

Software at a Crossroads: AI Disruption, Credit Strain and the Search for Capital

March 17, 2026



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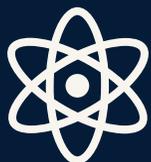


Service-as- Software: The Evolution to Enterprise AI

Derek Hernandez | March 17, 2026

The SaaS-pocalypse: What happened and why

1



The Catalyst

- Anthropic Cowork plugin focuses fears
- ~\$1T software market cap erased
- Software ETF into bear market

2



Narrative Shift

- Weak earnings & AI model advances
- AI displacement fears go mainstream
- Software multiples contract

3



Budget Rotation

- AI infrastructure spend ~\$1T in 2026
- CIO budgets rotating to inference
- “Best-of-breed” SaaS threatened

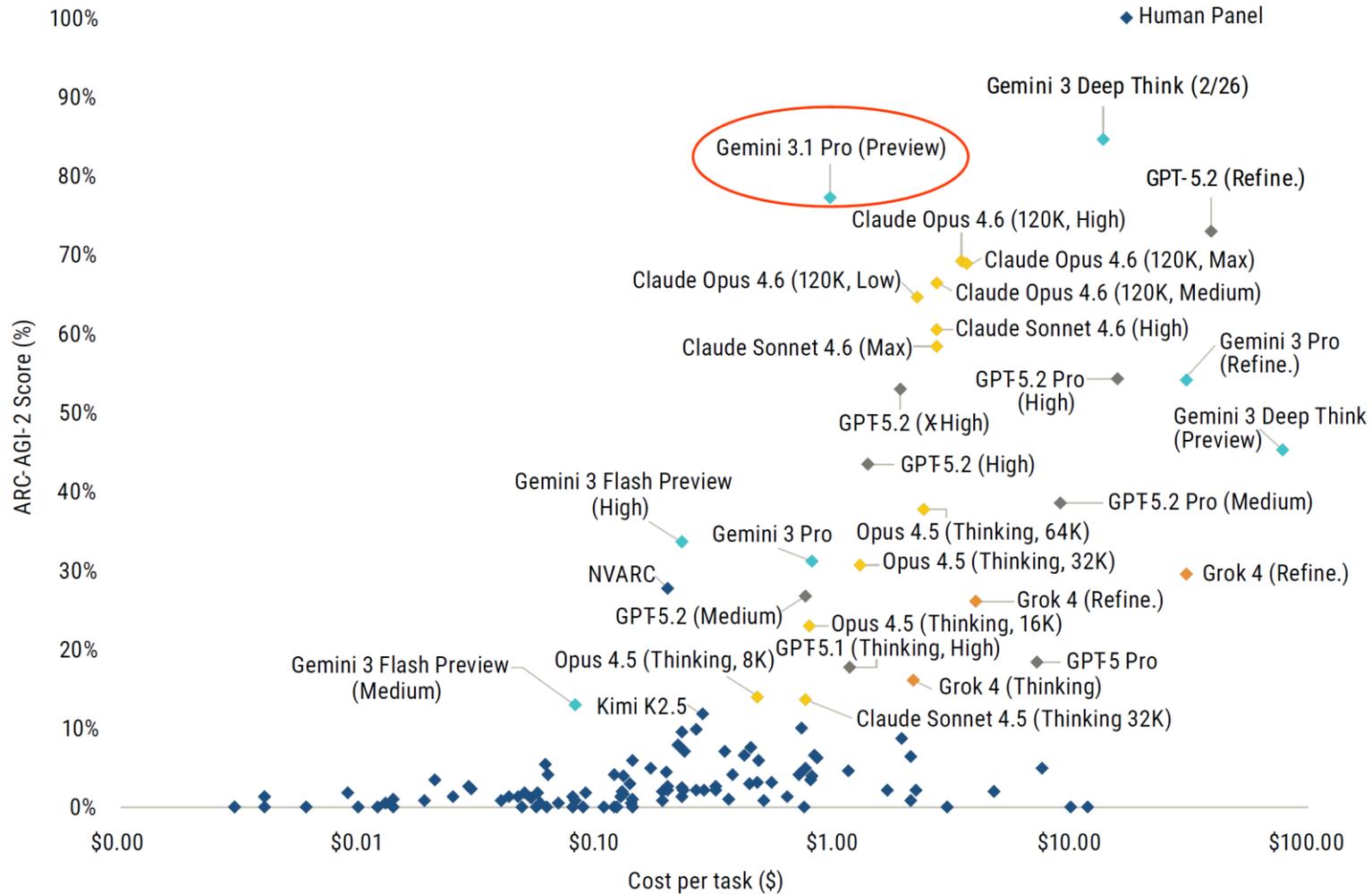
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Casualties

- Public SaaS stocks drop sharply
- Various verticals impacted day-by-day
- \$235B software loan market warning

ARC-AGI-2 leaderboard



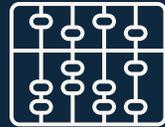
Source: [ARC Prize](#) • Geography: Global • As of February 26, 2026

**Intelligence
no longer a
fixed salary-
based asset;
it will be a
variable cost.**

Was the market reaction justified?

What's justified

Real threats to cash flow and survivability



- ARC-AGI-2 benchmark shows replacement-level intelligence at scalable costs
- Seat-based pricing faces structural compression
- AI decimates vertical moats around coding, content creation, digital engagement and analytics
- Startups that are basic AI-wrappers are untenable
- SMBs are testing basic SaaS replacements

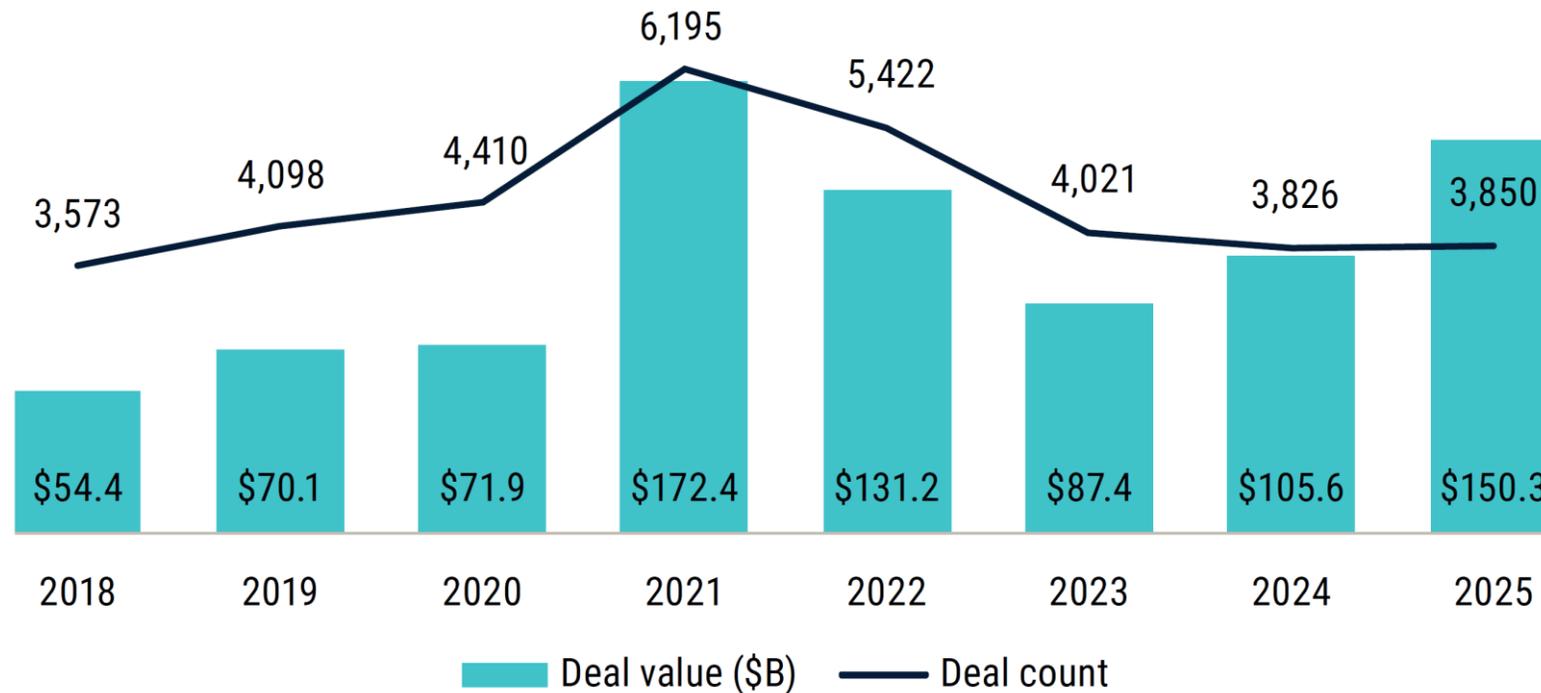
What's overdone

The market is missing the grand opportunity



- Incumbents lead global token consumption
- Market declines predicated on no structural moats
- Labor market represents massive TAM opportunity
- Incumbents' distribution is a major head-start
- Many fears are internally inconsistent across AI investment & SaaSocalypse

