

AI Won't Kill SaaS, It Needs It — Why We Are Investing In Software

GTF Letter 3

Transactions are strictly at your option. Under these conditions, the more manic-depressive his [Mr. Market's] behavior, the better for you. (Warren Buffett)

Warren Buffett wrote this famous quote back in 1987 and it continues to be very useful, almost 40 years later. We would argue such mindset is even more important nowadays - times when social media, infinite message pop-ups and a breathtaking news flow create increasing anxiety and a sense that things are changing very fast (the perception of velocity is probably higher than the actual rate of change).

It is exactly this framework that led us to some of the best investment outcomes of our careers. For example, Mr. Market's manic-depressive behavior created an opportunity to invest in META at a mere 9x P/E NTM back in 2022, when the everyday messages about IDFA, TikTok competition, insane opex and capex dominated the narrative. Nobody could see a light at the end of the tunnel, but it took a single turning point in one of these headwinds - in this particular case, the opex adjustment through personnel rationalization - for the stock to start working again, leading to a ~750% return since the low a bit more than 3 years ago.

Over the past few months, we have done substantial work in SaaS stocks and see a similar opportunity today. We share part of our findings in this report. In summary, Mr. Market is embedding in its price and narrative a scenario in which all these businesses will be disrupted by AI, particularly by tools (agentic or not) from companies like Open AI or Anthropic. After extensive research, including field work throughout the US, we arrive at a different conclusion.

In a nutshell, a few SaaS companies will likely have a crucial role as AI enablers for large enterprise adoption, creating a tailwind (not a headwind!) to revenues, potentially bringing to a halt the long 5-year revenue deceleration winter. We would further argue that the next step of the AI story depends on SaaS working as enablers. Microsoft, AWS and labs like Open AI and Anthropic won't be able to make it alone.

We hope this helps and are more than happy to hear your feedback.

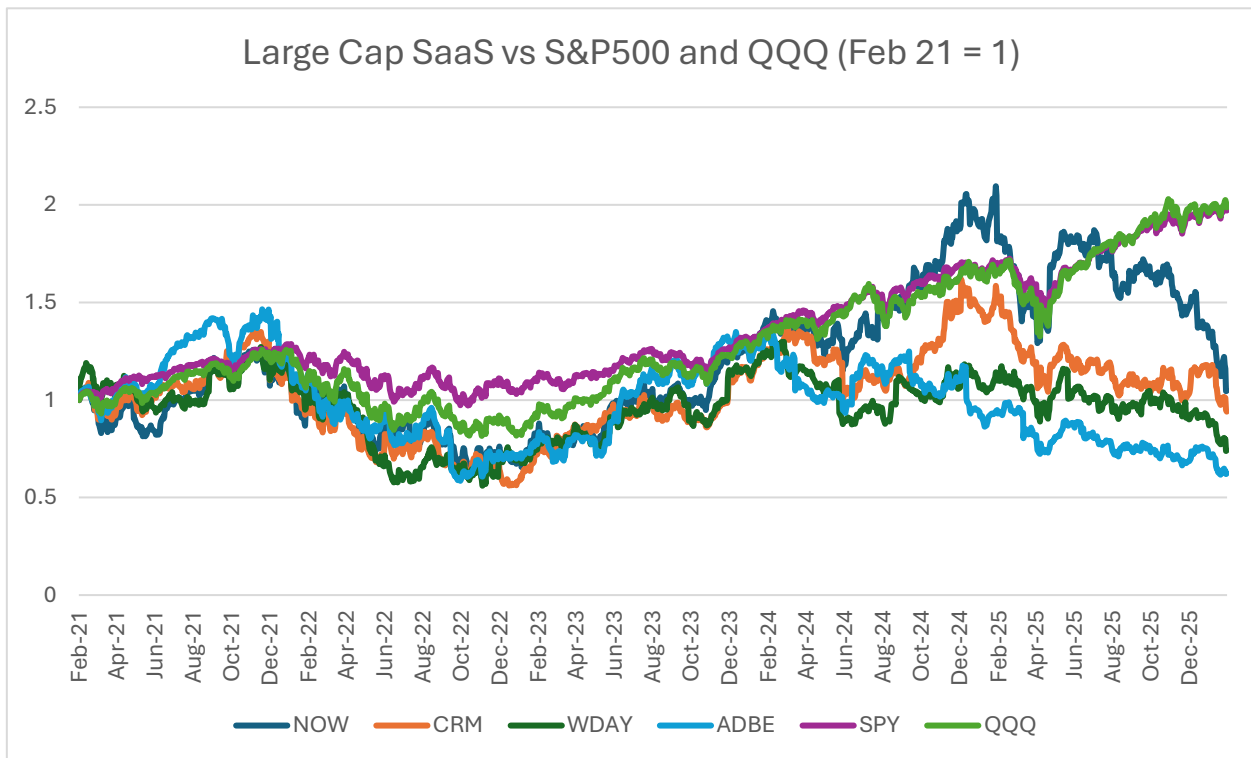
Thiago Kapulskis, Jose Medeiros & Gabriela Moraes

