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SOFTWARE: THE PERSPECTIVE FROM PRIVATE VERSUS PUBLIC MARKETS

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The insight from private markets reveals that while the software industry will be impacted by the implementation of AI, the story is far more nuanced than the recent turmoil in public markets suggests.

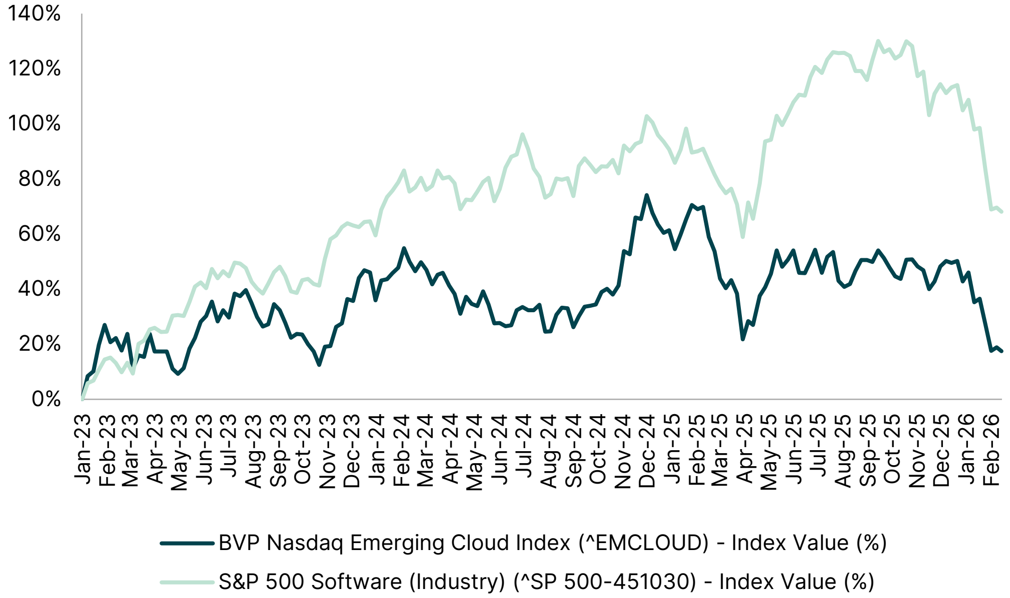
The enterprise software industry has faced a brutal opening to the year in public markets, with the announcement from Anthropic of a new set of enterprise business plug-ins at the beginning of February triggering a wave of sell-offs and a sharp fall in public market valuations.

At market's close on February 5th at the peak of the volatility, the S&P 500 software index (made up of 22 companies) had dropped by 22% from the start of the year, compared to the 1% recorded by the wider S&P 500 in the same period.

Figure 1

Public software in index value: 01/01/23 - 02/19/26

Source: CapIQ. As of 19 Feb 2026.

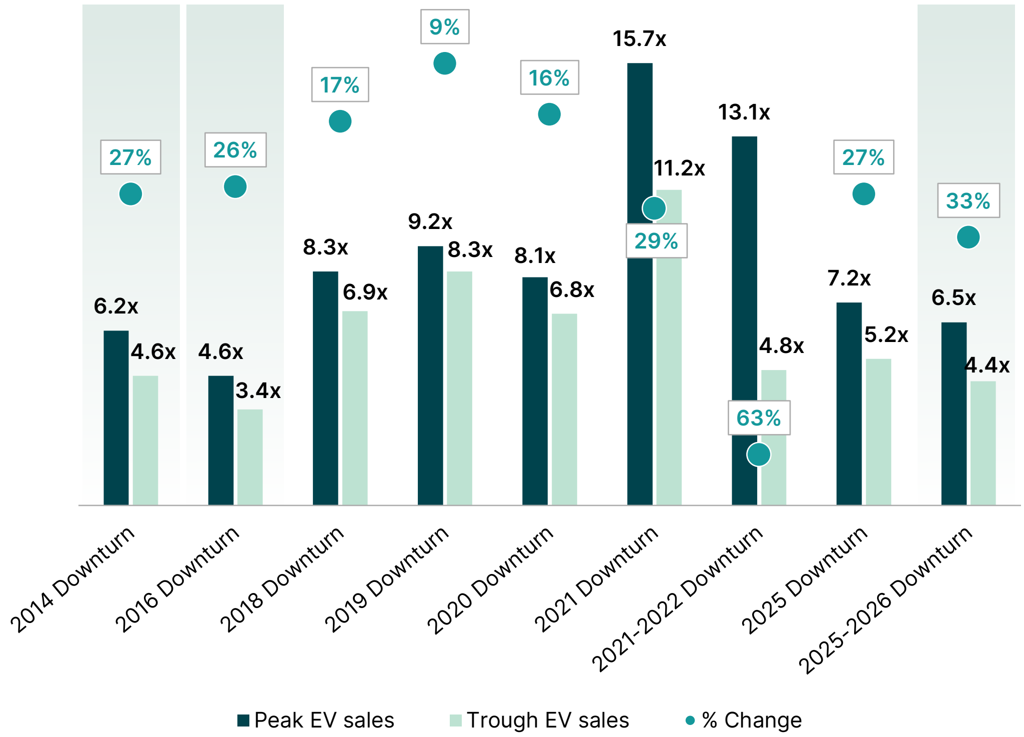


This is not the first time software has been subject to potentially overblown valuation movements in the public markets, where real nuggets of truth (e.g. AI is going to transform the world of software in some shape or form) can metastasize into dramatic short-term valuation movements in either direction.

