

Pictet Thematic Private Equity – Technology

Our view of current market conditions in the technology sector

10 MARCH 2026, CHUANG ZHU

PUTTING TODAY'S MARKET IN CONTEXT

Public software multiples have reset primarily because growth expectations have reset. As consensus next 12-month (NTM) growth expectations fell to ~12% from their long-term average of ~25%, sector multiples compressed to roughly ~3x forward revenue, versus a long-term average closer to ~8x.

The drop in multiple is mostly because implementing AI has taken top of mind for all enterprises' boards and C-level, above traditional software, and there's the fear that AI will even replace software from vibe-coding or from doing agentic actions.

However, we view the recent public-market sell-off in software ("SaaSagedon", "SaaSocalypse", "AI is eating software") on the concern of AI-driven replacement as a knee-jerk and indiscriminate reaction that fails to distinguish between potential winners with deep moats or enabling AI (i.e. Microsoft, Snowflake, Datadog) and losers like feature-level point tools with limited defensibility or headcount-rooted revenue model (i.e. Adobe).

It is not the first time Wall Street has turned sour on the sector; for instance, the rise of mobile was once thought to threaten software as user attention shifted to phones, yet that platform expansion only widened the total addressable market (TAM) as software became multi-platform.

Other industries had similar Armageddon moments. For example, critics once claimed that retailers like Walmart would not survive against Amazon; yet Walmart's market cap has now surpassed

\$1trn, showing that agile incumbents can adapt to changes.

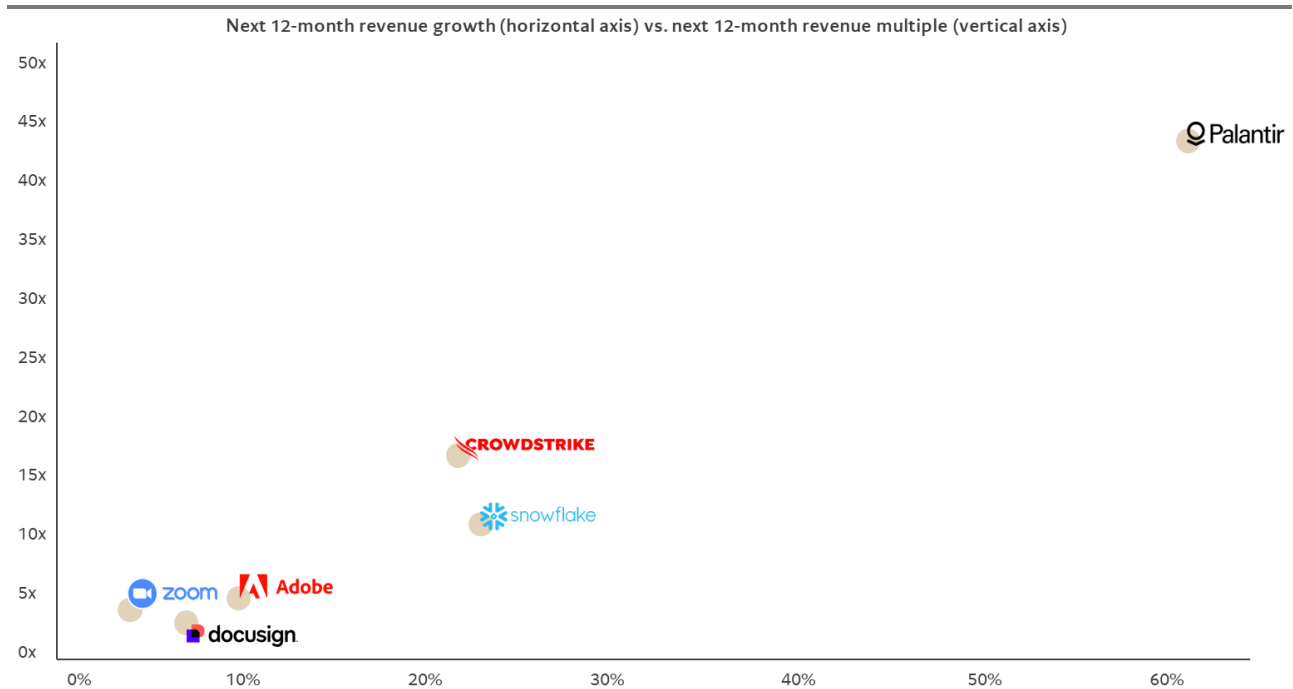
"We view the recent public-market sell-off in software as a knee-jerk and indiscriminate reaction that fails to distinguish between potential winners with deep moats or enabling AI and losers with limited defensibility"

