Enterprise software isn't dying - it's arming up!

Over the last few weeks, software has sold off on the notion that generative AI will commoditise application layers, crush seat-based pricing, and pull budgets toward infrastructure and models. Headlines amplified that view, and the tape obliged.

But the operating data tell a different story: the large enterprise platforms remain deeply entrenched, are growing contractual backlogs, and are converting more of those backlogs into cash — even as they re-package AI to expand SKU count and deal sizes. The "death of SaaS" narrative is neat and scary; it's also incomplete.

Source: TradingView

Why AI strengthens, not weakens, the incumbents

Enterprise apps are not generic chatbots—they're systems of record, workflow engines, and compliance surfaces sitting on years of customer-specific data. That data—transaction logs, HR events, customer interactions, tickets, financial postings—are schema-bound, access-controlled, and riddled with edge-cases that only the incumbent platform "knows." Incumbents therefore possess:

- **Data gravity & context** (clean, permissioned history to ground AI)
- **Embedded workflows** (where agents can actually do things, not just draft text)
- **Distribution & trust** (procurement, security reviews, SOC2/ISO, data residency)
- **Ecosystems** (ISV marketplaces, integrators) to scale new AI features quickly.

The result: AI features are being used to **deepen moat**s - reducing low-value clicks, surfacing insights from owned data, and automating cross-app tasks—rather than to undercut the platforms that already run those tasks. Pricing is evolving (more usage/"assist" units on top of seats), but that evolution aligns revenue with value delivered rather than capping it.

Salesforce: bigger backlogs, cash engine intact, AI packaged for upsell

Salesforce's latest print shows the core engine humming while AI is being monetised through **Agentforce**. Q1 FY26 delivered **$9.8bn revenue (+8% y/y), current RPO of $29.6bn (+12% y/y), and $6.3bn FCF,** plus $3.1bn returned to shareholders — all while holding mid-30s non-GAAP operating margins. That is not a business being hollowed out. On packaging, Salesforce introduced Agentforce add-ons **from $125/user/month,** with premium "Agentforce 1" editions **starting at $550/user/month,** a clear path to price/mix uplift as agent workloads expand across Sales, Service and Field Service. Early deployments also support consumption elements (per-interaction economics) layered on top of seats — a lever for ARPU as usage scales.

Read-through: Salesforce isn't ceding the app layer to open models; it's bundling agents inside governed workflows (case resolution, quote-to-cash, service deflection) where it controls the data, actions, and audit trail — i.e., the value.

ServiceNow: AI "assists" drive platform consolidation and larger deals

ServiceNow's Q2-25 was a textbook "beat and raise": **subscription revenue +22.5% y/y to $3.11bn and cRPO +24.5% y/y to $10.9bn.** Management explicitly tied momentum to AI-assisted workflows ("Now Assist") that let customers consolidate point tools into the Now platform. Importantly, Now's generative features are sold with **seat-plus-usage constructs** (assist capacity packs) that scale as automation expands across IT, HR and Customer workflows. This is the opposite of commoditisation; it's platform share-gain.

Read-through: ServiceNow's moat is execution in cross-department workflows and compliance-first automation. AI sits inside those controls, which is precisely where enterprises want it.

Workday: backlog compounding; AI agents formalised into the system of record

Workday's latest quarter showed **12-month subscription backlog up 16.4% y/y to $7.91bn** and **total subscription backlog up 17.6% to $25.37bn**, alongside double-digit revenue and EPS growth — even as near-term guidance looked conservative and the stock wobbled. Strategically, Workday has moved beyond "AI features" into an **Agent System of Record** — a governance layer to onboard, secure, meter and audit AI agents next to the human workforce — and just announced a deal to acquire **Paradox**, an AI recruiter, to deepen hiring and onboarding. That's not being disrupted by agents; it's **managing** them.

Read-through: If agents become ubiquitous, the vendor that governs agents inside HR/finance controls the budget conversation. Workday is angling to be that control plane.

Adjacent leaders reinforce the same pattern

- Datadog (observability/security) printed **Q2-25 revenue +28% y/y to $827m**, continued expansion in $100k+ customers (~3,850), and guided to low-20s growth — evidence that "AI infra" doesn't just help chip vendors; it also lifts the software that monitors AI-heavy stacks.

- **Atlassian** is pushing **Rovo — agents** + search across the "teamwork graph" — while still growing mid-to-high teens at scale (FY25 total revenue growth guidance ~18%, cloud ~21%). Embedding agents into Jira/Confluence workflows is a classic incumbent-advantage play: existing data, permissions, and daily active use.