SaaS VC deal activity



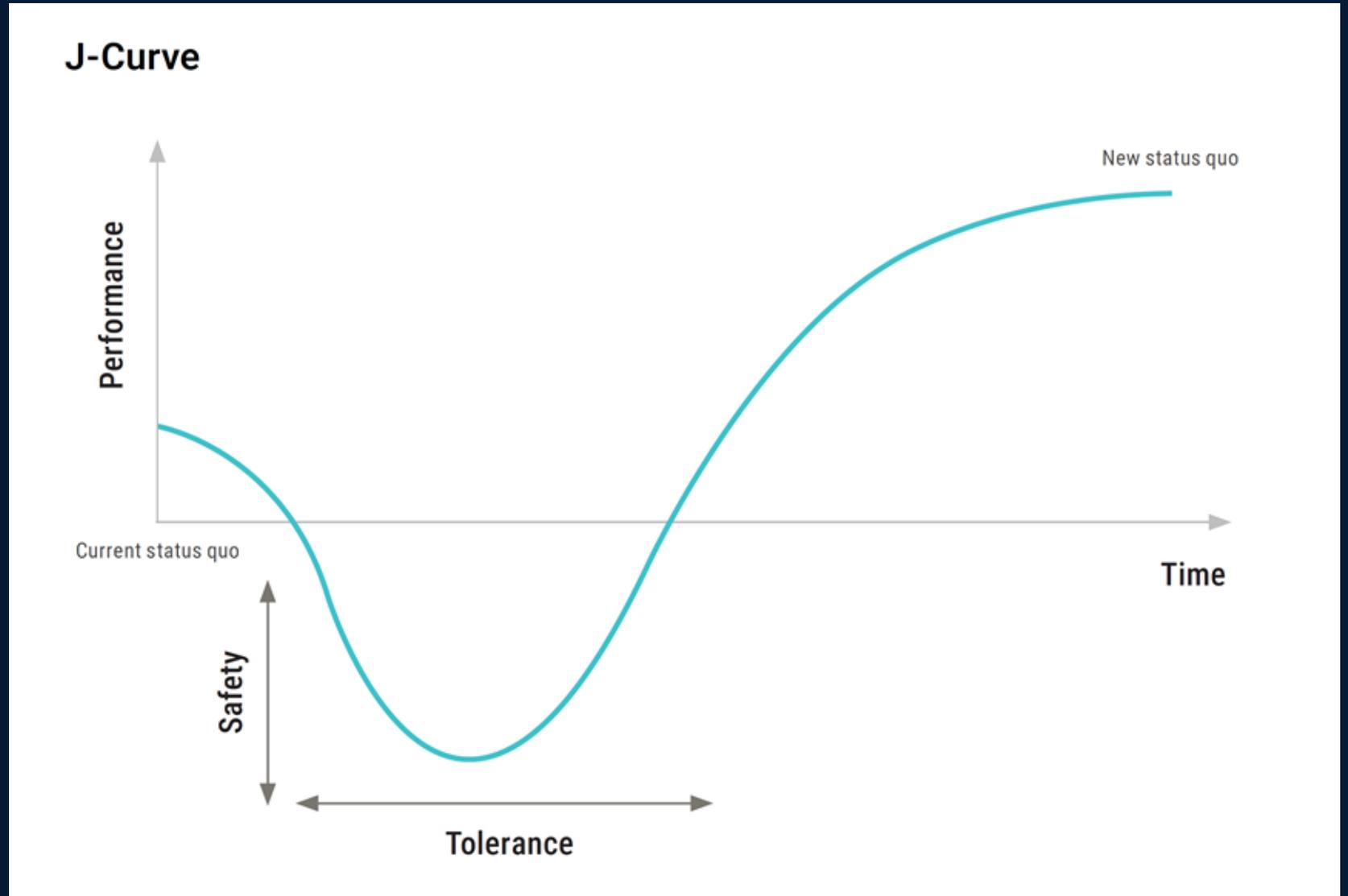
Source: PitchBook • Geography: Global • As of December 31, 2025

Deal Value Nearing Historical Highs

AI and the future work: The SaaS thesis realized

From		To		Implications
Enterprises renting productive tools	→	"Hiring" outcome-based solutions	→	2026 kicks off a 20-year enterprise AI super-cycle
Infrastructure has preceded applications	→	Hyperscaler+ datacenter investments reach \$1T/yr	→	Expert intelligence inference environments for future SaaS
SaaS price \$100/seat/month	→	Agentic price \$10k/workflow/yr	→	8x revenue uplift for vendor
High salary & SaaS spend on workflows	→	Exponential management of agentic-driven outcomes	→	Deflationary for enterprises, inflationary AI agent vendors
Maturing software TAM (~\$900B)	→	New opportunity accessing labor TAM (~\$50T)	→	Value unchained from manual workflows
Human billable enterprises	→	Agentic workflows saturate	→	The beachhead of the new SaaS

J-Curve Dynamics to Dominate



The evolving landscape of Service-as-Software

Incumbent strengths



- Distribution networks & sales channels
- Proprietary data context & System of Record
- Switching costs & employee preference
- Security, compliance, and governance credentials
- Aggressive M&A capacity
- Able to absorb high inference costs

AI-native threats



- Challengers bypass procurement cycles
- Accelerated demonstration of ROI (e.g., Sierra's logo gains in ~18 months)
- Federated context models position data access above individual platforms (e.g., Glean, Hebbia, strategies)
- "Sidecar pattern" in customer support and others

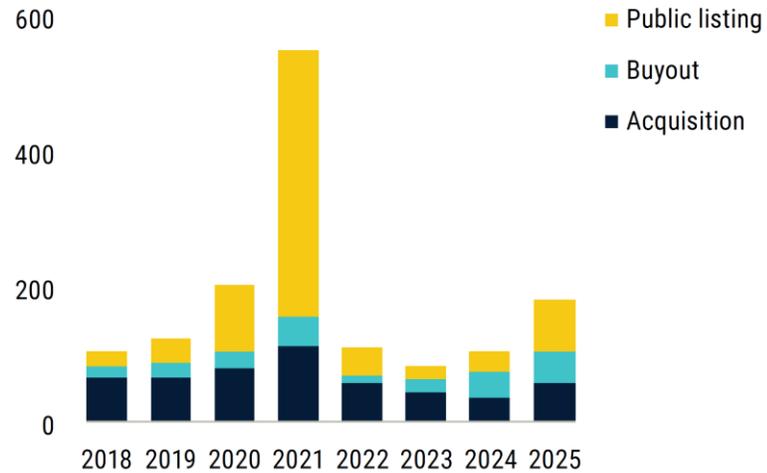
Structural losers



- Workflow wrappers with no proprietary data face existential risk (e.g. "dumb" solutions for scheduling, project management, invoicing, help desk ticketing)
- Seat-based pricing with low switching costs may signal value traps
- Professional services firms reliant on headcount growth without agentic roadmap