DISPERSION ALREADY EVIDENT

Given these multi-faceted "incumbent versus insurgent" and "agile versus static" dynamics, it's important to note that the headline drop in multiples masks dispersion already. If we peel the onion, we realise that companies still delivering structural growth and that have more consensus around their defensible positioning, such as Palantir, CrowdStrike, and Cloudflare, continue to command materially higher multiples (Figure 1).

Every major technology wave has produced this same bifurcation dynamic. It then becomes a matter of whether they have the talent density and forward-thinking ability to reinvent themselves similarly to previous waves of change – from on-premise to cloud, or from internet to mobile internet. At every single one of those waves, some legacy companies made it and some others did not.

Figure 1. The market narrative has been “AI is eating software” and SaaSagedon. Is software structurally broken?



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Some previous technology shifts with successful and unsuccessful pivots to illustrate the point include:

- On-premise to cloud: Do you want to be IBM or Microsoft?
- Physical distribution to streaming: Do you want to be Blockbuster or Netflix?
- Mobile: Do you want to be BlackBerry or Apple?
- From desktop media internet to mobile internet: Do you want to be Yahoo or Meta?

Technology cycles don’t kill companies. Cultural resistance to self-disruption does. So no, software isn’t dead, but it will create bifurcation between the winners and the losers.

In fact, software is the main form in which AI will be delivered and consumed. AI can dramatically expand what software companies can do and how fast they do it, and how large the markets they serve can become. Therefore, companies who adapt and implement valuable AI features can even accelerate

their growth, but those who cannot do face a bad fate.

Indeed, **our core thesis is that AI expands the total addressable market for software rather than merely redistributes value within a fixed TAM.** Software spend (~\$1tn) is increasingly converging with IT services (~\$3.6tn, “service-as-software”) and portions of knowledge labour (~\$10tn+, “AI for labour”), as automation, copilots, and agents take over tasks historically delivered through man. This creates new categories, new budgets, and structurally larger monetisation pools from new economic output, rather than simply cannibalising existing SaaS revenues.

In practice, many large incumbents remain systems of record and workflow backbones for enterprises. As Jensen Huang recently argued, it doesn’t make sense for startups to rebuild basic software tools from scratch when existing offerings – given their sunk costs – remain highly functional. As he put it: “Would you use tools or reinvent tools? The answer, obviously, is to use tools.”

AI-native vendors cannot wholesale replace these platforms. Even frontier lab leaders like Anthropic

see themselves as complements to software providers. Tools and applications are becoming the “home page” for the user by expanding and complementing the value layer around them, such as through AI agents for contract review/drafting, copilots for sales and support, automated IT incident triage, agentic customer service, and AI-driven developer productivity. This is done while continuing to engage with underlying business systems, which could drive even higher engagement and interactivity for those core systems of record.