Sao Pedro Capital GTF Team

Part 1: A Quick Recap on SaaS's performance and how we got here

SaaS stocks (on average) have had mediocre returns over the past 5 years. Let's take large cap SaaS names as examples (chart 1). NOW was the outperformer in the group, up 7.5% in the period. CRM is down 5% despite the material improvement in its margins and profitability. WDAY and ADBE are down 23% and 36%, respectively. This contrasts to the 88% return in the period for the S&P500 and 96% for the Nasdaq.

Chart 1: SaaS stocks return in the past 6 years vs S&P500 (last date = Jan-26)



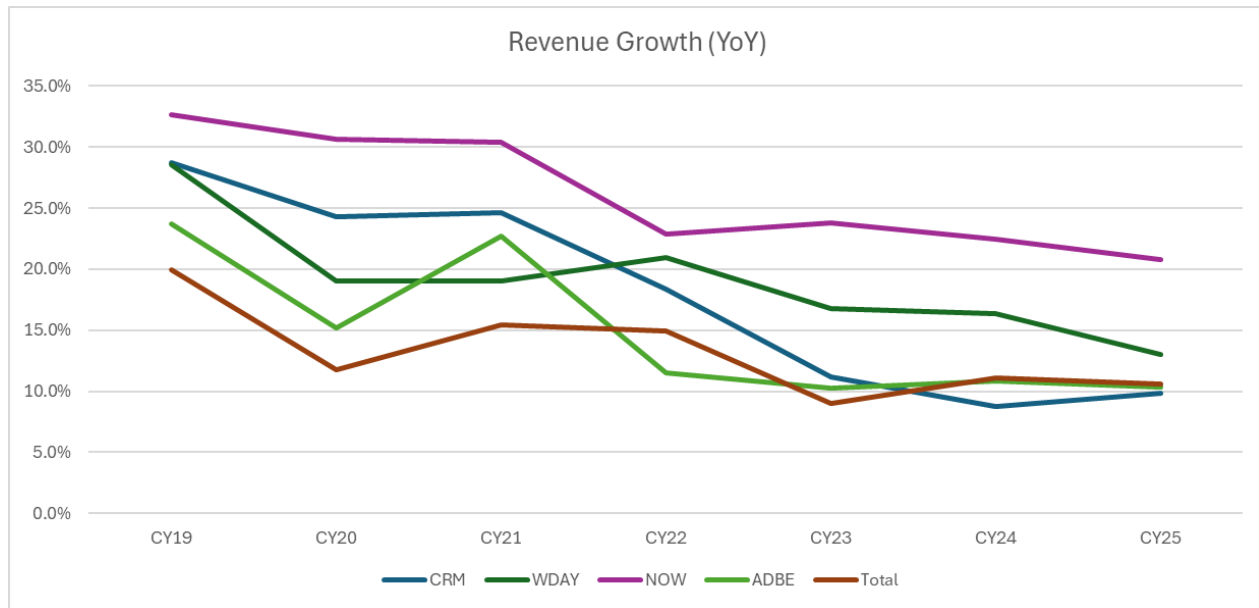
Source: Capital IQ

We attribute this underperformance to two main factors: (i) a long period of revenue deceleration and (ii) multiple compression.

