

Letter from our Chief Executive Officer

The Evolution of C3 AI

Dear C3 AI Shareholder,

Like many of the world's leading technology companies, C3 AI has changed and expanded its branding and product portfolios to achieve market leadership.

When we founded C3 AI, we believed the market for elastic cloud computing, IoT, big data, and predictive analytics software was destined to be large. That proved true.

However, in 2009 the market was nascent, and the specific applications and markets were unknown.

In 2008, the global public cloud market was less than \$20 billion; in 2023 it is expected to approach \$500 billion.¹ In 2008, there were less than 1 billion IoT devices worldwide²; in 2023, that number is expected to exceed 55 billion³. In 2008, the AI software market – as we think about it today – did not exist. This year it is expected to exceed \$450 billion⁴. And now with Generative AI, this market alone may reach \$1.3 trillion by 2032⁵. We believe that by any standards that constitutes explosive growth.

When we consider mega-market developments like the internet, the smartphone, and AI, it is impossible to anticipate a priori exactly how these markets will develop. With the advent of the Mosaic internet browser in 1993, who could have anticipated Amazon and Google? With the founding of Apple Computer Company in 1976, who could have anticipated the iPhone? The Apple Store? Apple TV? iTunes? These mega-markets develop in unanticipated ways.

We believe that Enterprise AI is a mega-market event. As this market has developed, C3 AI has continually expanded its market offerings and continually expanded its market position to address the ever-expanding opportunity.

C3: 2009 - 2012

We founded C3 in January of 2009 and developed some of the core components of what is now the C3 AI Platform within the first year. You may recall there was much discussion and interest in the 2008-2011 timeframe about clean tech, energy management, LEED certification, cap and trade vs carbon offsets, etc., and as a result we decided to focus our first use case on energy management. That proved to be a good decision.

In 2010, we released our first product, C3 Energy Management.

In 2010 – 2012, we closed several large agreements with a large global industrial company, one of the world's largest chemical companies, two large utilities, and one of the world's largest high-tech companies.

C3 Energy: 2013-2015

In 2012, C3 engaged McKinsey & Co. to conduct a study and make recommendations for maximizing growth including optimal company positioning and an associated pricing and product strategy. In the 2000-2020 timeframe, utility companies globally were in the process of spending \$2 trillion to upgrade their grid infrastructures with IoT devices, enabling the advent of the smart grid. Utilities were early adopters of IoT.

The McKinsey analysis recommended that there was a significant opportunity for C3 to expand its business by applying its energy management and energy efficiency solutions to utilities at grid scale, in addition to selling to enterprises.

¹ <https://www.forrester.com/report/the-public-cloud-market-outlook-2022-to-2026/RES178311>

² <https://www.statista.com/statistics/764026/number-of-iot-devices-in-use-worldwide/>

³ <https://www.idc.com/getdoc.jsp?containerId=US49631322>

⁴ <https://www.idc.com/getdoc.jsp?containerId=US49571222>

⁵ <https://www.bloomberg.com/company/press/generative-ai-to-become-a-1-3-trillion-market-by-2032-research-finds/>

Adopting the McKinsey recommendations, C3 expanded its market position, rebranded as C3 Energy, and in addition to its prior solutions, C3 Energy offered a family of predictive analytics solutions – then reliant on emerging AI techniques including machine learning, supervised learning, and unsupervised learning – to address the utility value chain of power generation, transmission, distribution, and consumption to optimize the operation of large and complex power grid infrastructures. The C3 Energy utility software products expanded to include C3 AMI Operations, C3 Revenue Protection, C3 Predictive Analytics, C3 Revenue Production, and C3 Reliability.

Many customers also licensed our core C3 Platform that they used to develop their own predictive analytics application and/or to develop derivative works of the C3 Energy applications.

It was during this period that the company formed its data science division to develop and apply AI techniques to our applications including machine learning, predictive analytics, supervised learning, and unsupervised learning capabilities.

The company began to offer its products to the oil and gas industry including its AI Predictive Maintenance application for oil pumps, offshore oil rigs, LNG production facilities, etc. The company continued to offer its products for energy management and energy efficiency to utilities based upon per customer pricing and to enterprises based upon expected value pricing.

This expansion into energy markets proved successful as C3 AI booked approximately \$83 million in contracts and recognized \$63.9 million in revenue during this period.

C3 IoT: 2016 – 2018

By 2016 we were seeing significant expansion in the cloud computing market and the proliferation of IoT sensors was expanding dramatically across many industries. We were increasingly approached by manufacturing companies, financial service companies, oil and gas companies, and the U.S. Department of Defense to deploy the same types of AI applications that we had successfully deployed in other enterprises including AI predictive maintenance, AI fraud detection, AI Inventory Optimization, and C3 Energy Management.

At that time, the common expression for these types of applications was “IoT”, and we appropriately rebranded the company as C3 IoT to communicate to the market that we were again expanding our market offerings from primarily one vertical market (energy) to a broadening range of markets.

In response to this increased demand, the company tailored its core applications to meet the needs of those industries. As such, in addition to the C3 Platform, we offered market-specific versions of our AI predictive maintenance, inventory optimization, energy management applications, etc., for each of the utility, oil and gas, defense, and financial services industries.

This market and product line expansion again proved successful as the company booked \$203 million in contracts and recognized \$120.4 million in revenue from 2016-2018.