OUR APPROACH

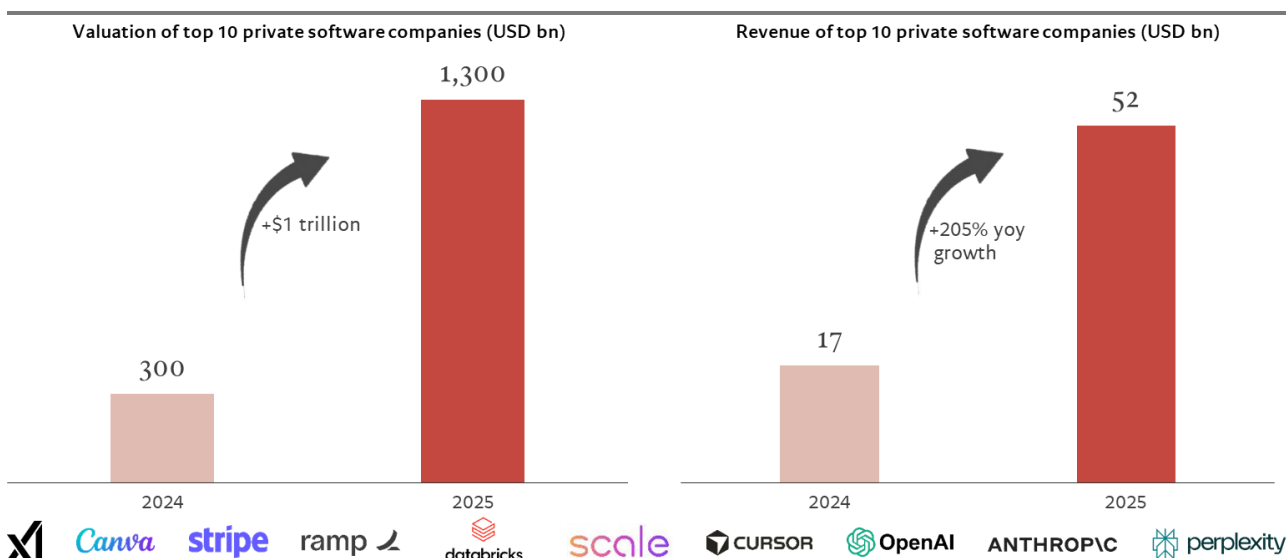
Given that growth is such a determinant, we believe that private market valuations are generally more justified because they are the source of the disruption. Illustratively, as of 2025, **the top 10 private software companies (Figure 2) had a combined value of \$1.3tn, having added \$1tn to their aggregate value over the past year.** At this level, the top 10 private enterprise software companies equate to 19% of the entire US-listed public market software universe, a group which lost 5% of its value since the beginning of 2025 as AI risks continue to be perceived as a headwind for the sector.

The group of 10 private market standouts also had a combined total annual recurring revenue (ARR) of \$52bn and were growing at a combined rate of 205%, compared to a total revenue base of \$755bn for the entire public market software universe, which exited 2025 growing at just over 10%. In fact, OpenAI and Anthropic have added more new ARR in 2025 than the rest of the public market software universe combined.

Nevertheless, we should not be complacent as allocators or owners. **Distinguishing between high-quality software and commoditised apps is now critical to identifying “moats”.** This is a test we apply not only towards legacy SaaS companies to assess their disruption risk, but even to new AI-native companies, as an AI company from 2026 could equally be disrupted by an AI company of 2027.

Software defensibility has never been about code alone, which is a basic misunderstanding of what software companies sell. Sustainable moats we have looked out for are driven by mission-criticality and high cost of downtime, embedded workflows, deep vertical knowledge, proprietary customer data, high switching costs, dense integration into complex cross-departmental enterprise IT stacks & business processes, network or ecosystem effect, the brand,

Figure 2. Private companies have experienced the fastest growth rates, leading to greater market capitalisation creation



Source: Sapphire Ventures, as of December 2025. Peer set is OpenAI, Anthropic, xAI, Databricks, Stripe, Canva, Ramp, AnySphere, Scale AI and Perplexity. For discussion and illustrative purposes only. Pictet has not acquired any rights or licence to reproduce the trademarks, logos or images set out in this document except its own. The trademarks, logos and images in this document are used only for the purpose of this document. Any reference to a specific company or security does not constitute a recommendation or an invitation to buy, sell, hold or directly invest in that company or security. There is no assurance that any trends depicted or described above will continue or that any projections will ultimately materialise.

and trust around data privacy, security and compliance. Software companies who did not possess the above were disruptable even before AI came in the equation.

Given the mission-critical nature of these types of company’s technology, we do not expect any enterprise to rip out battle-tested, enterprise-grade security software of record in favour of any “equivalent” that was essentially vibe-coded.

The same advances in AI that lower the cost of building software also benefit scaled incumbents and high-quality private companies by accelerating their product velocity, maintaining unit economics under pricing pressure, and enabling faster cross-selling of AI-driven functionality into their large and sticky installed bases – with CIO surveys indicating that enterprises prefer purchasing AI add-ons, when available, from their existing, trusted vendors, entrenching customers further into their ecosystem.