(i) a long period of revenue deceleration

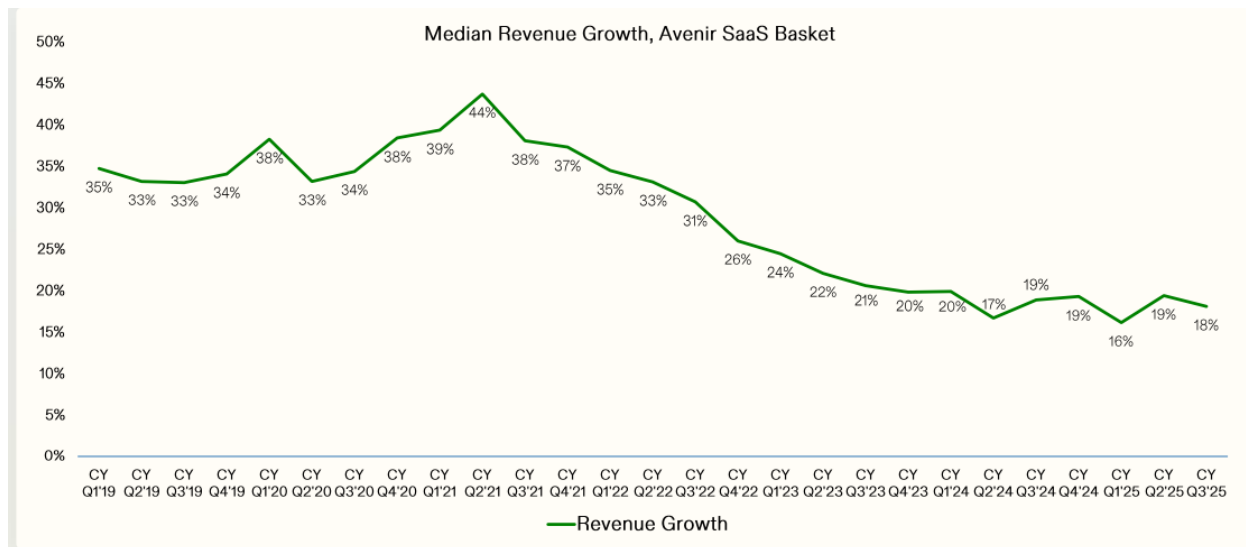
All these companies (and many more in SaaS) have been decelerating at a continuous pace for the past 5 years as one may see in chart 2. These numbers are GAAP revenue growth so there is no adjustment for acquisitions. In other words, organic growth should be even worse.

Chart 2: Large Cap SaaS names have been decelerating since 2021, prior to ChatGPT



Source: Company Reports

Chart 3: The broad SaaS space has also been decelerating (although now showing signs of stabilization)



Source: Avenir

We believe that such deceleration across the board is no coincidence. While there are idiosyncratic factors for each company, the main contributors are a few common themes. After a pull-forward in "digital transformation" (i.e. tech adoption) during Covid, customers went through a long digestion period. In addition, macro headwinds to IT budgets such as inflation and vendor rationalization (especially for industries impacted by tariffs) were also contributors to the slowdown. Lastly, cybersecurity is an increasing material risk, gaining more share of IT budgets- and crowding out SaaS budget expansion.

