

Short Report: Tempus AI, Inc. (NASDAQ: TEM)

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Executive Summary

Bearish Thesis:

Despite Tempus AI's (TEM) rapid revenue growth and seemingly bright future, we believe its glossy exterior conceals significant risks. Tempus's business model is fundamentally a "cash-burning," capital-intensive operation that has yet to achieve true GAAP profitability. More concerning, the company faces intensifying intellectual property litigation and market competition.

We foresee a threefold dilution risk to future shareholder value:

1. **The potential for at-will equity offerings** (via its filed S-3ASR "shelf registration", 2025-08).
2. **A nearly \$200 million convertible note** set to convert into equity beginning in 2026.
3. **Ongoing operating losses** that will likely force it to seek further financing.

In short, the market appears overly optimistic about the depth of Tempus's "moat" and its ability to become self-sustaining. We believe that over the next 12-24 months, risks related to reimbursement, execution, and litigation are severely underestimated. The current valuation has priced in lofty expectations, creating an asymmetric risk/reward profile.

Position & Conflicts Disclosure:

The author(s) hold a short position in TEM. This report reflects opinions only.

1. Company Overview

Tempus AI is a company that utilizes artificial intelligence (AI) to provide precision medicine solutions. Its business primarily covers two main areas: first, providing genomic sequencing services for cancer patients and others; and second, offering data analytics and decision-support software to pharmaceutical companies and healthcare providers through its vast repository of real-world data (RWD). The company went public on the Nasdaq in June 2024 at an offering price of \$37 per share.

2. Our Key Concerns

We summarize our key concerns below, which form the basis of our bearish view on the company:

1. Fragile Profitability & Persistent Cash Burn: Although Q2 2025 revenue grew nearly 90% year-over-year to \$314.6 million, the company still posted a net loss of \$42.8 million. In the first half of 2025, its operating activities resulted in a net cash outflow of \$61.5 million. The company's guidance for "positive adjusted EBITDA" relies heavily on non-GAAP accounting adjustments, which masks the reality that its core business is still unable to sustain itself. **This is a classic case of a company driven by financing rather than by internal cash flow.**

2. Dilution Risk to Shareholder Value:

- **At-Will Equity Offerings:** On August 8, 2025, the company filed an "automatic shelf registration" (S-3ASR), which is like giving the company a "blank check" to issue new shares at any time, setting the stage for future dilution.
- **Large Convertible Note:** The company carries a \$186.7 million convertible note on its books, which can be converted into stock beginning in March 2026. The conversion price is variable, meaning shareholders could face even greater dilution if the stock price falls.
- **Capital Dependency:** Its business model (expansion via M&A, high R&D spending) dictates a high dependency on capital markets for the foreseeable future. If market conditions tighten, the company will face immense pressure.

3. Intense Competition & A Questionable Moat:

- **Fierce Direct Competition:** The market includes not only genomics giants like Guardant Health and Foundation Medicine (a Roche subsidiary) but also medical AI data firms like Flatiron Health (also acquired by Roche). Tempus is not operating in a vacuum.
- **Patent Lawsuits Suggest Technological Homogenization:** Competitor Guardant Health has filed patent infringement lawsuits against Tempus twice, in 2024 and 2025. This often implies that the core technologies of the two companies overlap, suggesting Tempus's technological barrier may not be as high as claimed.
- **The Data Moat is Not Impenetrable:** Tempus's core asset is its medical data. However, this data is primarily sourced from partner hospitals, and these partnerships are neither permanent nor exclusive. Competitors can easily "poach" these relationships with better terms, creating a risk that its data moat could be eroded.

4. Governance & Execution Risk:

- **Reincorporation in Nevada:** In August 2025, the company migrated its state of incorporation from Delaware, known for its robust shareholder protections, to the more management-friendly Nevada. This could potentially weaken minority shareholder rights.
- **M&A Integration Risk:** In the first half of 2025, the company spent over \$380 million on acquisitions. While this can rapidly expand its capabilities, it also brings significant challenges and execution risks related to technology integration and cultural fusion.

- **Regulatory Uncertainty:** The application of AI in healthcare still faces stringent FDA regulatory approvals and data privacy compliance issues, which could slow its commercialization timeline.
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3. Evidence & Analysis

- **Financial Performance:** Q2 2025 revenue was \$314.6M (+89.6% YoY), with Genomics revenue at \$241.8M (+115.3% YoY). The adjusted EBITDA loss narrowed to (\$5.6M) from (\$31.2M) in the prior-year period. The company raised its full-year revenue guidance to ~\$1.26B and guided for its first-ever positive adjusted EBITDA of ~\$5M.
 - **Our Interpretation:** The growth is commendable, but the quality of earnings is fragile, and cash outflow persists.
 - **Liquidity Position:** As of June 30, 2025, the company held \$186.3M in cash and cash equivalents and \$105.0M in marketable securities. Management claims these funds are sufficient to support operations for the next 12 months.
 - **Our Interpretation:** Considering its H1 operating cash outflow of \$61.5M and investing outflow of \$380.8M, this "confidence" may soon be tested, making another financing round seem almost inevitable.
 - **Litigation & Competition:** Guardant Health filed patent lawsuits against Tempus in Delaware in June 2024 and August 2025. Meanwhile, Tempus is also suing Guardant in California.
 - **Our Interpretation:** Protracted legal battles will not only consume significant capital and management attention but, more importantly, expose the company's potential vulnerabilities in its core intellectual property.
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4. Valuation

Following the company's Q2 earnings release, Wall Street has generally applauded its growth momentum and its path toward breaking even on an adjusted EBITDA basis. However, **we believe the current stock price has already priced in the most optimistic growth scenarios for years to come**, including sustained high growth, smooth reimbursement, and a favorable outcome in its litigation.

The market appears to be ignoring the business model's heavy reliance on external capital and the real threats to its competitive moat. Should growth slow even slightly, or if the financing environment changes, its elevated valuation will be difficult to sustain.

5. Conclusion

The Tempus AI story is compelling: changing healthcare with AI and big data. Its revenue growth is indeed impressive. However, underneath the surface, we see a business model with an unstable foundation.

It relies heavily on external capital and reimbursement policies, and its true ability to be self-sustaining has not yet been proven. Simultaneously, fierce patent disputes and a competitive landscape add significant uncertainty to its future. With the 2026 convertible note and potential equity offerings on the horizon, existing shareholders face the risk of continuous dilution.

We believe Tempus AI's valuation has significantly pulled forward its future potential, while the market has underpriced the inherent fragility of its business model and the multiple risks it faces. Therefore, we maintain a bearish stance until the company can demonstrate sustained GAAP profitability and a durable competitive moat.

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