Figure 2

Downturns are not new for public software markets

Source: Vista



A private view

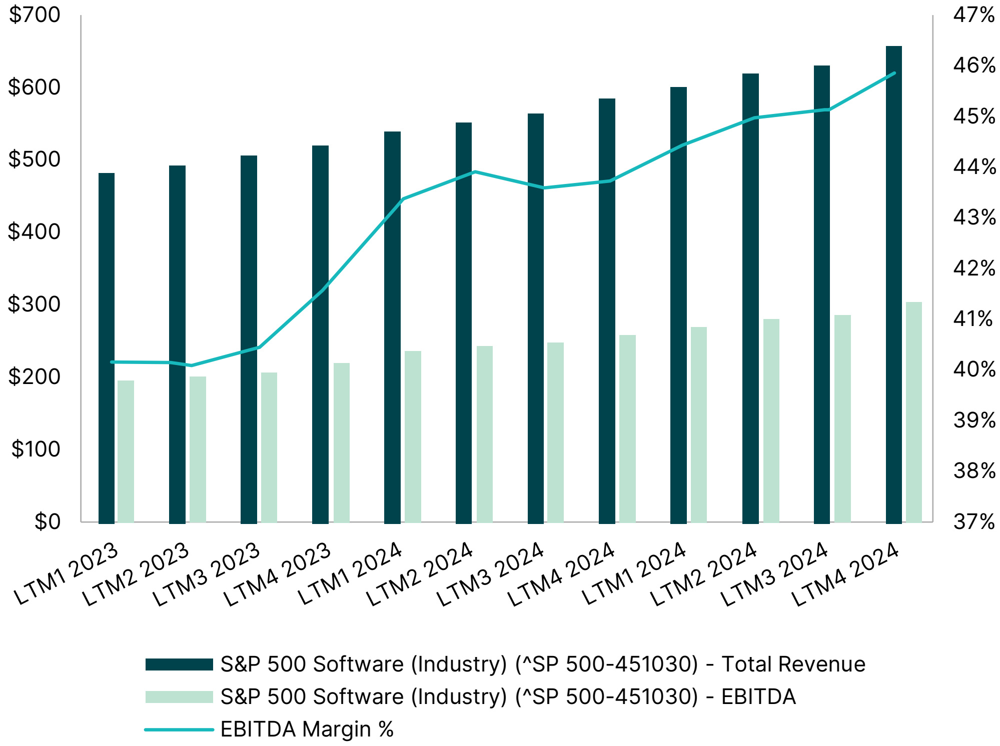
General Partners (GPs) that specialize in the software sector in the private markets have a far deeper and broader view into the industry than public market investors, and their outlook is far more balanced than the recent public market volatility suggests.

Those software specific GPs that we work alongside note that – notwithstanding the noise in public trading – software is and will remain a large and resilient piece of the enterprise ecosystem. Similar to previous technological super cycles (e.g. from mainframe to PC, on-prem to SaaS, and now SaaS to agentic systems), the prevailing sentiment in the private markets is that of a positive sum story rather than zero sum. Indeed, buyout and venture managers alike report that there is as yet no evidence of weakening demand due to the ongoing adoption of large language models (LLMs), and that the software companies in their portfolios continue to deliver strong retention, topline and margin expansion despite the AI panic dominating headlines. In many cases, software specialist GPs have been preparing their portfolios for a GenAI world for several years

Figure 3

Public market indices, revenues & earnings before interest, taxes, depreciation and amortization (EBITDA)

Source: CapIQ.



Even in public markets, software companies' fundamentals seem to be robust, with those in the S&P500 software index reporting operating performance growth at 12% topline compound annual growth rate (CAGR) since the broad adoption of LLMs into corporate and consumer toolkits in 2023, with around 17% EBITDA CAGR over the same period.

This disconnect between operating performance and valuation movements illustrate how public market performance can be overly driven by sentiment. The latest turmoil seems to have been prompted by headlines and fears about the potential challenge of GenAI on future pricing, growth durability, and moats still to come three to five years down the line. This fear is not necessarily irrational, but it is likely being applied far too indiscriminately in the public context.

