

## **A Conversation With**

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# The Death of Software is Greatly Exaggerated

## **Why have some predicted the death of software and the SaaSocalypse?**

The thesis that AI will fundamentally disrupt the software industry, causing a “SaaSocalypse,” is as follows: AI-native startups will use autonomous agents to build solutions from the ground up that are more efficient and specialized than legacy enterprise software products.

Sierra, founded by Bret Taylor (former Salesforce Co-CEO and OpenAI chairman and a Meta and Google alum), is often cited as a prime example of a company moving quickly with Agentic-AI native solutions for enterprises. In addition, coding agents on platforms like Anthropic, ChatGPT and Codex can write complex code quickly (vibe coding). These capabilities are shrinking the moat of owning a proprietary code base, long a significant barrier to entry for competitors in the software industry. People worry that these agents could be used to rebuild, virtually overnight, applications offered by Salesforce, NetSuite, Intuit and others, and at a fraction of the historical cost.

The traditional SaaS pricing model, where companies pay per user/seat, is also at risk. Agentic AI is leading a shift toward a pricing model based on volume or outcomes. This uncertainty is creating a headwind for software companies that rely on seat-based sales because their customers are slowing down hiring and waiting to see how the market evolves. If an agent can do the work of 20 people, an enterprise might just need one seat, essentially eliminating most of a software vendor’s revenue. At the very least, this is leading to pricing compression. However, it could be more of a near-term tactical concern than a fundamental threat. Historically, software companies with leading-edge capabilities have always been able to get paid for their value regardless of the pricing model.

A key factor complicating the narrative is the current macro environment, specifically sluggish employment growth. Since many software companies have seat-based models, slower job creation could lead to a deceleration of growth, which would perpetuate the negative narrative, even if the underlying tech remains valuable.

## How has that impacted the performance of software stocks?

Valuations in the software sector have compressed significantly. Salesforce (CRM) saw its multiple contract by almost 50% from a two-year peak of near 9x Enterprise Value/Sales (EV/Sales) to near 4x EV/Sales today. The iShares Expanded Tech-Software Sector ETF (IGV) is down 20% year-to-date, dramatically underperforming the semiconductor index (SOX), which is up 11% year-to-date. Microsoft (MSFT), the largest software company in the world by both revenue and market capitalization, is down 23% year-to-date and down 31% from its all-time high in September of 2025. This is despite Microsoft's earnings estimates having continued to meaningfully increase over the past year. It is a clear disconnect with the fundamentals, particularly as Microsoft is a prime beneficiary of the AI supercycle with its Copilot offering which, as of the most recent earnings report, had 15 million paid seats and elevated GPU allocation due to increased usage. That was in addition to strong growth in Microsoft's cloud business. Investors continue to reward the semiconductor sector (chip makers, semicaps, memory, storage, optical) as the builders of the AI supercycle while punishing application software stocks as AI losers.

## Do you believe that software is in danger of becoming obsolete and are there still places to find value in software?

Industry skeptics of the death of software narrative have compared it to past concerns which ultimately did not materialize—for example, the fears that open-source software like Linux and GNU, and free applications like Google Sheets, would disrupt Oracle and Microsoft. This has not happened. There were similar concerns that SaaS-based applications as a new category would replace on-premise solutions. Many point out that large enterprises using Salesforce or SAP will not be eager to switch software systems overnight. Legacy software is deeply integrated into a company's HR, payroll and supply chain systems, not to mention its audit, control and compliance functions. Replacing it could be a multi-year, high-risk process, particularly given concerns around data security and cybercrime. At the same time, legacy software companies are themselves integrating AI solutions into their existing moats.

As of now, CFOs and analysts are not cutting estimates for software companies due to rising agentic-AI competition. Indeed, in the latest quarter, software companies saw a slight acceleration in

revenue growth, according to analysts from RBC.

Nonetheless, while we do not believe that legacy software is becoming obsolete, it is going through a structural shift, and this time it is different. Some companies will see their business models disrupted, particularly those whose primary moat is their user interface, as IBM's CEO Arvind Krishna pointed out at the company's Think 2025 conference. If AI can perform the task via a prompt or background agent, a dedicated user interface (UI) becomes redundant. Krishna views agentic-AI as a catalyst for IBM rather than a threat because every new application will require the infrastructure plumbing that IBM provides, such as containers, real-time data and automation. Oracle's CEO Mike Sicilia also dismissed SaaSocalypse fears in the March 2026 earnings call. He believes that niche AI features cannot replace complete ecosystem automation platforms that manage mission-critical data and industry-specific processes.