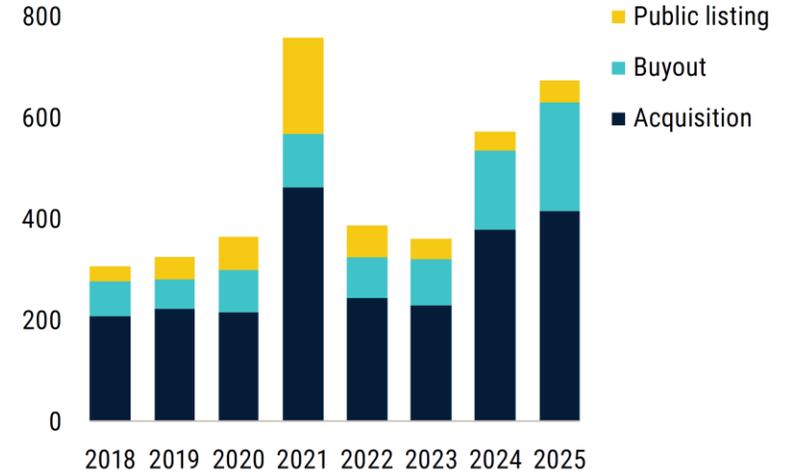
Under the IPO Surface, Activity is Spiking

