

Software in the AI Era

How the AI Inflection Is Reshaping Value, Competition,
and M&A

June 2026



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325+

Total Deals
Closed

\$18B+

In Aggregate
Client Value

25

Countries Where
We've Closed Deals

40+

Years of Building

Industry Expertise



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- Sell-Side M&A
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- Minority & Majority Recapitalizations
- Growth Equity Financings
- Debt / Capital Formation
- Strategic & Financial Advisory
- Fairness Opinions

Historical backdrop: enterprise software valuations



- When the foundational technology shifts, the characteristics of the most valuable companies shift with it
- Companies anticipating the migration earn premium valuations; companies defending existing positions get repriced
- AI follows the same pattern, with three differences that matter

At each stage, the characteristics that defined a top-quartile company shifted; the AI Era is the next stage in the same evolution

Three differences from prior cycles

Rate of Change

- AI capability improvements are outpacing planning cycles
- What a leading AI model can't do today, it may do reliably in 6 to 12 months
- The right posture: operating discipline to iterate, not plan to a fixed destination

Cost and Time to Build

- AI makes building software faster and cheaper, but less completely than the most aggressive accounts suggest
- Code generation is dramatically faster
- Workflow design, data architecture, security, certification: the larger share, compressed far less (at least as of now)

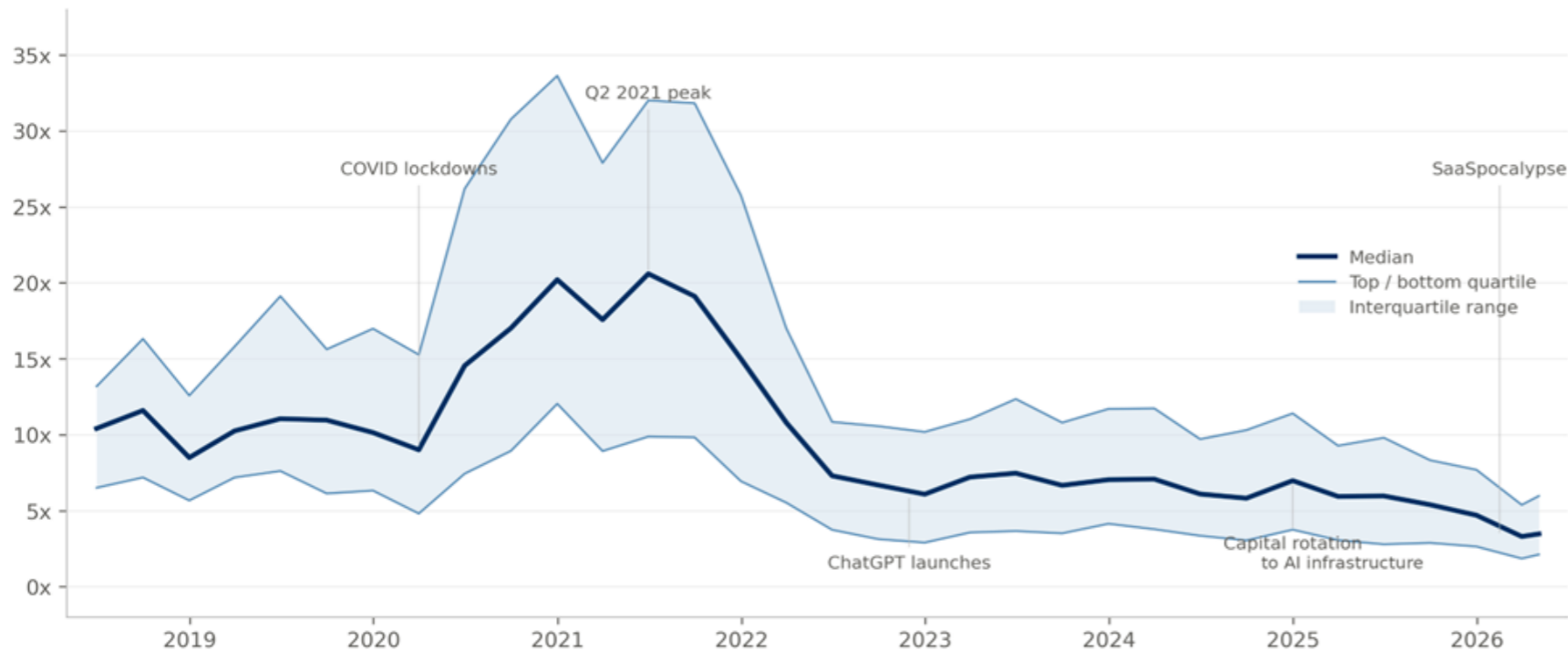
Pricing Model Pressure

- Per-seat assumes headcount drives value
- Where agents do the work, the seat is the wrong unit
- Where people still directly operate the software, seat pricing holds
- Most companies will run a hybrid model

The market has undergone a repricing

FP SaaS Index: EV/Revenue dispersion

Quarterly, May 2018 — May 2026 | Median, with top-quartile / bottom-quartile band



Source: Fairmount Partners SaaS Index (107 public SaaS companies). Data through May 4, 2026.

