

How AI is reshaping software multiples, defensibility and investor expectations.

Key takeaways

Software valuations remain below previous-cycle highs, but the market is no longer repricing the sector uniformly. Investors are increasingly differentiating between businesses where AI strengthens growth and customer value, and those where AI threatens product differentiation, pricing or seat-based revenue models. PwC describes the current market as a selective repricing, with software valuations approximately 30% below prior peaks while durable platforms continue to attract interest.

European public software valuations recovered somewhat during Q2 2026. Silverpeak reported a median 3.24x EV/Revenue multiple for European listed software companies at 30 June, up 21% quarter-on-quarter but still 8% below the previous year.

The valuation framework itself is changing. AI is increasing the importance of proprietary data, embedded workflows, gross retention, pricing architecture and product defensibility, while reducing the relevance of some traditional assumptions around seat-based SaaS growth.

Software has entered a more selective valuation cycle

The first nine months of 2026 have reinforced a broader re-rating of software.

The market correction began with concerns that generative and agentic AI could make parts of traditional SaaS easier to reproduce, reduce the need for individual software seats and lower barriers to entry. PwC notes that major software indices had fallen around 30% from their September 2025 peak by February 2026, reflecting a rapid reassessment of whether established software business models remain as durable as investors previously assumed.

European software has been relatively resilient compared with the US, in part because valuations entered the period at lower levels. Silverpeak's Q2 benchmark showed European listed software at 3.24x EV/Revenue, compared with 4.57x for US SaaS. The valuation gap between US and European software had narrowed substantially from the previous year.

The result is not a blanket de-rating. Instead, valuation dispersion is increasing. Investors are placing higher values on software that is difficult to replace and lower values on applications where AI may commoditise functionality.

Selected Public Software EV/Revenue Multiples (Q2 2026)

Category	EV/Revenue	YoY
US SaaS	4.6x	(37%)
US Vertical Software	4.4x	(38%)

US Horizontal Software	3.6x	(20%)
Europe	3.2x	(8%)

Source: Silverpeak, S&P Capital IQ. Data as of 30 June 2026.

AI is creating a valuation fault line

The key valuation question has shifted from whether a software company uses AI to whether AI improves or weakens the underlying economics of the business.

Software businesses with proprietary data, domain expertise, embedded customer workflows and mission-critical use cases are increasingly viewed as more defensible. PwC argues that these characteristics create what it describes as “workflow gravity”: deep integration into customer operations that is difficult to displace even as software development becomes cheaper.

By contrast, products based primarily on relatively shallow functionality may face greater competitive pressure. Foundation models can reduce the cost and time required to replicate certain software features, while AI agents may increasingly perform tasks previously requiring several separate applications.

IMAP similarly describes the current environment as a structural repricing of software, driven by expectations of SaaS commoditisation, pressure on margins and a migration of value toward AI-native or AI-enhanced platforms.

This distinction increasingly determines whether AI is treated as a premium or a discount in valuation.

Revenue quality is becoming more important than seat growth

AI is also challenging one of the core economic assumptions behind traditional SaaS: that customer growth translates into more users and therefore more software seats.

If an AI-enabled workflow allows one employee to perform work that previously required several people, the number of seats required by the customer may fall even when the value delivered by the software increases.

PwC argues that this makes traditional net revenue retention less informative in isolation. Investors increasingly need to examine gross revenue retention, cohort behaviour and the extent to which expansion revenue masks underlying seat contraction.

Pricing models may therefore move gradually away from pure per-seat subscriptions toward usage, value or outcome-based structures. This transition could ultimately improve monetisation for successful AI-enabled platforms, but it introduces more uncertainty around revenue predictability during the transition.

For valuation purposes, the implication is significant: investors will increasingly reward software companies that can demonstrate durable customer economics rather than merely growing user counts.

Gross margins are becoming part of the AI valuation debate

Traditional SaaS businesses benefited from strong incremental margins because software could be distributed at relatively low marginal cost.

AI can alter those economics.

Inference costs, model usage fees, data infrastructure and compute requirements can create meaningful variable costs as customer usage increases. Where a software company relies heavily on third-party models, part of the value created may effectively transfer to infrastructure or model providers.

This means AI-enabled revenue growth does not automatically translate into higher enterprise value. Investors increasingly need to understand how incremental AI usage affects gross margin and whether pricing can absorb those costs.