SaaS PE and VC exit value (\$B) by type



Source: PitchBook • Geography: Global • As of December 31, 2025

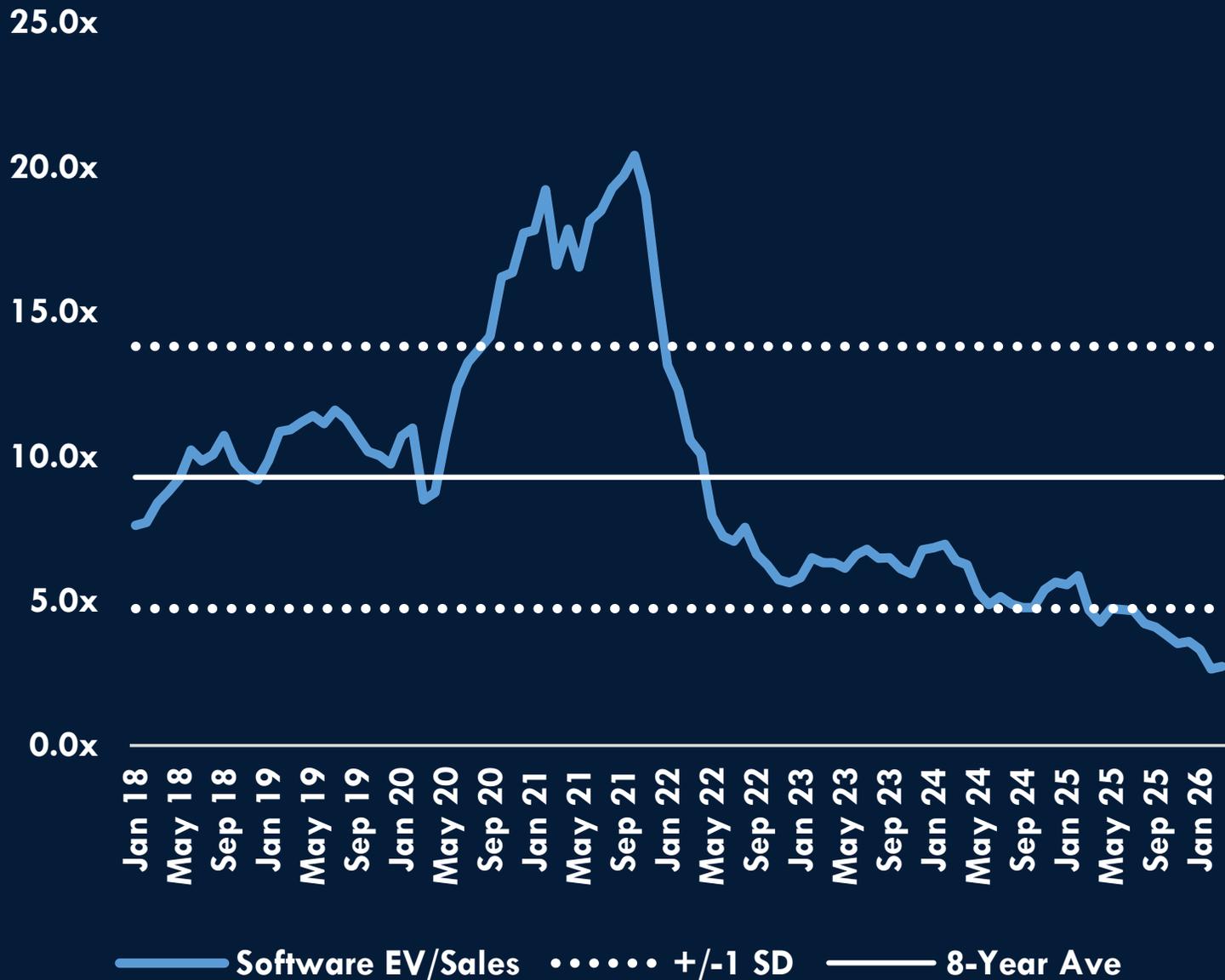
SaaS PE and VC exit count by type



Source: PitchBook • Geography: Global • As of December 31, 2025

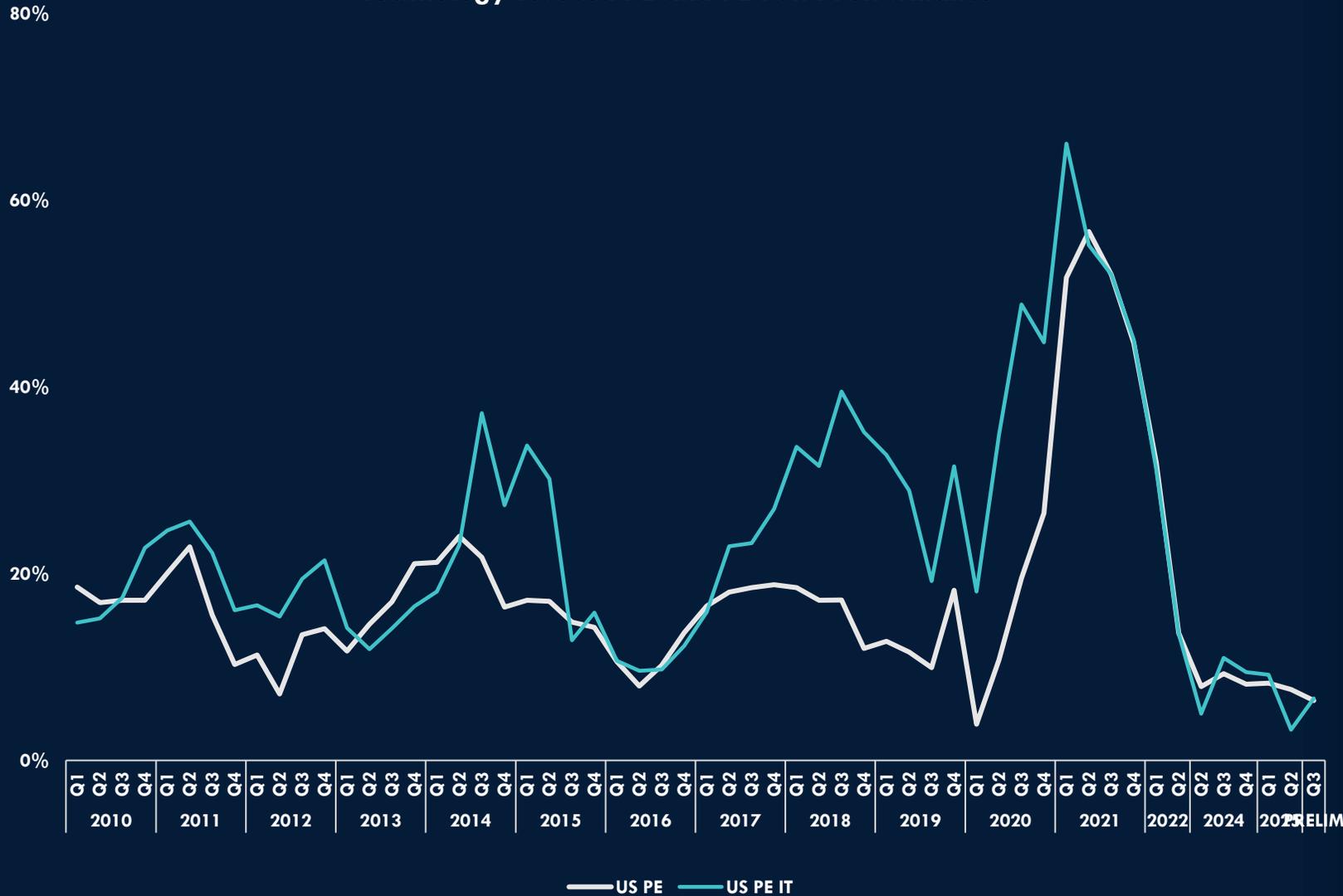


PE Perspective

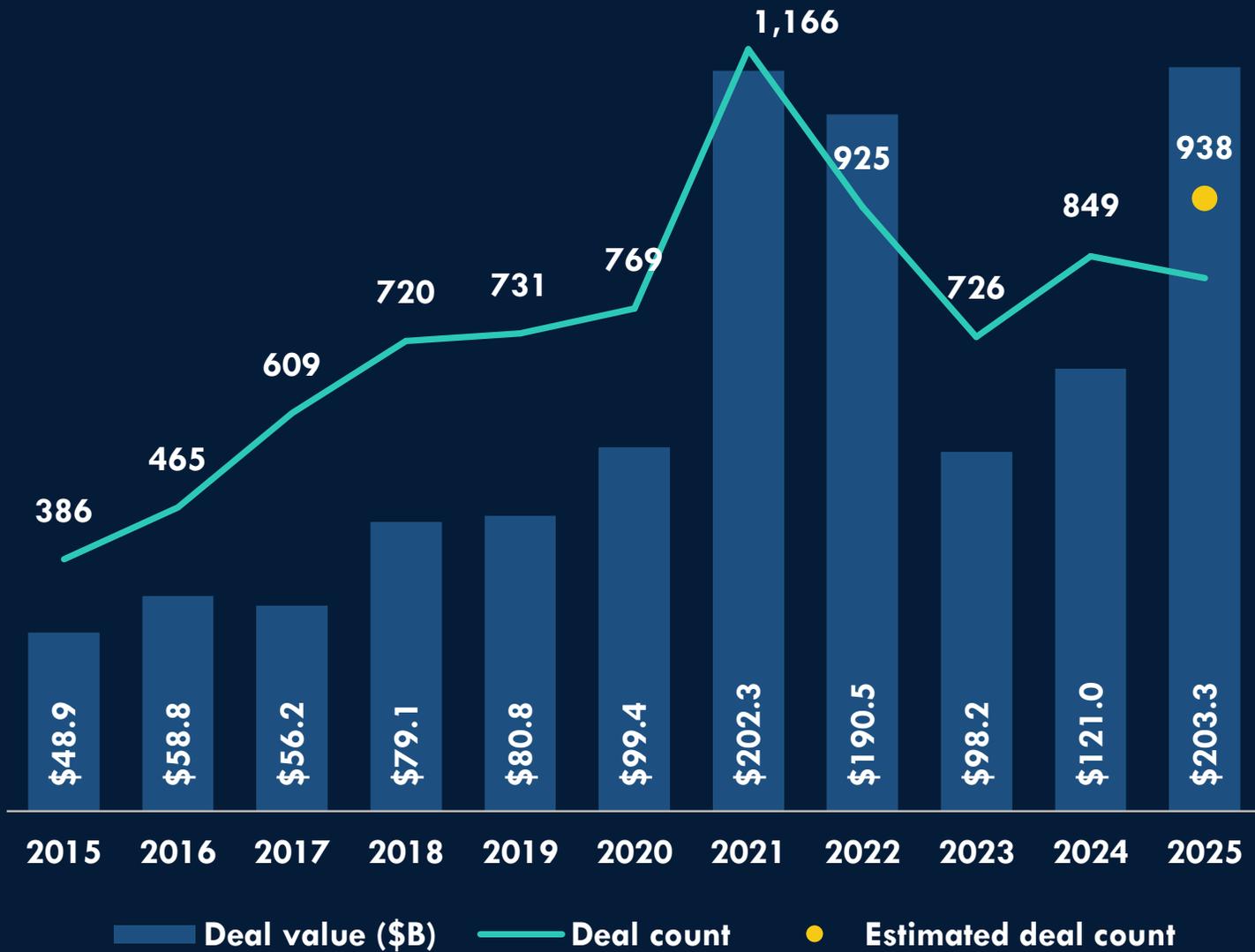


Public software valuation reset

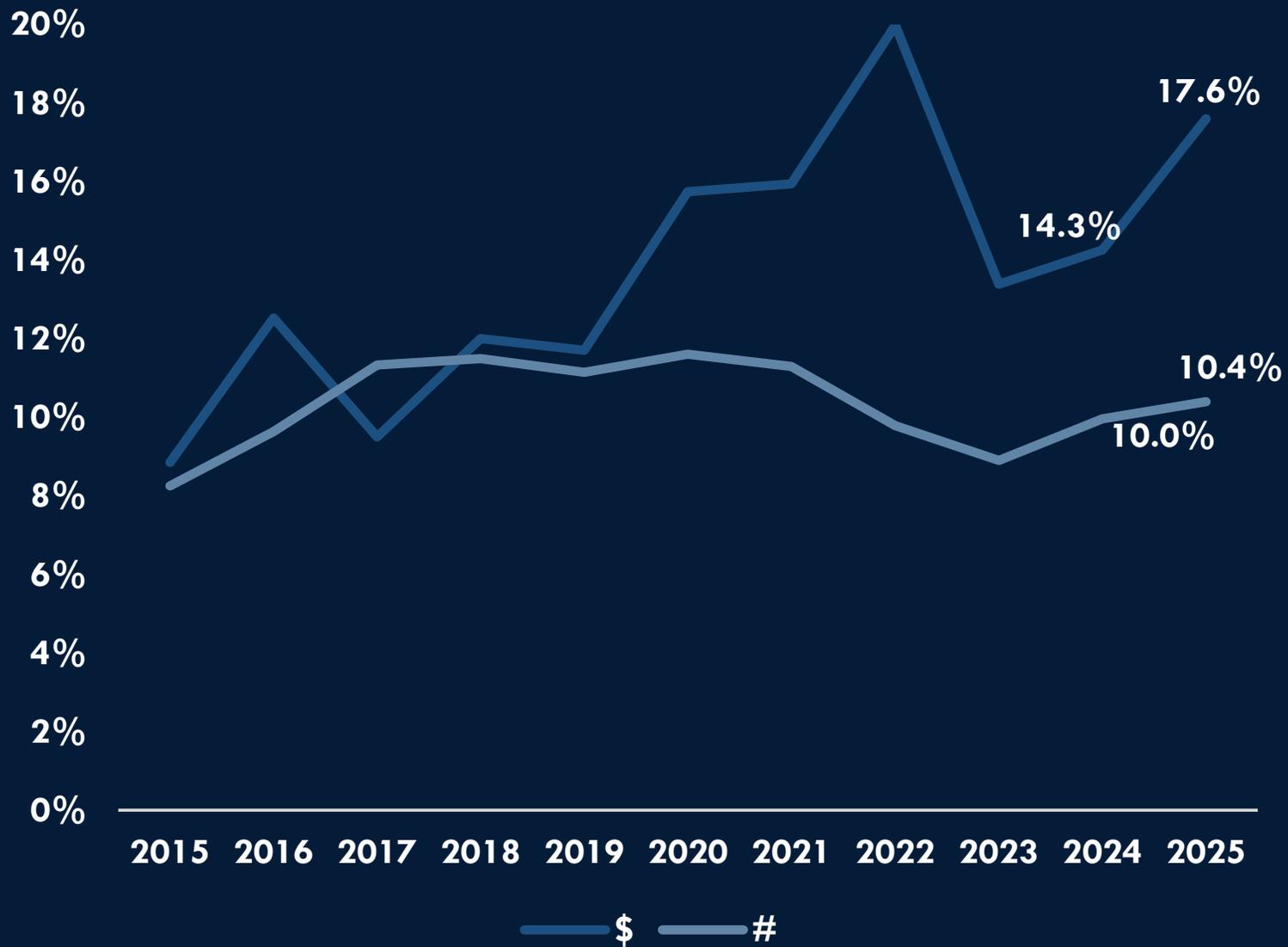
Technology-focused PE and PE Fund Performance