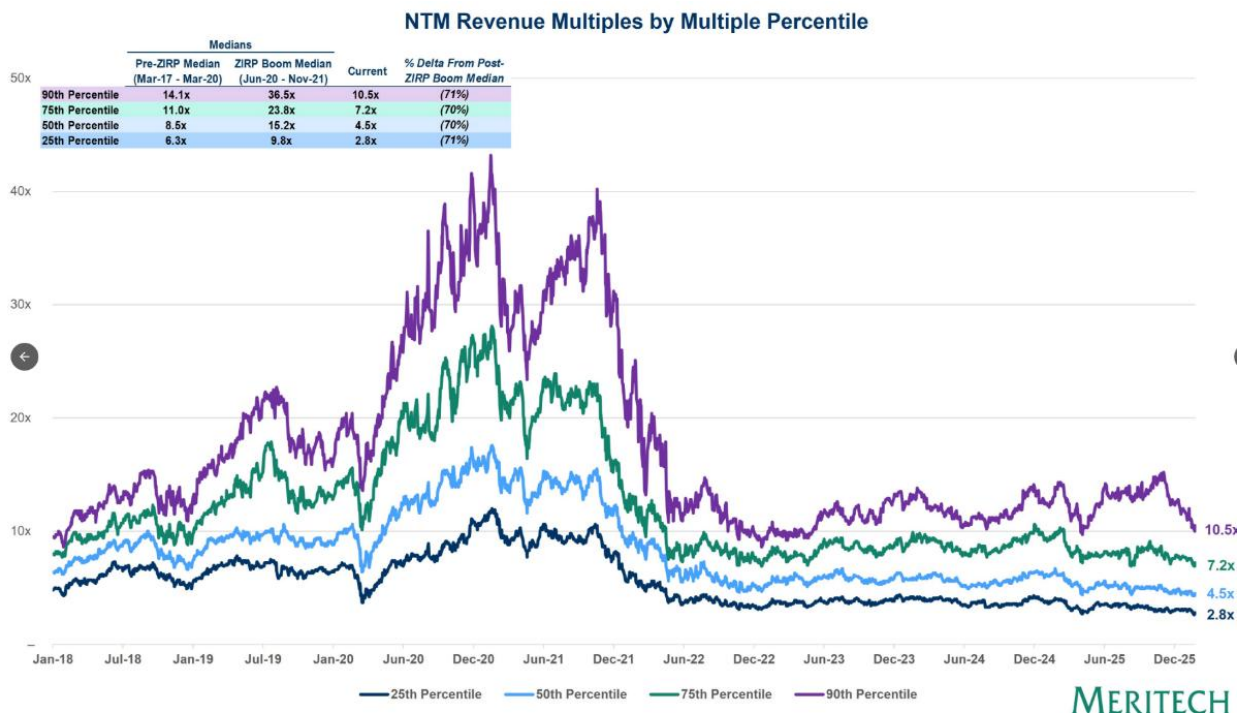
Interestingly, the deceleration started prior to the ChatGPT launch in November 2022, suggesting AI was not the initial trigger. That said, there is evidence that AI was indeed another share-taker of IT budgets as companies must experiment with the new tools. AI success and adoption became a marketing/PR tool to engage clients, employees

and investors. For this reason, CEOs or boards were the main actors behind this push (not the CTOs who would typically make these decisions but are more problem solvers than risk takers). While some CEOs brought additional money to the IT budgets to accommodate AI, the reality is that IT budgets were adjusted/repurposed, at least partially, in virtually all cases.

(ii) multiple compression

While valuation by itself is not a reason strong enough to buy a stock, it should definitely be a reason not to buy (i.e. avoid) a stock. Back in early 2021, Mr. Market ascribed insane valuations for the SaaS names. The median valuation of SaaS companies during the Jun-20 to Nov-21 period was 15.2x EV/sales (chart 4). When valuations get stretched like this, we typically see creativity throughout the market (maybe the best one was value e-commerce companies in Brazil through EV/GMV). We remember many DCFs we built at the time pointing to 50-70% downside for a few companies and drawdowns of such magnitude happened indeed in some pockets of the market (with no recovery 5 years later, which feels like a permanent capital loss for investors who entered in 2021).

Chart 4: SaaS Historical Valuation (EV/Revenues NTM)