The market is therefore likely to distinguish between businesses where AI improves both product value and economics, and those where AI increases revenue but simultaneously compresses margins.

AI adoption can create a measurable valuation premium

There is growing evidence that companies using AI to create new revenue rather than simply reduce costs can achieve stronger valuation outcomes.

McKinsey found that private-equity-backed companies using AI broadly across growth and product initiatives had median revenue multiples more than twice those of businesses using AI primarily for productivity improvements.

The distinction is important.

Using AI to automate internal administrative tasks may improve profitability, but those benefits are relatively easy for competitors to replicate. Using AI to create new products, increase customer value, deepen workflow integration or open new revenue streams can strengthen the underlying growth profile of the company.

This suggests that investors will increasingly differentiate between AI as an efficiency tool and AI as a business-model advantage.

How AI can affect software valuation

AI Impact	Likely Valuation Effect
Internal productivity only	Limited premium
Lower development costs	Neutral / modest positive
AI-enabled upsell	Positive
New AI-native revenue	Strong positive
Proprietary data advantage	Strong positive
Seat compression	Negative
Easily replicated features	Negative
Margin-heavy AI infrastructure	Negative

Source: Veyne analysis based on PwC, McKinsey and IMAP.

M&A buyers are incorporating AI directly into diligence

AI exposure has also become a core transaction diligence issue.

Buyers increasingly assess whether the target's technology architecture, customer workflows and data position create an advantage or a vulnerability. PwC notes that software diligence is shifting toward monetisation, AI infrastructure dependencies and defensible workflows.

This is visible in transaction markets. Oaklins reported that European Application Software transactions fell 50% quarter-on-quarter to 108 deals in Q3, even while disclosed EV/Sales multiples edged higher from 1.3x to 1.5x. The combination of fewer transactions and slightly firmer disclosed multiples suggests that buyers are concentrating on a narrower group of higher-quality assets.

Traditional M&A logic is also changing. Capabilities that might previously have required acquiring another software company can increasingly be built internally with AI tooling. That raises the hurdle for bolt-on acquisitions and increases the strategic value of assets that offer something genuinely difficult to replicate.

The market is moving from SaaS metrics toward defensibility

Traditional SaaS valuation metrics remain relevant, but they are becoming less sufficient.

Revenue growth, gross margin, recurring revenue and Rule of 40 performance still matter. Silverpeak notes that valuations continue to correlate with the Rule of 40, but investors increasingly favour profitability within that framework. At the end of 2025, companies achieving similar Rule of 40 scores through greater profitability traded at approximately 5.6x, compared with 3.9x for companies relying more heavily on growth.

AI adds another layer.

Investors increasingly need to assess whether the company possesses proprietary data, domain expertise, distribution, customer integration and a pricing model capable of capturing the value AI creates.

As a result, future software valuation frameworks are likely to combine traditional SaaS metrics with a clearer assessment of AI resilience and AI leverage.

Veyne view

We expect software valuations to remain highly dispersed through the remainder of 2026.

AI is unlikely to produce a universal valuation premium. Instead, it is becoming a mechanism through which investors distinguish between software businesses with durable competitive advantages and those where product functionality is becoming easier to replicate.

The strongest valuation outcomes should accrue to businesses where AI increases customer value, creates new revenue, strengthens retention or improves operating leverage without materially weakening gross margins.

For management teams, the message is increasingly clear: simply adding AI features will not support a valuation premium. Investors will expect evidence that AI improves the underlying economics and defensibility of the business.

Selected market signals

Market Signal	2026
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European listed software EV/Revenue	3.2x
US SaaS EV/Revenue	4,6x
European software QoQ valuation recovery	+21%
European software YoY valuation change	(8%)
Q3 Application Software M&A deals	108
Q3 disclosed Application Software EV/Sales	1.5x

Source: Veyne analysis based on PwC, McKinsey and IMAP.

Sources

McKinsey Beyond productivity: How AI creates value in private equity ([Link](#)); Oaklins Quarterly Tech M&A Update Q3 2026 ([Link](#)); PwC How AI is reshaping software valuations for M&A and private equity dealmakers ([Link](#)); Silverpeak Software Benchmark Report: Software rebounds as near-term AI fears partially subside Q2 2026 ([Link](#)).

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