**IT PE
outperformed
>500 bps
since 2010**



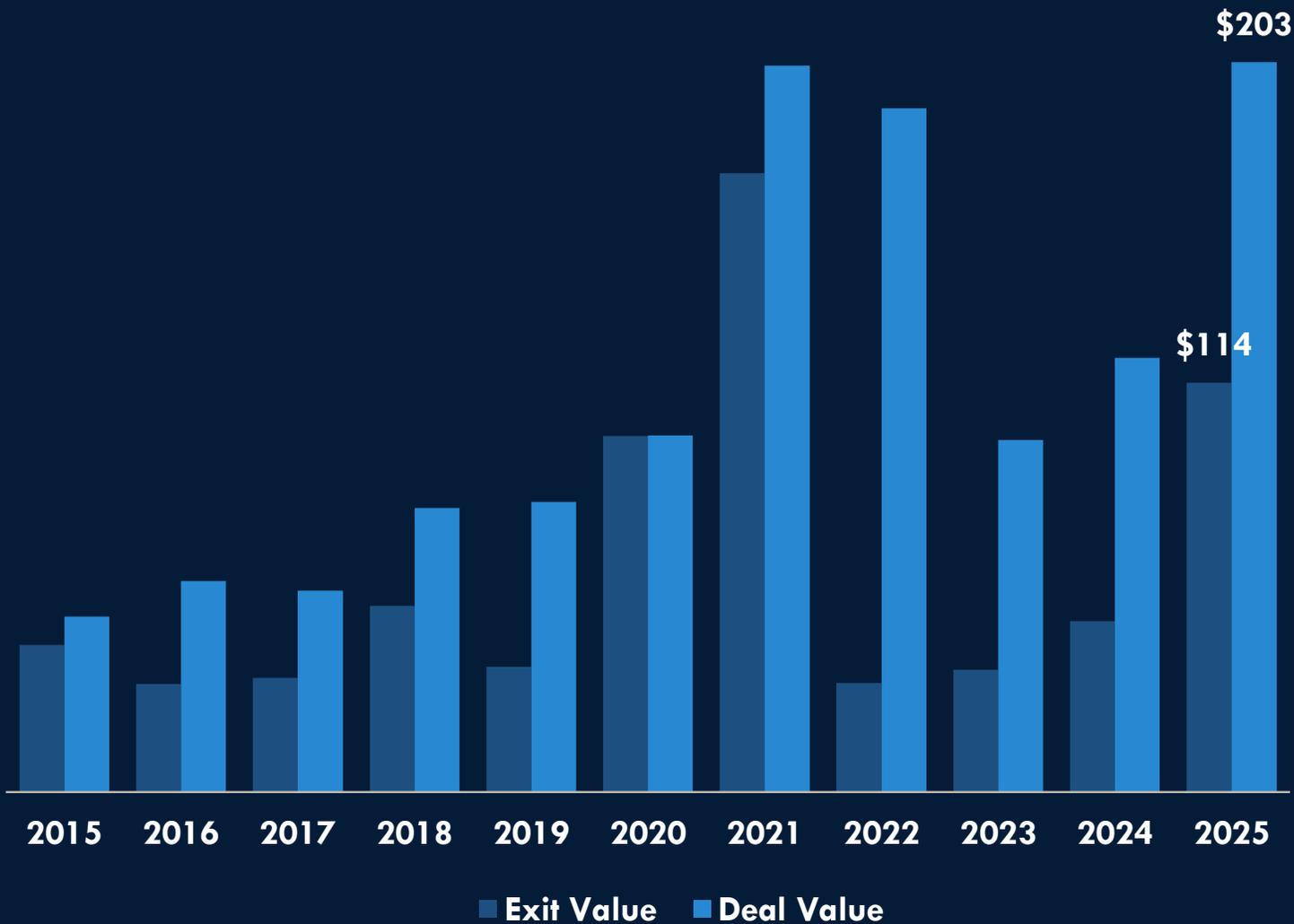
Deals: Record PE investment into software sector in 2025



Software mix elevated vs. all PE deals in 2025



**Exits: PE
Software
exit value
doubled
YoY in 2025**



**PE Software
exit value
was half of
investment
value 2020-
2025**



**Fundraising:
2025 was a
strong year
for IT
focused GPs**

Poll: Can PE “earn through” this software dislocation?

A

There will be enough winners in software, expect high single digits or better PE performance in 2026

B

Expect modest write downs for software holdings, mid single digit performance in 2026

C

Expect significant write downs in software holdings, low single digit performance in 2026

D

PE will post severe write-downs, and expect a down year in 2026



Credit Perspective

Software accounts for largest share of syndicated loan market

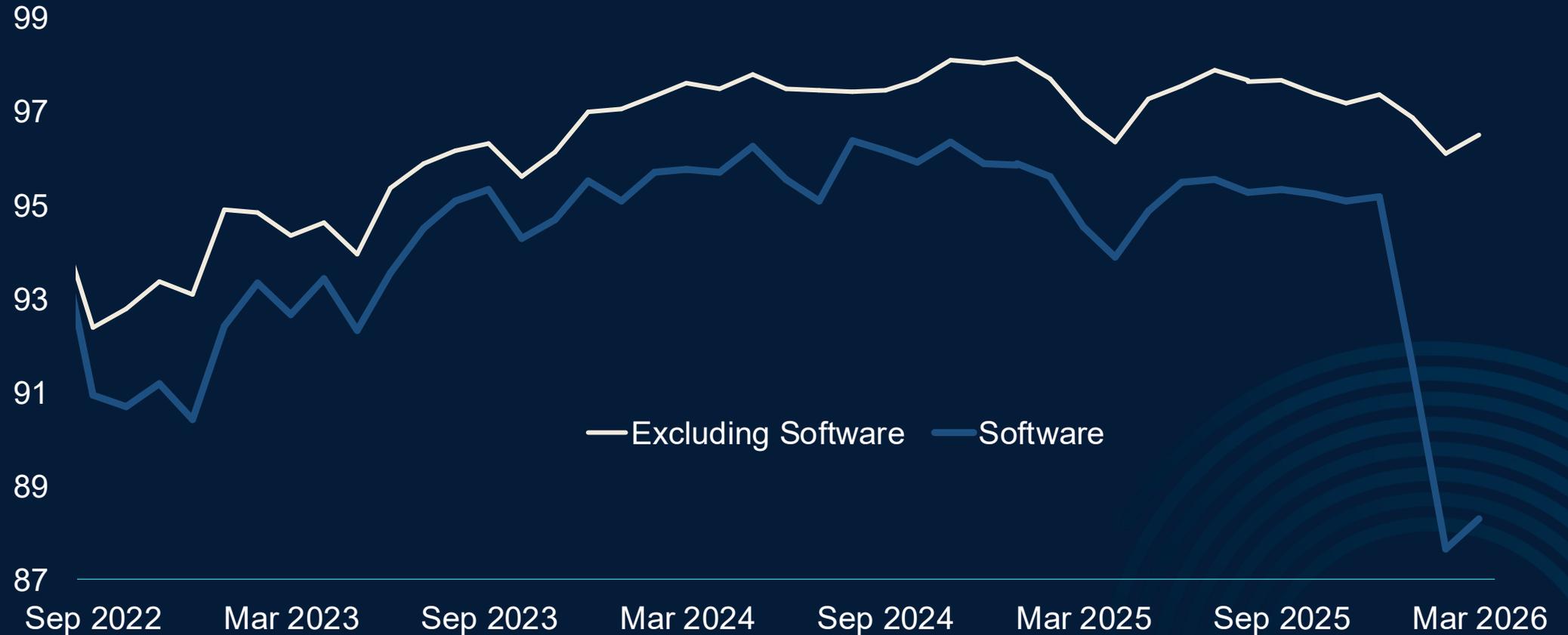
Broadly syndicated loan market: top 10 sectors



Source: PitchBook | LCD; Morningstar LSTA US Leveraged Loan Index • Data through Feb. 28, 2026