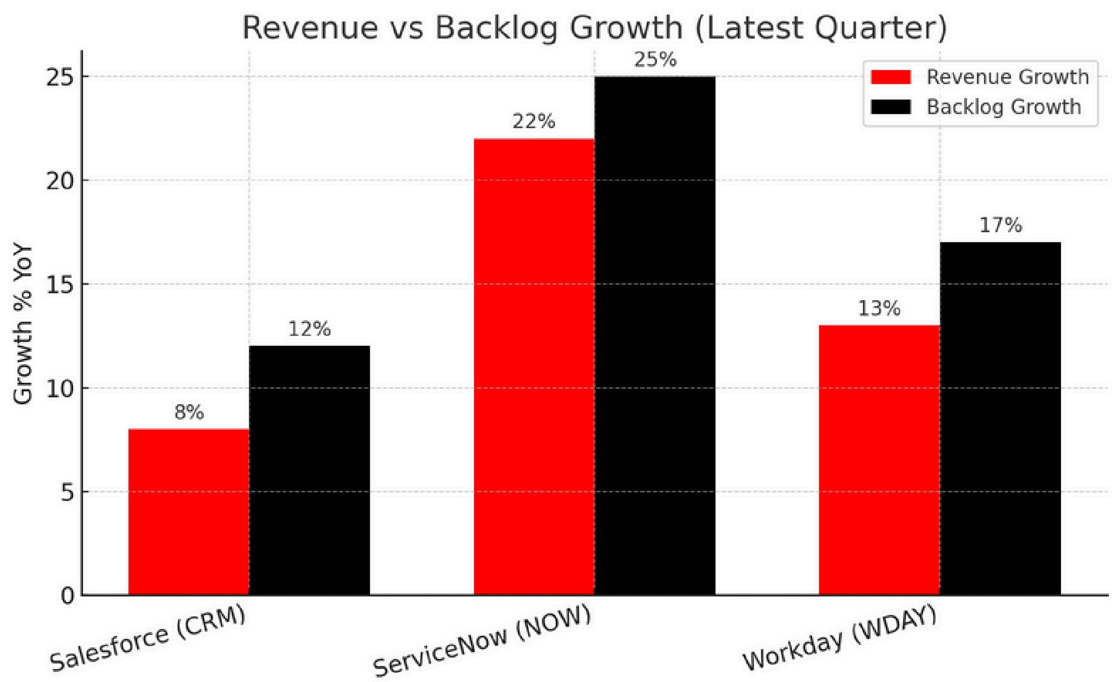
- **CrowdStrike & Palo Alto Networks** (security platforms) aren't "classic SaaS" the way CRM/HCM are, but they're instructive: both highlight rising **ARR/RPO** and "platformisation," with AI detection/response engines increasing attach rates and deal sizes — another case of AI expanding, not compressing, application value.

Pricing is evolving, but the model is not broken

Yes, AI tilts vendors toward hybrid pricing — **seats + usage** (tokens/assists/requests) — to match compute costs and value delivered. Investors worry that usage adds volatility to ARR. In practice, the shift creates **more monetisation surfaces** (per-agent, per-assist, per-workflow) layered on top of existing enterprise agreements. Salesforce's Agentforce tiers (add-on from $125/user/month; premium editions starting $550) and ServiceNow's "assist" capacity packs are concrete examples of this repackaging — designed to scale with adoption while keeping procurement simple.

The market's fear vs the numbers

Breakingviews framed the core bear case crisply: SaaS index growth has slowed from >20% to high-single digits, and AI specialists can undercut incumbents. But that view often assumes customers will rip out deep workflows to save on point features. In reality, the data above show **backlogs compounding** (CRM/WDAY/NOW), **double-digit subscription growth**, and **robust FCF** — exactly the metrics that matter when evaluating durability through platform transitions. The selloff looks driven less by collapsing fundamentals than by **multiple compression and guide-conservatism** in a jittery tape.



What to watch next (to test the thesis)

- **Backlog vs conversion:** cRPO/12-month backlog growth needs to keep outpacing revenue — so far, it is at CRM/NOW/WDAY.
- **AI attach:** Look for disclosures on agent seats, assist consumption, and AI-SKU penetration (Salesforce Agentforce, Now Assist packs, Workday agents).
- **Margin guardrails:** AI opex and inference costs should be offset by consolidation wins and higher-mix SKUs; note how CRM maintained >30% non-GAAP OM while ramping AI.
- **Procurement pattern:** Consolidation beats bricolage. ServiceNow's deal sizes and Datadog's $100k+ cohort growth are the tells.

Conclusion

AI is not killing enterprise software; it's giving the category new ways to monetise the data and workflows they already own. The platforms with the best **data context, governance, and distribution** — Salesforce, ServiceNow, Workday, and select adjacencies — are using AI to entrench themselves further. As fear cools and disclosures around AI attach build, the gap between narrative and numbers should narrow.

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