Evolution, not revolution

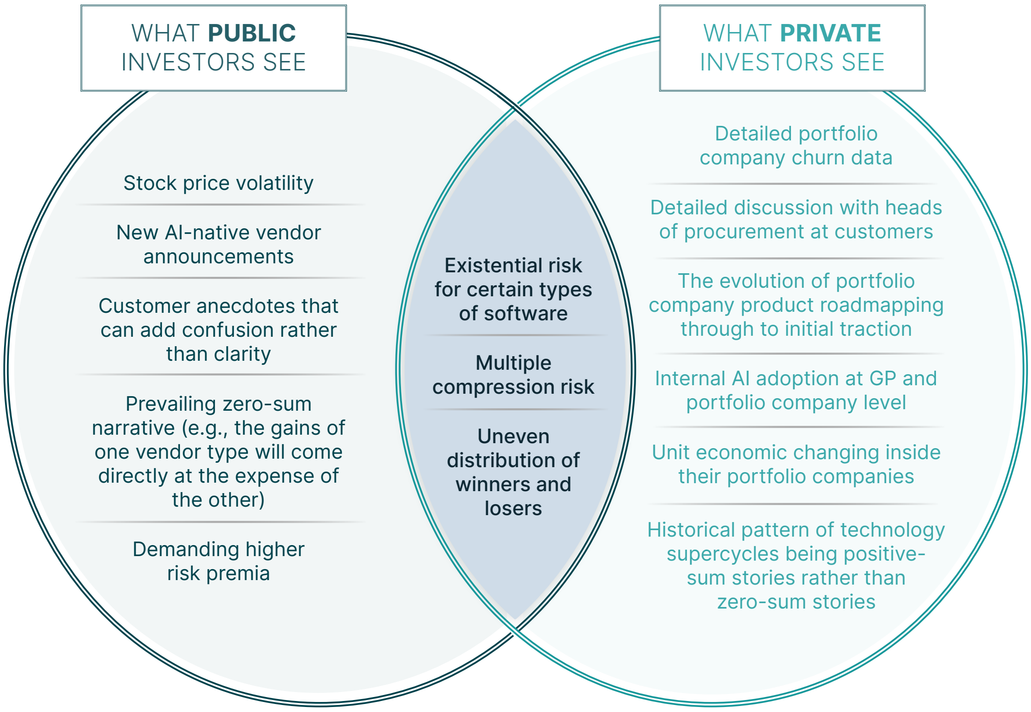
AI is not killing off software, but it is undeniably reshaping the economics of the industry. Software is being repriced around who owns the data, the workflow, and the outcome, shifting revenue pricing models from seat-based towards consumption-based pricing. This will pose a new layer of execution risk for some firms certainly, and while certain business models will become structurally impaired, others will go extinct.

In this sense, public markets are right to ask questions. However, for other firms with durable moats stemming from proprietary and/or permissioned data, audited workflows, distribution and network effects, and enterprise-grade trust and security, AI will likely open up new and large pockets of corporate budgets that have never existed before for software, or that were previously focused on labor. This is a potentially enormous opportunity for the sector that is enabled by AI.

It is notable here in particular that within the software sector a whole range of market participants — blue chip venture managers, software buyout managers, and some of the biggest large-cap firms — have invested heavily in generative AI in their portfolios or for their businesses. For example, it is estimated that AI captured nearly half of all global funding to start-ups in 2025, up from roughly a third in 2024.[4] Given the fact that venture managers are clearly "long" on the GenAI trade, we would point out that the overlapping perspective shared by venture and buyout managers that they still see value in software incumbency (provided the incumbents have the right structural moats and adapt quickly) is one of the clearest ways to buy into the idea that the future will be a combination of 'AI and software' rather than 'AI or software'.

A different perspective

From the private markets, the specialist software GP views are informed by a unique vantage point as they operate their portfolios and digest customer feedback in real time. They have a perspective formed from working closely with their enterprise software portfolio firms, rather than from the 'outside looking in' view of the public markets, and so they propose a far more nuanced story than the one suggested by the recent equity market turmoil.



[4] Source: Funding for AI dominated in VC in 2025: Crunchbase

Private markets investors also have a much more comprehensive view across the sector. **Public software companies only represent less than 5% of the software universe,**[5] and indices typically skew toward larger, mature seat-based vendors where disruption risk is perceived to be higher. In contrast, many artificial intelligence-forward and structurally faster-growing businesses remain private. As a result, near-term headline multiple compression in the public markets may overstate the pressure on the broader ecosystem.

Indeed, while February's turmoil across public markets seems to potentially suggest a risk of uniform destruction or structural collapse across the enterprise software sector, our GPs' insight instead shows that while some vendors may be challenged, others will benefit immensely from layering AI into existing embedded offerings. This potential disparity in performance within the software sector highlights the continual importance of deal selectivity in creating a robust portfolio to withstand any future shifts in the sector.

Similarly, in an environment where AI is reshaping software economics, outcomes depend less on exposure and more on execution, and that execution advantage largely sits at the manager level. Should the proliferation of GenAI lead to a broad range of winners and losers in the enterprise ecosystem over time, being invested alongside the right GPs to make those choices and with the strongest insights into market performance should be a key focus for investors.

While software is the sector that is currently hitting headlines, there are few industries that are likely to be completely unaffected by the potential impact of AI. Most industries are set for some form of evolution in response to the new technological developments now available and those still to come, and AI readiness and defensibility must be a core investment consideration for every new investment made – across the software industry and every other.

[5] Source: Vista

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