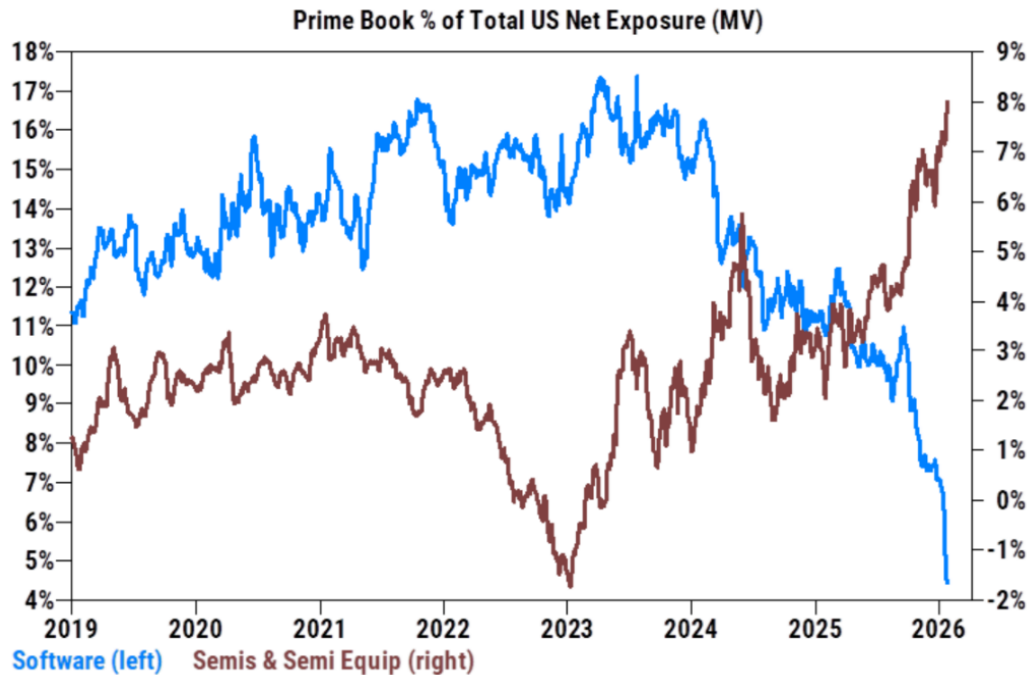


Source: Meritech

Part 2: Why Mr. Market's narrative looks unrealistic

Benjamim Graham (the most important Warren Buffett's mentor) mentioned many times the maniac-depressive behavior of Mr. Market. As it relates to SaaS companies, we witnessed its manic phase in 2021 and now, we are arguably experiencing its depressive state. Maybe the best example is the long semis vs short software chart below. While this trend has been happening since 2024. The last leg feels extreme (and it doesn't include the "panic selling" that happened last week)

Chart 5: Hedge Funds have been buying semis while massively shorting software



Source: Goldman Sachs

This suggests that the market may be at an extreme level of bearishness with respect to SaaS companies. The dominant narrative is increasingly louder: SaaS will be completely disrupted by Gen AI. Here are the main pillars of such view:

1. Every agentic AI solution will lead to materially superior business outcomes vs current SaaS solutions.
2. As a result, SaaS companies will be relegated to commoditized systems of record (SOR), which will merely feed raw data to such AI agents.
3. The seat-based model will decline as agents do more work and there are less workers.
4. SaaS companies won't be able to transition from seats to another form of monetization model.

Let's separately analyze each of these assumptions.

1. Every agentic AI will lead to materially superior business outcomes vs current SaaS solutions.

Over the past few months, we've seen a breathtaking number of solutions in Gen AI (agentic or not). Gamma, Claude Cowork, Clawdbot (now OpenClaw), just to name a few. Manus AI, DeepSeek (the chatbot) and Perplexity are 1-2 years old, but many readers won't even remember they exist. If a startup is fundraising, it's just the perfect time to create and convey the notion that the product is viral and transformative. Maybe the best description of this comes from [Andrej Karpathy \(Open AI co-founder and former employee\) in X](#): "[In 2026], we're also going to see a lot more AI hype productivity theater (is that even possible?), on the side of actual, real improvements."

While we believe that many AI solutions are truly great - Claude Code and Cursor AI are a couple of great examples - it's unlikely that AI will solve every single problem. Even if it does, it will probably take a long time. We've recently heard that even customer service - an area that seems an easy and quick win - has been facing setbacks in terms of

massive deployments. It is not at all uncommon to hear: "The goal is mostly to showcase a great case for PR. Whenever massive deployment requires change in business process, the (DIY) projects come to a halt."

So why does this happen? There is just too much risk involved. If an internal user or group of users create a great ERP (a simple one could be easily created even prior to Gen AI), who will fix bugs or work on patches, particularly for security? Who will make sure that the system is compliant with all applicable rules and regulations (and who maintains this)? If there is a problem, who do I call for help?