Fall in software bids materially impacts overall loan pricing

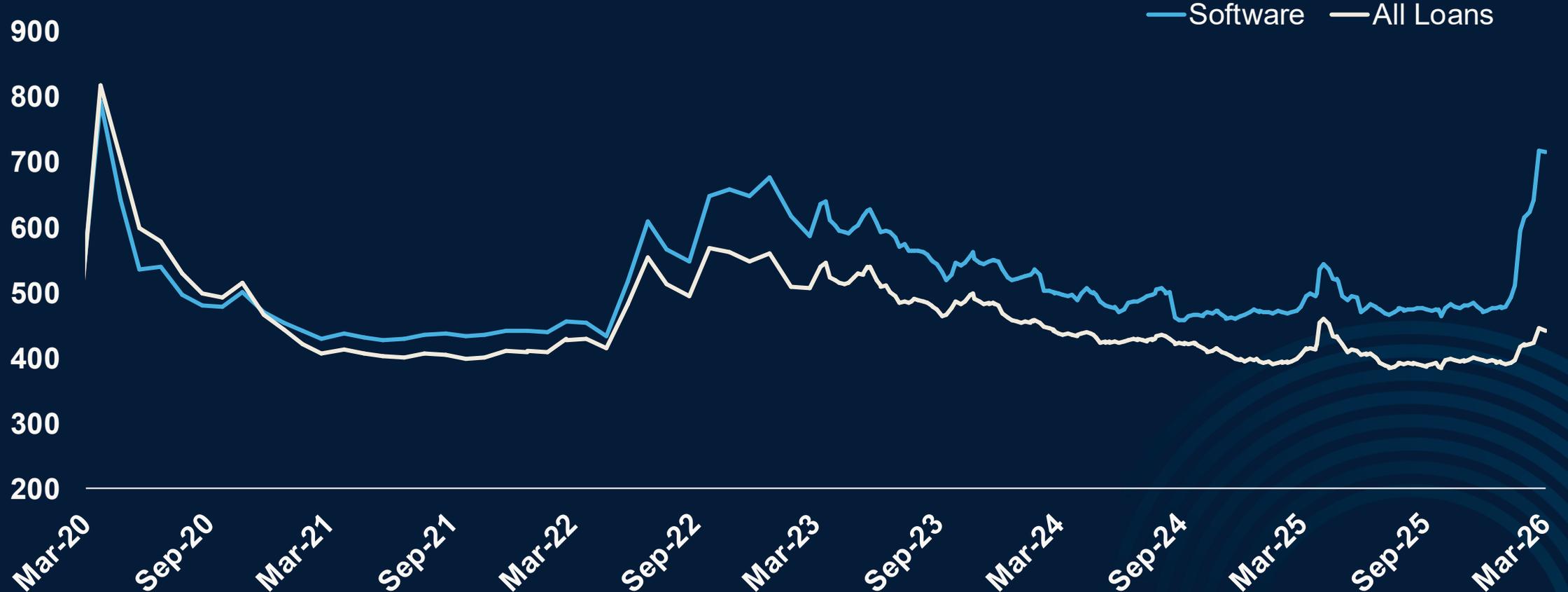
Weighted average bid price of performing loans



Sources: PitchBook | LCD; Morningstar LSTA US Leveraged Loan Index • Data through March 10, 2026

Software spread widens to the post-pandemic era peak

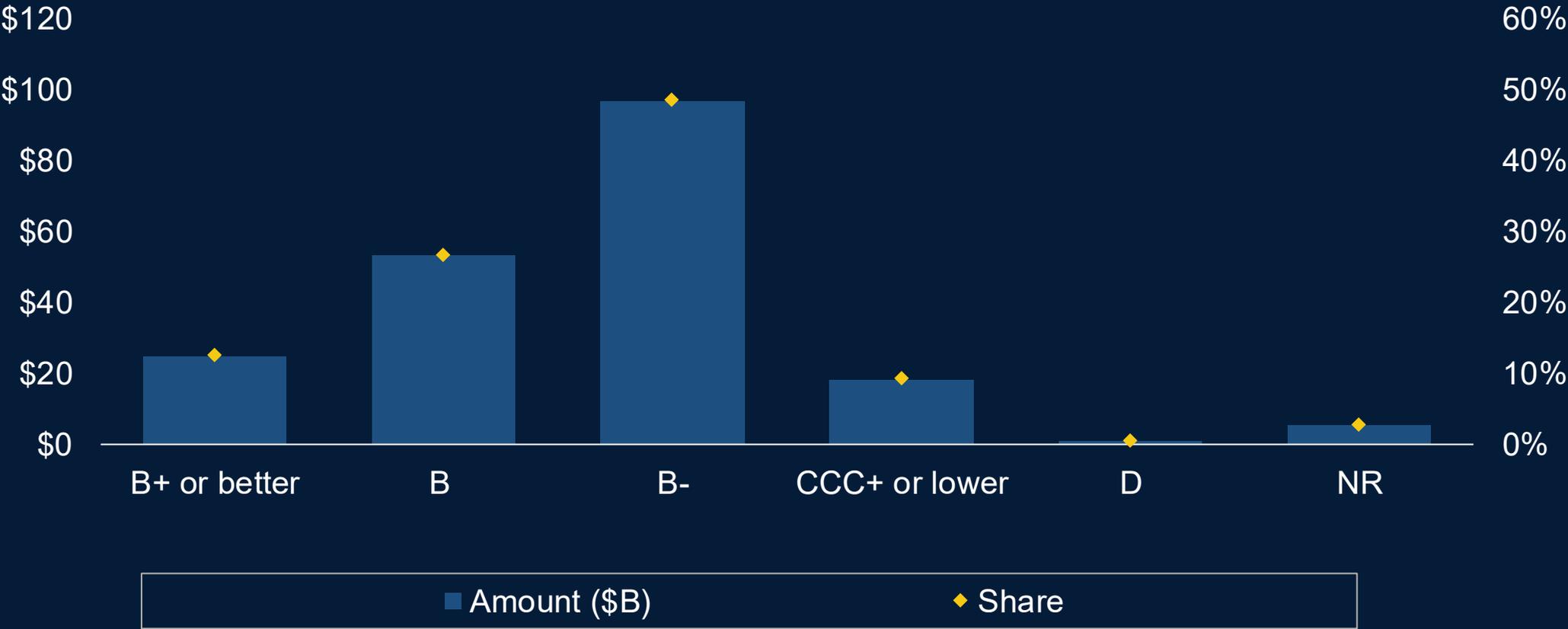
Weighted average discounted spread-to-maturity (bps)



Sources: PitchBook | LCD; Morningstar LSTA US Leveraged Loan Index • Data through March 10, 2026