Elsewhere, in interviews with CRN and Bloomberg, Sridhar Ramaswamy, CEO of Snowflake, reports that customers are already using AI agents to retire entire categories of existing software systems, such as those used for license and invoice management. He believes AI is creating a clear separation between simple systems that show intelligence and robust platforms capable of deploying that intelligence safely and at scale. As referenced on CloudWars, LinkedIn and interviews on CNBC, Bill McDermott, CEO of ServiceNow, argues that AI does not replace enterprise orchestration but depends on it. He notes that AI is probabilistic (uncertain results) while business processes require ServiceNow's deterministic (predictable) workflow orchestration.

Our view is that incumbent SaaS vendors will need to adapt more quickly to the new market structure. This will entail more aggressively integrating agentic-AI tools into their existing applications, building the expanded AI functionalities on top of the infrastructure of current applications. The goal is to expand what the software can do rather than replace it and thus enhance its strategic value to the customer.

Enterprises are likely to engage with SaaS vendors that can differentiate with the best AI workflows. Some companies are moving down this path. For instance, Microsoft has integrated Anthropic's Claude Cowork application into Excel, and Intuit has embedded Cowork into its applications through a partnership that allows access to Anthropic's models and custom agents. In addition, legacy software companies should more aggressively acquire AI native start-ups to buttress their existing offerings. Salesforce, for example, has done just that,

purchasing over 10 agentic-AI companies to drive Agentforce's capabilities. Others should follow.

## How might business and licensing models have to change?

Given where we are in the evolution of agentic-AI applications, it would be premature to take a hard view on how software companies' economic models could change. However, we envision that in the near- to medium-term, most will need to embrace a hybrid model consisting of a per-seat model for some applications and a consumption or volume-based model for others. This could depend on how the applications are used – for example, charging for a result such as per processed invoice or adopting models similar to Amazon's AWS where customers pay per compute, tokens or data processed. In the longer term, we envision that the pay-per-seat model will likely be phased out asymptotically. International Data Corporation (IDC) is less optimistic, predicting that pure seat-based pricing will be obsolete in two years.

## How might that impact the cash flows these companies generate and the way they allocate their capital?

The pure seat-based ARR SaaS model delivers stable and predictable cashflows that are relatively easy for CFOs to forecast and use as a basis for capital planning. Also, seat-based models are often paid upfront while consumption-based models are billed in arrears, creating a working capital disconnect. Predictable cashflows make it easier for investors and analysts to model and value a company. This is why predictability tends to be priced at a premium and carry lower discount rates in the public markets. Moving to consumption-based models would reduce that predictability and potentially create

cashflow volatility which could impact the capital planning process, analyst estimates and valuations. The market has already, in part, signaled this with multiple compression for software companies.

Have software stocks bottomed? An analysis by brokerage firm Rothschild & Co Redburn, which backed out terminal free cash flow (FCF) growth from sector EVs, concluded that the implied terminal growth of software stocks has historically been 3% to 5.5%. Since November 2025, however, it has collapsed to 0% and even went negative in February 2026. In other words, the market is now pricing zero long term growth for enterprise software, the lowest level in more than a decade. This analysis is consistent with work from Rothschild & Co Redburn's strategy team suggesting an implied growth rate of zero should provide a floor to share prices of companies where AI disruption is not existential. The implication is that now could be a good entry point for certain software stocks that stand to benefit from AI.

In summary, there will be winners and there will be losers. But for software stocks to thrive, in our view, investors will need to see that these companies are net beneficiaries of AI, and that it will lead to stabilization and meaningful reacceleration of their revenue growth. In addition, the software companies need to show that their core businesses are durable. The narrative needs to shift from AI being a threat that will obviate the need for enterprise software to it being a functionality that expands the opportunity. The market needs to see evidence that AI pilots and proofs-of-concept are converting into production applications. It would demonstrate a return on investment and proof that the AI capabilities are not just experimental but are being successfully integrated into enterprise workflows. If this occurs, companies like Microsoft, Salesforce, Oracle, Service Now, Workday, Snowflake and others may see their shares re-rated higher.



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