C3 AI: 2019 – Present

As the market for cloud computing, big data, IoT, and predictive analytics continued to expand, the market perception of IoT – as expressed in the literature, technical conferences, the academy, and in customer expectations – changed. While IoT had previously been considered at the confluence of the sensor devices and the AI applications, it was clear that IoT was becoming a concept increasingly centered on devices – the IoT sensors themselves --with the AI applications considered a separate category. As this developed, the C3 IoT brand became confusing to the market, as many customers had the preconception that the company was primarily in the business of manufacturing IoT sensor and devices.

To eliminate this market confusion, we rebranded the company C3 AI, clearly communicating that we were in the computer software business.

In addition to the products and services that the company offered since its inception, C3 AI again expanded its product offerings to include to date over 40 AI production applications for the utility, oil & gas, financial services, manufacturing, health, communications industries, and U.S. defense and intelligence sectors. Across industries, we introduced a number of AI application products that serve all vertical markets including Ex Machina, to address the needs of the growing citizen data science market, C3 AI CRM, C3 AI Data Vision, and C3 AI ESG.

Again, this market expansion proved successful, enabling C3 AI to book over \$1.2 billion in additional contracts and recognize \$951.1 million in revenue from 2019-2023.

2023: Generative AI Changes Everything

Subsequent to the general introduction of ChatGPT and Generative AI in November of 2022, the market interest in applying AI to business processes appears to be expanding exponentially. We do not believe that it is an overstatement to say that there is no CEO, no senior business manager, no institutional investor, and no government or military leader who has not given thought to AI today – this very day – to take advantage of AI to improve business results.

The market has very much come our way. As the market interest in AI accelerates, we believe C3 AI is extraordinarily well positioned offering the C3 AI Platform that allows customers in all industries to realize their enterprise AI visions -- in addition to over 40 turn-key production AI applications that customers can install today to address predictive maintenance, supply chain optimization, fraud detection, demand chain optimization, contested logistics, production optimization, AI CRM, AI ESG, and enterprise search – plus industry-specific versions of these solutions that meet the needs of defense, intelligence, manufacturing, financial services, pharmaceuticals, oil and gas, utilities, chemicals, agribusiness, lumber and paper products, and others.

There is exactly one company that offers an AI Platform and over 40 turnkey AI enterprise industry-specific applications in 2023, and that company is C3 AI.

Generative AI explodes the market opportunity. We believe the possibilities are almost endless and the power of LLMs will increase dramatically as the industry spends billions of dollars per year advancing GPT technology.

There is no organization that is not wrestling with how to take advantage of AI. The killer application is to use Generative AI to transform the human computer interaction models of enterprise applications. With Generative AI, the complex mishmash of tabs, drop-downs, and arcane commands is replaced by a simple search bar. Ask a question...get the answer.

We believe the most common Generative AI use case will be enterprise search -- instead of attempting to wrestle answers from scores of enterprise applications like ERP, CRM, HR, manufacturing automation, customer service, supply chain -- LLMs (actually small language models) applied to the enterprise will allow a single search bar to access all enterprise applications and immediately return the appropriate answer. A truly unified enterprise search model.

But enterprises are finding that there are a number of disqualifying attributes of the LLM solutions currently being proposed by hyperscalers, consultants, and others: 1) LLM answers are frequently random; 2) LLM answers are not traceable to ground truth; 3) LLM-caused data exfiltration exposes serious data security risks; 4) Enterprise data access controls go unenforced; 5) LLM hallucination makes it impossible to tell when an answer is fact or fiction; and 6) LLM-specific solutions prevent enterprises from taking advantage of the rapid innovation in LLM development.

C3 Generative AI is designed to address the disqualifying hobgoblins of other LLM solutions offering: 1) deterministic answers; 2) answers that can be traceable to ground truth; 3) significantly reduced risk of LLM-caused data exfiltration; 4) enterprise data access controls that can be fully enforced; 5) significantly reduced risk of hallucination; 6) C3 Generative AI is LLM-agnostic – allowing enterprises to take advantage of the rapidly evolving developments in improved LLM solutions as they become available.

We introduced C3 Generative AI in January 2023 and it appears that the addressable market for Generative AI is larger than the sum of the global AI market that we addressed at the end of 2022.

It is difficult to overestimate the reception that we are receiving to our Generative AI solution. The market interest levels are intense, the sales cycles are short, the benefits are immediate, and the expansion opportunities within the enterprise are vast.

C3 AI was well ahead of its time in predicting the scale of the opportunity in enterprise AI applications. We began when the market was nascent, and as the market has developed and expanded, we have expanded our branding and our market offerings to meet market expectations.

While we believed that this market would be quite large, no one could have anticipated the size and growth rate of the AI market that we now address.

C3 AI has spent the past 14 years preparing for this opportunity. The technology foundation is tried, tested, and proven. A strong portfolio of applications is in place. We have a pricing and distribution model that meets the needs of the market. We have a quality brand and a long list of satisfied customers. We are armed with a battalion of talented, professional employees deployed worldwide. Our partner ecosystem with Google, AWS, Azure, Booz Allen, Baker Hughes and others is well developed and expanding. The company is well capitalized with a seasoned leadership team.

The future looks bright.



Thomas M. Siebel
Chairman and CEO