- Compression is universe-wide: even the strongest 2021 names re-rated
- Population earning premium multiples has thinned sharply
- Capital rotating into a narrow set:
 - AI infrastructure, hyperscalers, foundation model providers
- Everything else repriced on capital flows, not a verdict on software as a category

Forces driving the current market

- **Palantir:** roughly 60x revenue; Q1 2026 revenue up 85% year-over-year
- Pricing reflects enormous expected upside; some won't be realized; multiples will compress
- **Salesforce:** 4x revenue, stock down 35% in the past year
- **ServiceNow:** 7x revenue, down 33% in 2026, despite 22% revenue growth and 130%+ growth in Now Assist AI customers
- **Not broken businesses:** durable incumbents repriced on capital flows and business model concerns (seat licenses)
- Richest AI-native names will give back unsupported multiples
- Strong incumbents repriced indiscriminately will recover ground

The new software stack

INTELLIGENCE

Agentic systems; orchestration; proprietary business logic and data context

APPLICATION

Workflow logic, interface, system integrations: defensibility depends on what surrounds it

DATA INFRASTRUCTURE

Proprietary, continuously regenerating data: the asset everything above it operates on

Stand-alone application layer, with no proprietary data below and no agentic intelligence above, faces the most acute repricing risk.

The compounding moat framework

- ✓ **Customer relationships and market leadership:** Multi-year trust, approved vendor status, visibility to emerging needs
- ✓ **Proprietary, regenerating data:** Continuously refreshed by operations; compounds in the owner's favor as AI advances
- ✓ **Embedded workflows and accountability wrapper:** Integration depth, switching cost, trust and certification a competitor can't quickly replicate
- ✓ **System of record status:** Ownership of the customer's core operating data, the record every other system integrates against
- ✓ **Network effects:** Value rises with each participant; can't be rebuilt by building a better product
- ✓ **Compliance and regulatory positioning:** Certifications, audit trails, standing in regulated environments
- ✓ **Enforceable IP:** Issued patents blocking rebuild regardless of how cheap rebuilding becomes

Defensibility in an AI world must be multi-pronged. A durable moat is built from several components that reinforce each other, not from any single source.

The durable moat: what AI cannot replicate

Customer Relationships and Market Leadership

Trust built over years; AI executes but can't anticipate what customers need next

Proprietary, Regenerating Data

Better models improve the return on data; they don't create it

Network Effects

Displacement requires rebuilding the entire network, participant by participant

Physical Infrastructure

Sensors and devices generate data no model can reproduce; integration is hard to replicate

Regulatory and Compliance Positioning

HIPAA, FDA, SOC 2 are barriers capability alone doesn't clear

Enforceable IP

Patents block the rebuild regardless of how cheap rebuilding becomes

Durability rests on assets, capabilities and relationships that AI cannot generate, replicate, or lawfully reach.

How AI is reshaping the financial profile of software

- Agentic features introduce real variable cost into COGS; gross margins compress
- AI internally compresses every OpEx line: engineering, S&M, G&A
- OpEx leverage typically more than offsets gross margin pressure
- Flat or rising OpEx ratios signal AI is not absorbed at scale

- Growth is decelerating structurally; profitability increasingly more important
- Trajectory matters more than snapshot: break-even path and EBITDA flow-down
- AI lowers minimum engineering investment; profitability arrives earlier
- Buyers focus on EBITDA-based Rule of 40; clearing it earns a valuation premium

EBITDA matters earlier. Buyers expect to see it sooner and will value companies on it accordingly.

The metric universe is expanding

Percentage of contracted outcomes delivered within SLA: the agentic-era equivalent of uptime or first-pass yield in manufacturing

Percentage of work completed without human intervention: Salesforce now publicly reports an Agentic Work Unit as a standardized measure

Fully-loaded cost per outcome delivered: should be falling as model costs decline; flat or rising signals an orchestration problem

Did the customer expand the scope of outcomes they trust you to deliver? The agentic-era extension of NRR.

Traditional SaaS metrics measure a conventional SaaS business; metrics are evolving to measure the dimensions of agentic work.

What are investors and buyers rewarding today

1

Named Customers Actually Using the AI Capability

Deployed, paying, expanding: not on a pilot or a roadmap

2

Expansion Attached to AI Line Items

Platform-wide retention metrics obscure where AI is and isn't generating revenue

3

Demonstrated Outcomes Confirmed in References

Buyers now specifically probe outcome attainment on reference calls

4

Size and Durability of the Moat

The combination of components that cannot be rebuilt on any relevant timeline

Investors and buyers today are rewarding proof points: deployed customers, AI expansion revenue, confirmed outcomes, and a durable moat.

What to do now

1. Assess customer relationship depth

Altitude in the org, breadth across functions, mission-critical vs. discretionary

2. Run an AI stack audit

What do you own at each tier? What would you need to add or acquire?

3. Inventory your proprietary data

How is it accruing? Where are the governance gaps?

4. Map your workflow ownership

Score each workflow on integration depth, switching cost, accountability wrapper

5. Stress-test top-priority centrality

Are you solving a must-have problem? Moats compound only around top priorities.

6. Use AI internally as leverage

Flat opex ratios signal the wrong thing to buyers and investors

7. Build real AI revenue

Paying customers, with demonstrated outcomes and account expansion

8. Evolve your pricing

Outcome-aligned where agentic; seat-based where human-operated

9. Be deliberate about capital

Fund organically, or make a deliberate decision to partner, finance, or sell

The first step to building long-term value is an assessment of where you stand today: identifying your strengths in order to leverage them, and identifying your gaps in order to address them.

The opportunity is large.

- AI is reshaping where value sits within software, not dissolving the category
- Premium valuations will go to companies that build defensibility from the moats AI cannot replicate
- This is an unusually good moment to be running a software business with the right characteristics

Fairmount Partners has advised through every major software inflection for more than three decades. We would welcome the opportunity to apply this framework to your business.