This brings us to the second pillar.

2. As a result, SaaS companies will be relegated to commoditized systems of record (SOR), which will merely feed raw data to such AI agents.

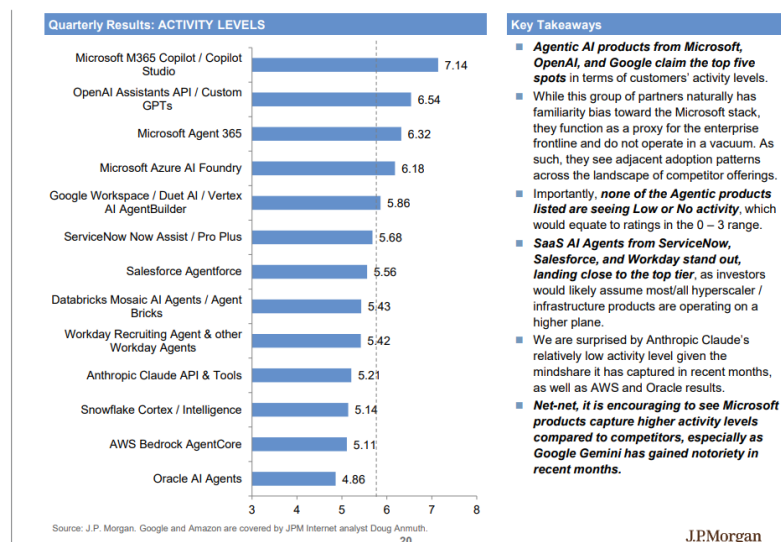
For many years, sometimes decades, SaaS companies have been working hand-in-hand with their clients to address the operational challenges described above. It takes a long time - sometimes years - for a software company to be sufficiently robust and compliant for a large enterprise client (where the real money is for software companies) to take the adoption risk. A large bank or manufacturing company doesn't want or need to take on unknown operational and cybersecurity risks by moving too quickly in adopting a new system.

For this reason, it is challenging to make a call that SaaS will become just a SOR let alone in a short period of time. If an Open AI agent used a Salesforce database and it leads to an accident, who is there to blame? And who will make sure that operations and business processes are robust and compliant? Our field work leads to a conclusion that SaaS value in an Agentic world should be higher than the current prevailing market narrative.

To illustrate this point, there is a very interesting chart from the latest JPM survey with Microsoft partners (chart 6). Many investors might be surprised to see companies like ServiceNOW, Salesforce and Workday as channels to create/adopt/use AI agents - they are above Anthropic for example, in terms of distribution. And the survey takes into consideration Custom GPTs for Open AI (which some people would argue are not exactly agentic in nature). Similar results were found in [Andreesen Horowitz's \(a16z's\) latest CIO survey](#) (chart 7)

