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## The Magnificent Seven By Product Line An Analysis of Their Underlying Businesses

Paul Kenney  
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### Key Takeaways

- The Magnificent Seven product lines are dominated by businesses in the Information Tools and Information sectors; Tesla is the only company in the Consumer sector, and its market value represents just 4% of the market cap of the Magnificent Seven.
- The two largest individual product lines within the Magnificent Seven are Apple's iPhone business (\$200 billion in revenue) and Alphabet's internet search engine (\$175 billion)

- In the growing cloud service market, Microsoft has \$97 billion in revenue compared to \$91 billion for Amazon; Alphabet is a distant third at \$33 billion
- Amazon has the highest total revenue (\$575 billion) followed by Apple (\$383 billion); NVIDIA has the least revenue at \$61 billion
- NVIDIA's AI chips account for 78% of the firm's revenue as of its most recent annual report, up from 20% in 2020

## Overview

The Magnificent Seven (Apple, Microsoft, NVIDIA, Alphabet, Amazon, Meta Platforms, Tesla) receive a lot of attention, as they should. In our recent paper, *Measuring the Impact of the Magnificent Seven on Market Returns with Syntax Direct*, we created a hypothetical index that held only these seven stocks for the five-year period ending August 31, 2024 at their market weights. This hypothetical Magnificent Seven Index returned 30.3% annually, compared to 15.9% for the Syntax US LargeCap 500 Index, which we use as a measure of the US large-cap market. Over this five year period, the float-adjusted market cap of the Magnificent Seven increased from \$4 trillion to more than \$14 trillion. This paper furthers our analysis on the Magnificent Seven using Syntax's FIS® Industry Classification System to quantify each company's product line exposures, which we then roll up to measure the business risks embedded in the Magnificent Seven Index as of September 30, 2024.

Exhibit 1 displays the Magnificent Seven's exposures at the primary sector, sub-sector, and industry levels, with each successive level providing more insights into the types of businesses these seven companies own. This analysis leverages Syntax's product line data to calculate exposure to groups where each group's weight is calculated by multiplying the weight of each company in the index by the percent of revenue earned from that group, summed across all companies.

### **Exhibit 1: Magnificent Seven Index Weights By Product Line Classification**

Eighty-six percent of the Magnificent Seven's revenue is tied to five industries: Consumer Electronics (20%), Digital Integrated Circuits (20%), Internet Search and Social Networks (18%), Online Distribution Networks (17%), and Internet Services (11%). Anecdotally, we can associate each company with a specific industry; for example, the weight to Digital Integrated Circuits is tied to NVIDIA. The weight to Consumer Electronics can be linked to Apple and the hardware it sells to consumers; however, how much of this exposure is tied to Apple's iPhone business? To answer this and similar type questions, Exhibit 2 examines each company's major product lines and specifies the percentage of company revenue each represents.

### **Exhibit 2: Magnificent Seven Major Product Lines as a Percentage of Revenue**

As far as the amount of Apple's revenue derived from iPhone sales, it represents slightly more than half (52%). Other product line observations include:

- The level of diversification across business lines varies, while there is some concentration risk in each company, Apple, Microsoft and Alphabet are the most diverse.
- Amazon has most of its revenue tied to its online business platform, but it does have a significant presence in cloud computing (16% of revenue), which is a higher margin business.
- NVIDIA's revenue is increasingly being driven by its AI chips, which are 78% of revenue, up from 20% in 2020.
- Meta Platforms and Tesla are both close to being pure play companies, with only one meaningful product line, respectively.

Interestingly, there is not much overlap in the industries in which these firms compete:

- Both Microsoft (5%) and Alphabet (57%) have “AI-Enabled Search Engines: Ad Revenue” as a product line.
- Microsoft (39%), Amazon (11%) and Alphabet (16%) all have “Cloud Services” product lines.

Having the percentage of revenue for each product for a company is helpful; but to analyze a company’s position relative to competitors, we also look at this on a dollar revenue basis (Exhibit 3).

### Exhibit 3: Magnificent Seven Revenue by Product Line (\$ billion)

There are a number of interesting observations from the product line revenue data shown above:

- The revenue volume associated with the Amazon online platform is over \$400 billion, as shown in the three product lines highlighted in gray.
- The single largest product line is the \$200 billion in revenue associated with Apple’s Smartphone business.
- Alphabet’s dominance in internet search stands out at \$175 billion in revenue compared to \$13 billion for Microsoft. This is the second largest individual product line amongst the Magnificent Seven behind Apple’s iPhone business.

The Magnificent Seven display a wide range of revenue, as shown in Exhibit 4. Amazon has the highest revenue at \$575 billion per year, followed by Apple at \$383 billion; NVIDIA has the lowest revenue at \$61 billion. Exhibit 4 also shows each company’s valuation, expressed as its Price/Sales ratio.

### Exhibit 4: Magnificent Seven Revenue (\$ billion) & Market Cap as a Multiple of Revenue

The businesses of the Magnificent Seven have markedly different characteristics. For example, NVIDIA’s chip business has higher margins than Amazon’s e-commerce platform, so comparing each company’s market cap as a multiple of revenue can be an apples to oranges comparison. However, this approach is interesting with regard to NVIDIA’s valuation relative to the other members of the Magnificent Seven. As of September 30, 2024, NVIDIA’s market cap was \$2.98 trillion and its sales for the year ending on January 28, 2024 were \$61 billion, which made for a price-to-sales ratio of 48.9; the next highest ratio belongs to Microsoft at 13.0.

In closing, it is well known that the Magnificent Seven are predominantly technology-focused companies. Our analysis drills down beyond the sector and sub-sector levels to identify that 86% of the Magnificent Seven’s business line exposure is concentrated in five industries: Consumer Electronics (20%), Digital Integrated Circuits (20%), Internet Search and Social Networks (18%), Online Distribution Networks (17%), and Internet Services (11%).

From there, our focus shifted to product lines, which identified Apple’s iPhone business as the single largest product line (\$200 billion) within the Magnificent Seven, followed by Alphabet’s Google internet search engine (\$175 billion). Interestingly, NVIDIA is the third highest valued company within the Magnificent Seven, with a total market cap of roughly \$3 trillion; however, its sales are \$61 billion. Microsoft (\$3.2 trillion) has a similar market cap as NVIDIA; however, its revenue of \$245 billion is more than 4x of NVIDIA.

To learn more about how you can gain access to Syntax’s product line data go to [www.syntaxdata.com](http://www.syntaxdata.com).

## **Important Disclaimers**

Past performance is no guarantee of future results. The Magnificent Seven Index Model (“the Index Model”) is a hypothetical index model. The inception date of the Syntax 500 Index is March 14, 2023. All performance presented for the Index Model, and all performance presented for indices prior to the inception date, is backtested performance. Backtested performance is not actual performance but is hypothetical and is suitable only for institutional audiences. Backtested performance may not be predictive of actual or future performance. Backtested data may reflect the application of the index methodology with the benefit of hindsight, and the historic calculations of an index may change from month to month based on revisions to the underlying economic and/or financial data used in the calculation of the index. Charts and graphs are provided for illustrative purposes only. Syntax® is a registered trademark of Syntax, LLC and/or its affiliates.

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