Credit quality in software is concentrated in B-minus and below

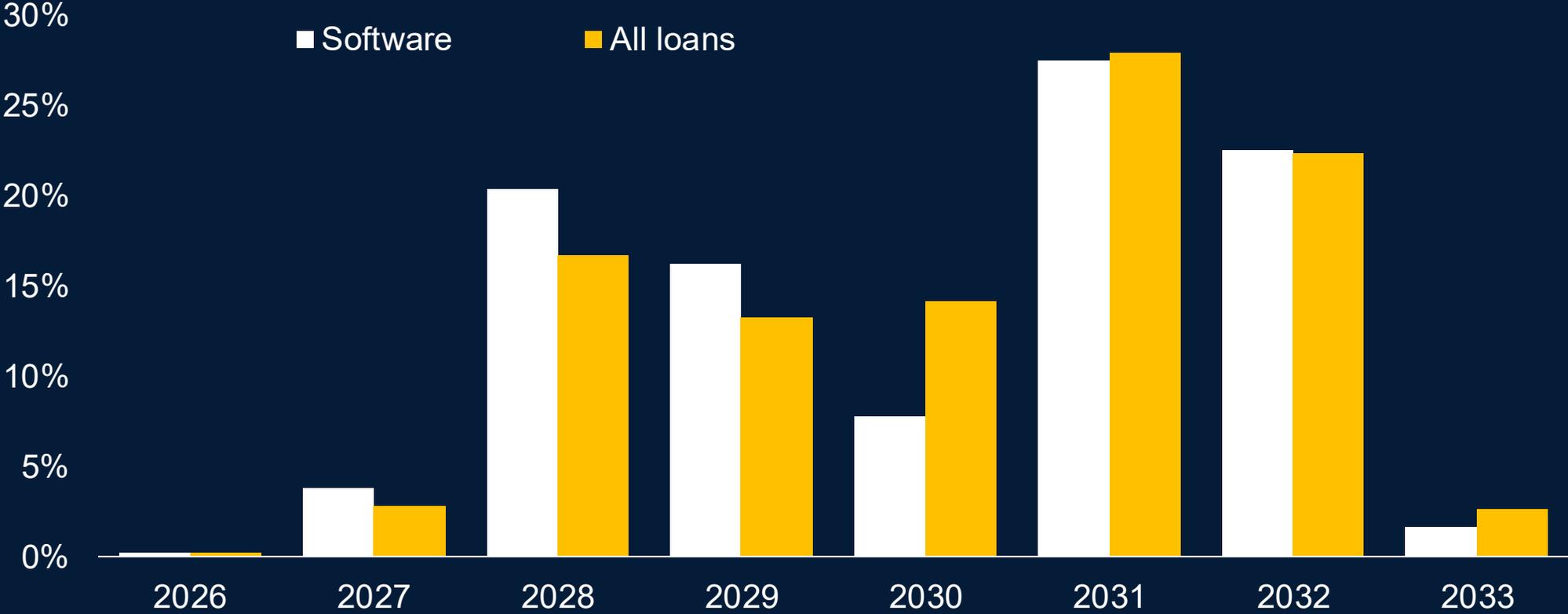
Software outstanding loans by borrower rating



Sources: PitchBook | LCD; Morningstar LSTA US Leveraged Loan Index • Data through Feb. 28, 2026

Software loans exhibit higher near-term refinancing pressure

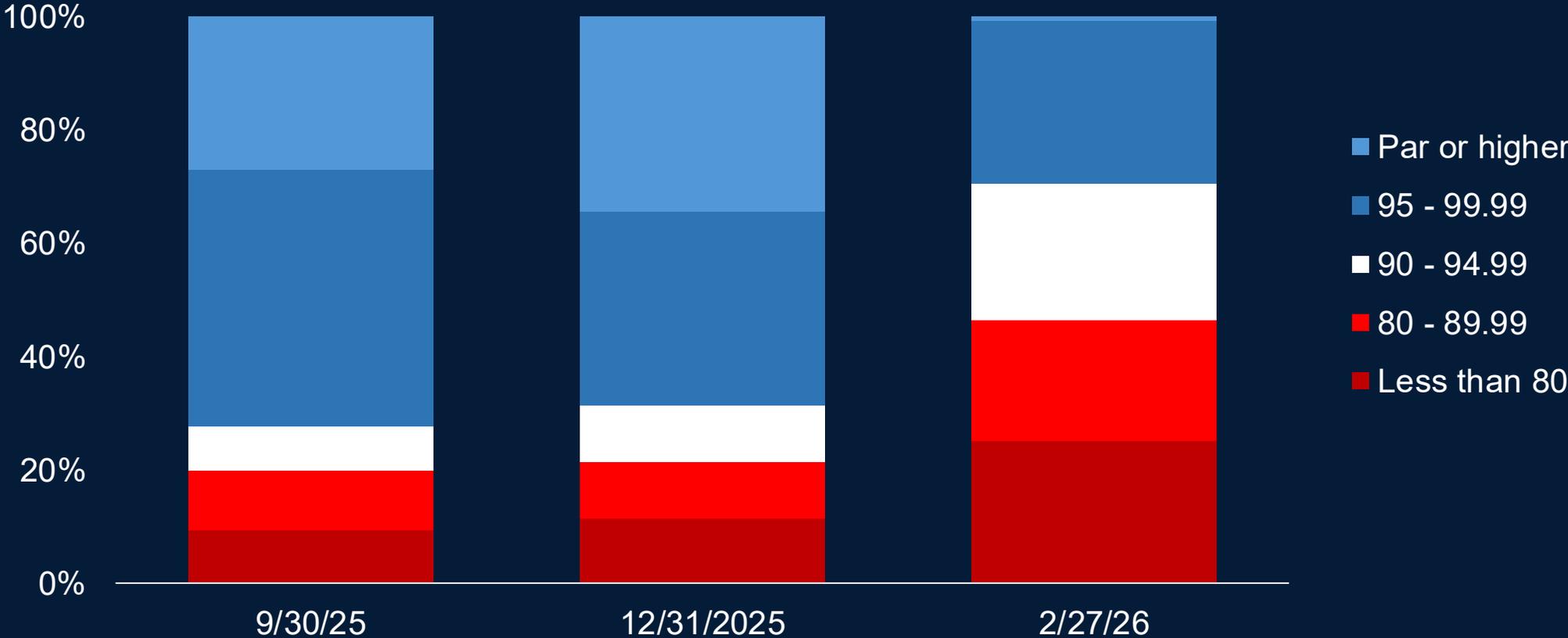
US leveraged loan maturity wall by share



Sources: PitchBook | LCD; Morningstar LSTA US Leveraged Loan Index • Data through Feb. 28, 2026

Demand for software loans deteriorates rapidly ...

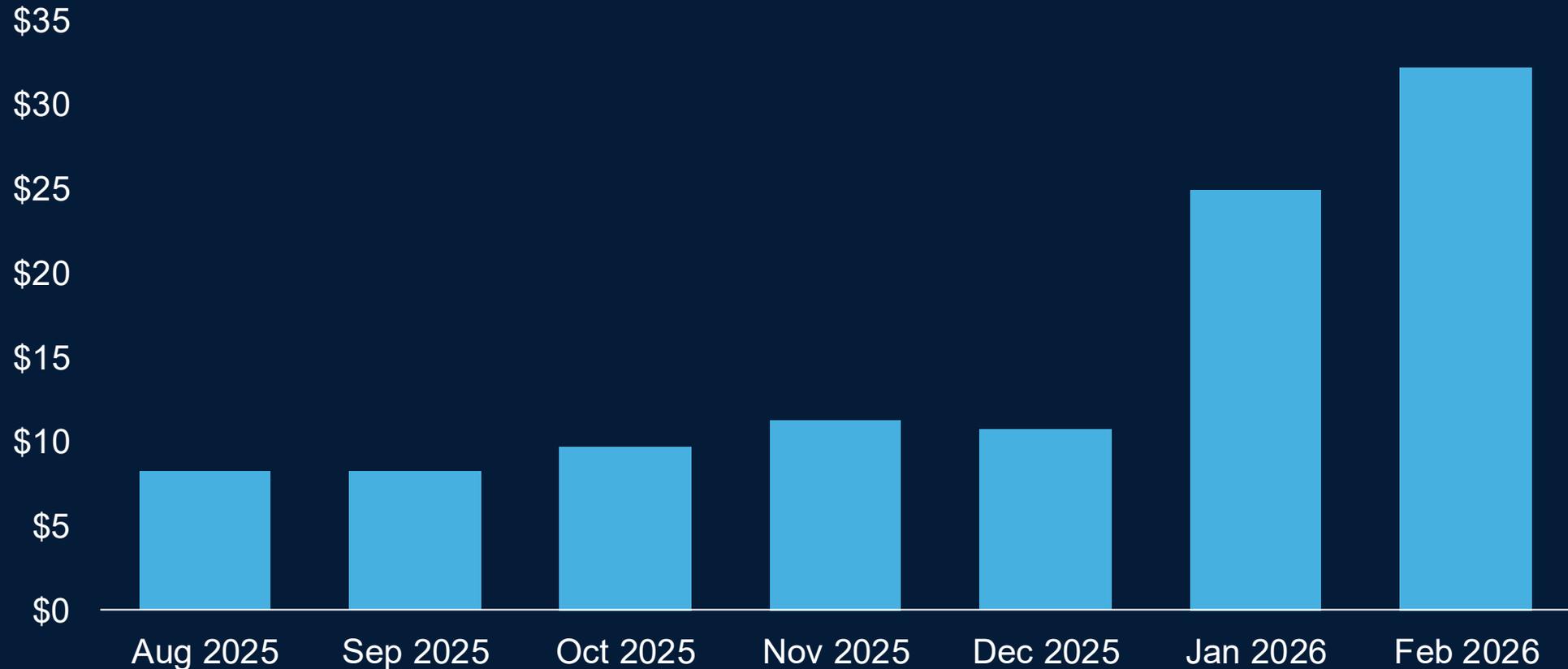
Software loans bid price range



Source: PitchBook | LCD • Data through Feb. 28, 2026

... As volume of loans at distressed levels balloons to record highs

US distressed software loan volume (\$B)



Sources: PitchBook | LCD; Morningstar LSTA US Leveraged Loan Index • Data through Feb. 28, 2026

Poll: In your view, what share of 2026 leveraged loan defaults (including LMEs) will be concentrated in Software & IT Services?

