest companies have already seen significant benefits of incorporating Gen AI into their products. **Meta (META)** lifted Reels conversion rates by 5% after rolling out a new AI ads recommendation model, with management believing that "the increased productivity from AI will make advertising a meaningfully larger share of global GDP than it is today." **Amazon (AMZN)** is building over 1000 AI applications across the company and now sees its AWS (Amazon Web Services) business growing beyond its "multi-hundred-billion-dollar revenue run-rate business". **Microsoft's (MSFT)** Azure revenues grew by 33% y/y, with 16% contribution from AI Services. **Alphabet (GOOGL)** is rolling out AI Mode embedded in its Search engine, while AI Overviews currently already have over 1.5B monthly users.

Alongside its transformative potential, the rise of AI is also introducing significant new risks to organizations. We believe AI could increase the risk of damaging cyberattacks, because the proliferation of AI agents will make it easier for hackers to develop more frequent and increasingly sophisticated attacks. Additionally, given the very rapid rise in user adoption, many enterprises lack clear policies and procedures to address AI risks. On the other hand, AI is also allowing cybersecurity providers to enhance their products and improve threat detection/response. We believe security providers with technological leadership and strong product innovation will benefit from increased demand for cybersecurity services. We believe **CyberArk (CYBR)** is well positioned to benefit from these trends as the leading provider of PAM (Privileged Access Management) solutions.

Diabetes Treatments Are Beginning to Bite

A lot has happened since we last wrote about GLP-1's and the transformative effect these medicines are having on addressing the global obesity epidemic. Given the rapid pace at which this theme is evolving, we wanted to highlight notable recent developments in the GLP-1 market and provide a quick update on where we expect the market to go from here.

The number of patients taking GLP-1 medicines continues to grow at a robust pace. According to prescription data from IQVIA, there are roughly 8 million Americans currently on GLP-1 drugs. Of these patients, roughly 5.5 million are taking the drugs to manage type 2 diabetes while the remainder are obese patients using GLP-1s to lose weight. According to **Eli Lilly (LLY)**, total GLP-1 prescriptions increased 46% in Q1 compared to the same period last year. This growth has been driven by expanded insurance coverage of GLP-1s, which has translated into increased access for patients. GLP-1 manufacturers were also able to significantly increase supply and eliminate drug shortages that were persistent in the initial period post launch.

In late April, investors also got a first look at data for a next-generation obesity medicine that is likely to play a meaningful role in the market in the years ahead. Eli Lilly shared data for their drug Orforglipron, an oral GLP-1 that Lilly hopes will further bolster their leadership position in the GLP-1 market. The study showed that patients on Orforglipron achieved similar health outcomes to patients on Novo Nordisk's injectable medicines, Ozempic and Wegovy. While the results were not quite as strong as Lilly's best in class injectable medicines, Orforglipron's value stems from its potential to bring a new dosing format that offers advantages to certain groups of patients. If approved, Orforglipron is expected to further boost GLP-1 adoption particularly for patients who are afraid of needles. Oral GLP-1s are also expected to play a key role in international markets where the lack of supply or infrastructure needed to support injectable GLP-1's has thus far constrained adoption.

As we have discussed with many clients over the past year, our views on the growth potential of GLP-1 medications influence both the companies we own in our portfolio and the companies we are choosing to avoid for now. Early evidence has begun to emerge on the second-order effects of GLP-1 medications on society. It is well known that patients on GLP-1's experience a decreased appetite and tend to consume fewer calories than they did prior to starting the drugs. Interestingly, Q1 2025 earnings reports from a variety of restaurants and consumer packaged goods companies showed a clear and continuing trend of decelerating comps. Companies ranging from McDonalds (MCD) to Chipotle (CMG) to PepsiCo (PEP) are facing slowing traffic growth and customer spending on their products. While some of these headwinds are likely due to unrelated factors such as macroeconomic uncertainty or inflation, we believe that the "GLP-1 effect" is putting incremental pressure on these businesses.

— JAG's Growth Equity Research Team

Disclosures

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Ownership: Fifty-one percent ownership by a Veteran or Veterans. The applicant must share in all risk and profits commensurate with their ownership interest.

Control and Management: Proof of active management of the business. Veteran must possess the power to direct or cause to direct the management and policies of the business.

Contribution of Expertise and Capital: Contribution of capital and/or expertise by Veteran owner(s) to acquire their ownership interest shall be real and substantial and be in proportion of the interest acquired.

Independence: The Veteran owner(s) shall have the ability to perform in their area of specialty/expertise without substantial reliance on non-Veteran-owned businesses.

About JAG

JAG Capital Management (JAG) actively invests for institutions and individuals in highly selective, customizable, and nimble equity and fixed income strategies. JAG is a boutique, independent, employee-owned investment management firm in St. Louis.



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