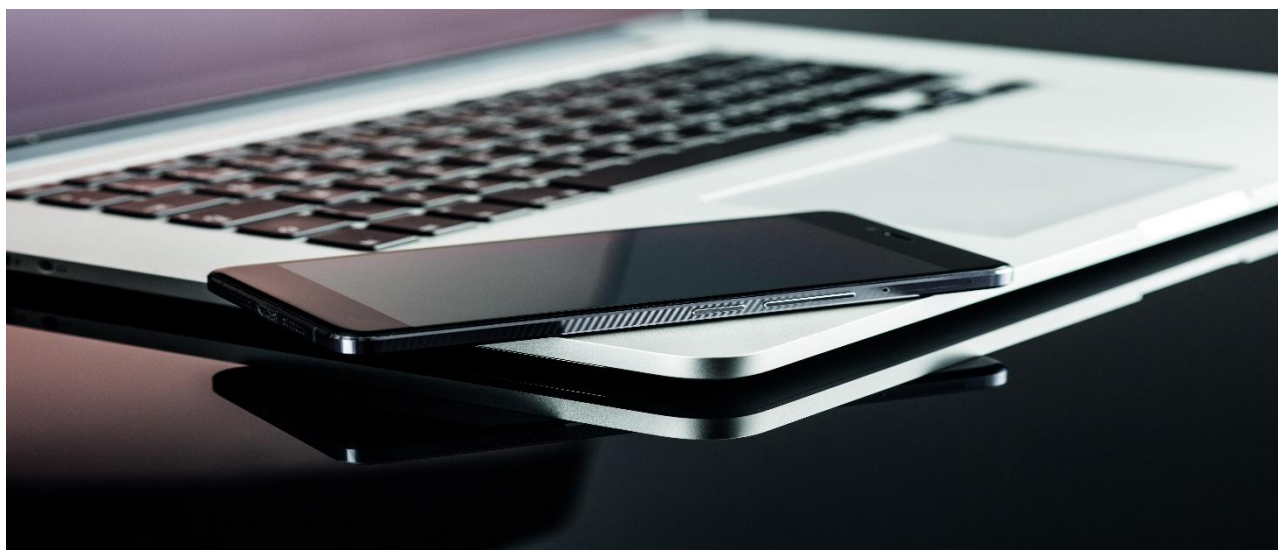
It is true that the traditional seat-based model is under pressure. However, this is also where incumbents can adapt and gain share. Instead of being hurt by seat reductions, they can move toward consumption- or value-based pricing tied to measurable outcomes – such as tickets resolved, complaints handled, legal contracts reviewed, or transactions processed. As software increasingly performs high-ROI tasks autonomously, monetisation can shift from headcount-based pricing to business-impact-based pricing. That transition not only protects revenue but can expand TAM beyond the historical constraint of seats and inflation.

Finally, in private equity we can benefit from private ownership and active operational control. **The**

companies on which we focus are backed by digitally sophisticated, operations-focused sponsors, enabling faster strategic and operational change than is typically feasible in public markets. This includes decisive intervention on replacing management or entire teams, go-to-market execution, implement an AI product strategy, pricing and monetisation (e.g. shifts from seat-based to value-based models) while prioritising long-term value creation over short-term quality earnings.

Lower marginal costs of software development accrue disproportionately to our target companies, as they can ship materially faster with the same R&D spend and monetise innovation into an existing customer base through upsell and cross-sell. Thoma Bravo for example has seen core positions in its portfolio growing bookings 22% in Q4 2025 year-on-year by successfully integrating AI functionality into their products, proving that for high-quality software companies, AI is a tailwind for growth rather than a threat to existence. Similarly, PSG Europe has helped its portfolio companies build up to 70% of customer support being taken care of by AI away from humans, while increasing R&D productivity by 50% with AI, leading to about 5% EBITDA margin expansion in 2025 alone.

The companies that have the talent density, that are forward-looking, and that are willing to cannibalise themselves before someone else does it for them – they will adapt, survive and win.



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