A

Less than 15%

B

15% - 20%

C

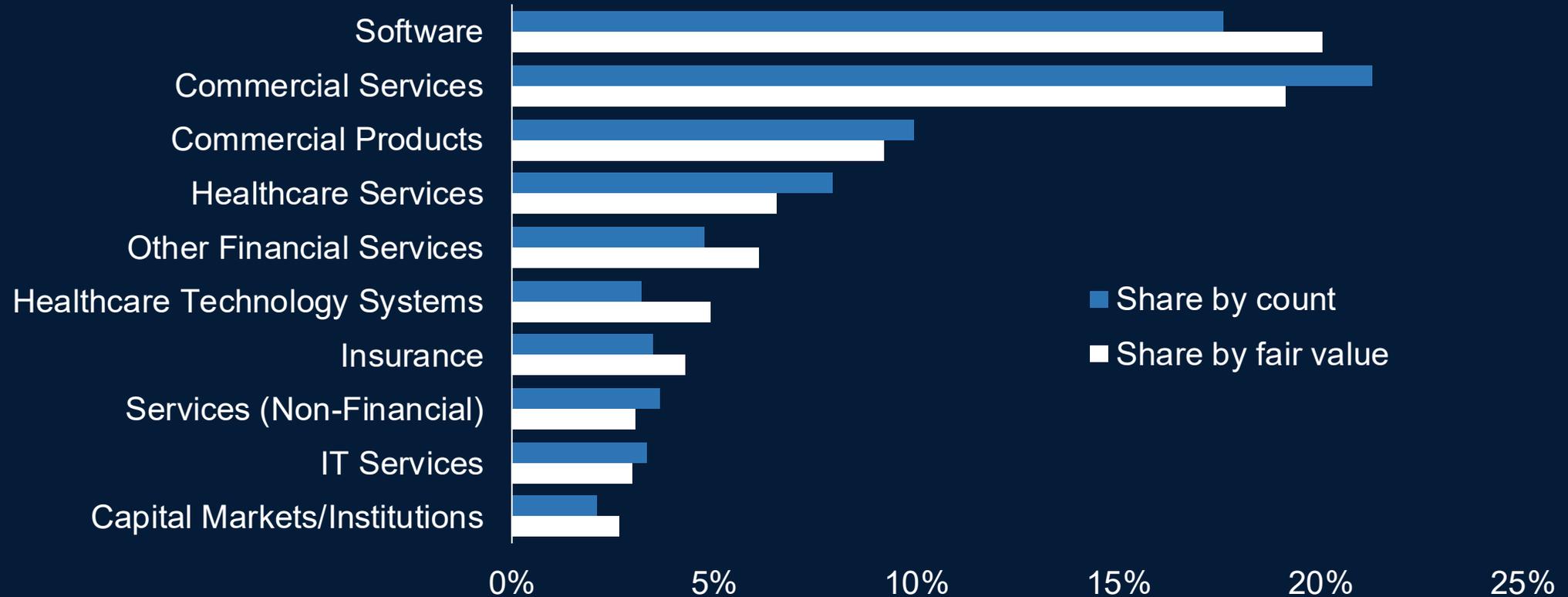
20% - 25%

D

More than 25%

Direct lenders have significant exposure to software

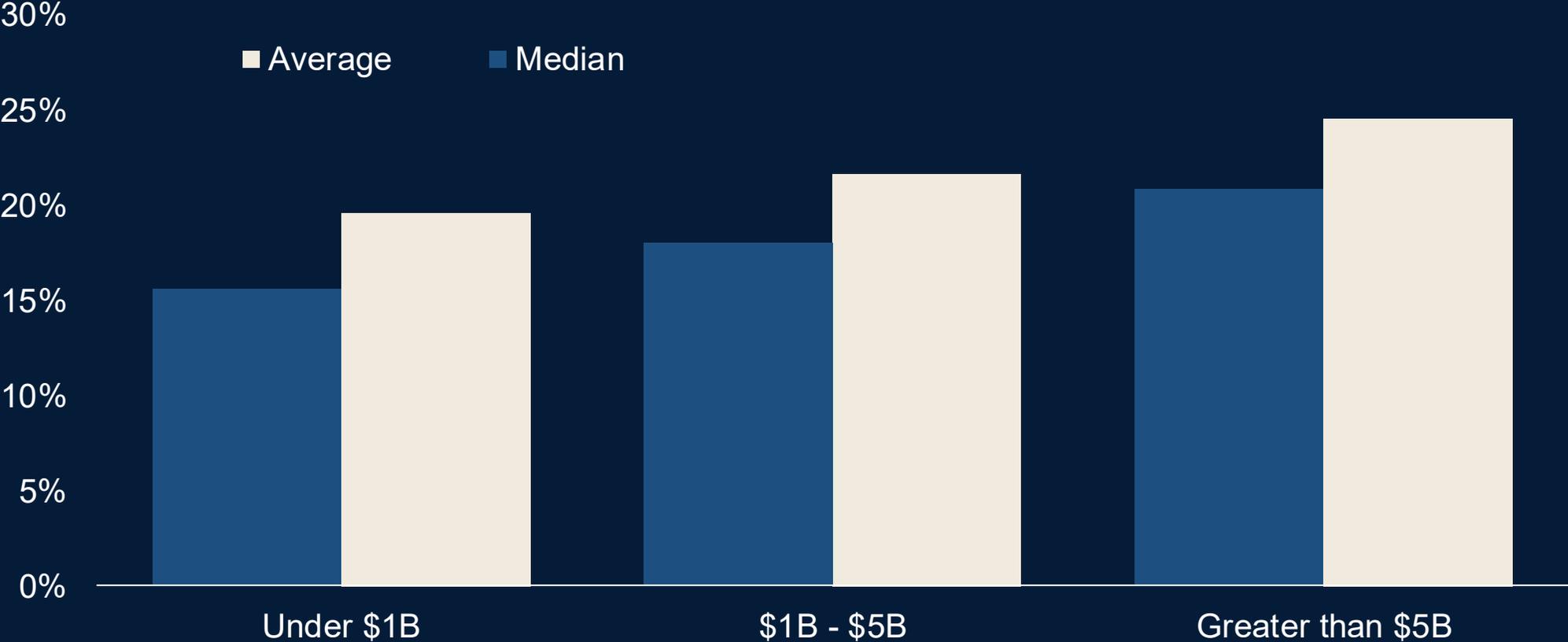
BDC holdings: top 10 sectors (%)



Source: PitchBook | LCD • Data through Sept. 30, 2025

Larger managers have higher exposure

Software & IT Services share of investments by BDC size



Source: PitchBook | LCD • Data through Sept. 30, 2025

When does AI-driven disruption translate into real credit risk for SaaS issuers?

Scenario 1: Slower Growth

- Fewer new customers; modest churn
- Revenue growth decelerates, but remains positive
- EBITDA growth slows; FCF remains positive

Credit View: Manageable

Leverage may drift higher, but liquidity and interest coverage remain intact.

Scenario 2: Revenue Decline

- Net revenue turns negative
- EBITDA contracts; margin pressure increases
- Cash flow weakens

Credit View: Material risk

Leverage rises, interest coverage compresses, covenant headroom tightens. Refinancing risk increases

Scenario 3: Rapid Displacement

- AI meaningfully replaces incumbent product
- Sharp revenue and EBITDA contraction
- Liquidity stress emerges

Credit View: High impairment risk

Covenant breaches, restructuring probability rises. Severity high, but likelihood lower



PitchBook
a Morningstar company