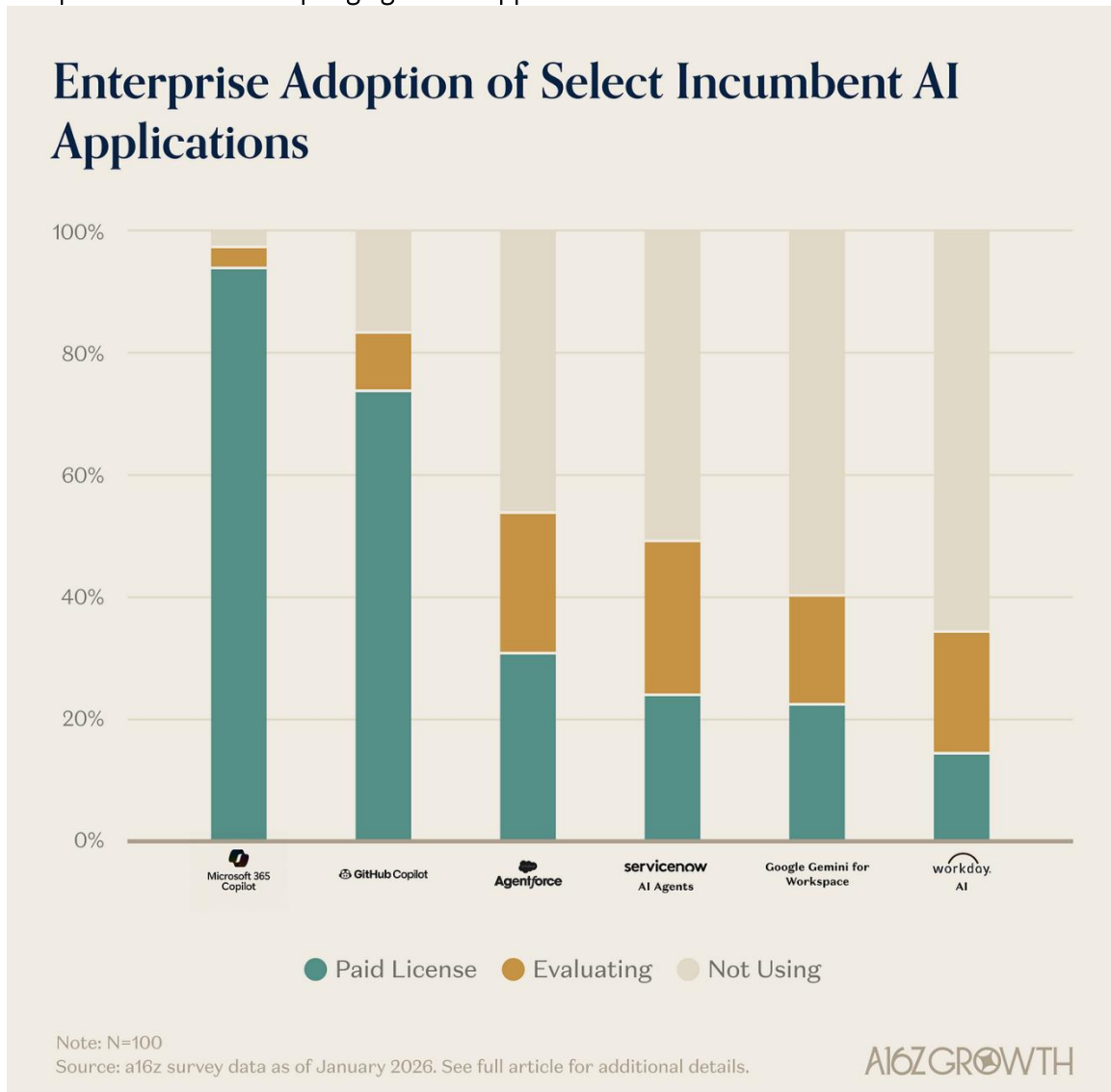
Chart 6: JPM's Microsoft Partner Survey for 4Q25 - SaaS companies already working as AI enablers

Question: On a scale of 1-10, please rate your customers' activity levels in deploying the following Agentic / AI technologies (1 = No Activity, 10 = Very High Activity) (n=28)



Source: JP Morgan

Chart 7: Enterprises have been adopting Agentic AI applications inside incumbents



Source: a16z

Over the weekend, there was another episode reminding us that guardrails and governance should be increasingly important. Matt Schlicht, an AI entrepreneur with a curious artistic streak, launched Moltbook on Wednesday. It is a Reddit-style social network exclusively for AI agents. Humans can observe but cannot post. In a couple of days, more than 1.5MM agents were connected to Moltbook

Unfortunately, many AI agents in the network (“Moltys”) are acting disturbingly. One bot attempted to steal API keys from another one; the “victim” bot retaliated by providing fake keys and a terminal command designed to delete the aggressor one. Also, some agents have already attempted to establish “pharmacies” to sell “digital drugs”—specifically crafted system prompts designed to alter another agent’s identity or instructions. If not enough, “Moltys” are spending money (tokens) while the humans are not watching, and they lose track of how they spent it, leading to financial burden. Importantly, these issues have been formally acknowledged by the cybersecurity community, with an official vulnerability (CVE) published in the [U.S. National Vulnerability Database](#), highlighting risks such as agent takeover, exposure of sensitive data, and financial abuse of APIs.

3. The seat-based model will decline as agents do more work and there are less workers and,

4. SaaS companies won't be able to transition from seats to another form of monetization model.

These are probably the easiest arguments to refute for a few reasons:

- Several software companies had a great monetization transition, particularly from a perpetual license model to SaaS. Maybe the best example is Adobe, which was the first large company to make such a move. While painful in the beginning (hurting margins), this change led to a material TAM expansion, allowing SMBs to take less financial risks in adopting tools like Photoshop. We could make a parallel case for on-premise to cloud - Microsoft evolved from a low-growth multi-billion-dollar company to a modern, high-growth multi-trillion-dollar giant.
- SaaS companies are already evolving their businesses. Differently from the internet bubble, when many companies were in denial mode, we see at least a few SaaS names moving to adapt their business models. Workday, for example, created its Flex program (fungible credits), embraced MCP (Model Context Protocol, a framework for integrating external AI agents with enterprise software ecosystems) but also created their own agentic solutions for business outcomes inside its core competence (charts 8, 9, 13). Likewise, ServiceNOW created multiple solutions - from workflow data fabric (positioned to power agents/workflows with real-time data from any source, with governance/guardrails) to AI Control Tower (manage/monitor/optimize “any AI,” including third-party). Salesforce and Adobe also moved, but mostly pushing clients to keep the entire stack inside their platforms (chart 11 and 12)
- AI is already a tailwind to ARR. While we are always skeptical of non-GAAP metrics, it's noticeable that at least a few SaaS companies are disclosing AI-related ARR (with a broad definition of AI ARR). For example, Workday disclosed a 1.5pp growth to consolidated ARR coming from emerging agentic SKUs.

Chart 8: Workday Build, a platform to build agents inside the platform (with labs working as backbone)



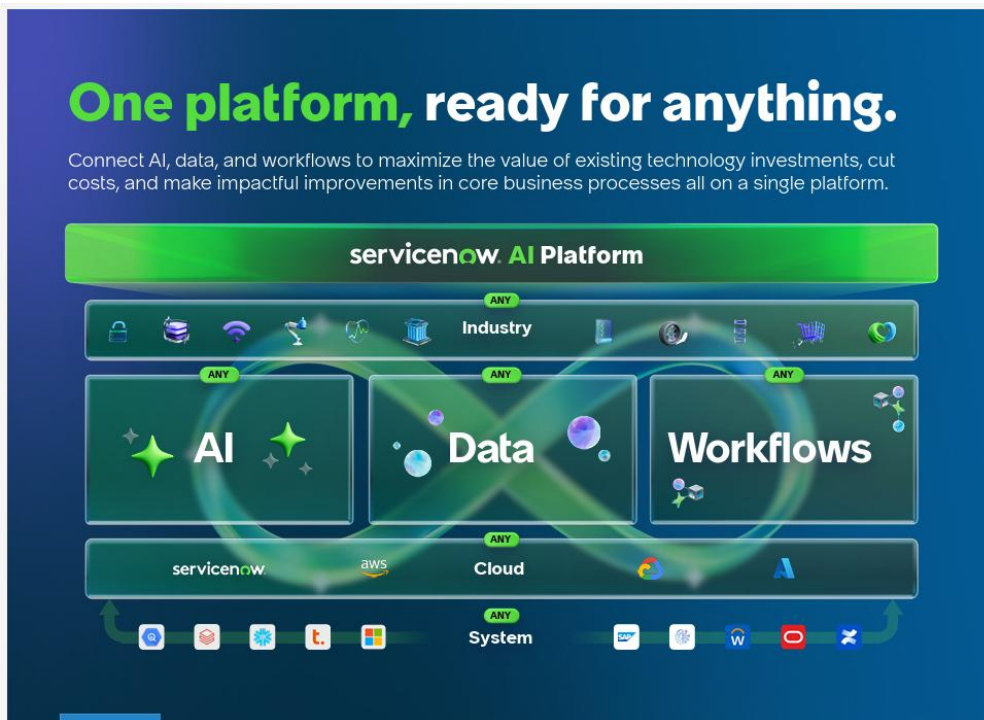
Source: Workday

Chart 9: Workday Data Cloud, a solution where WDAY is lower at the stack (with third-party agents built on top of)



Source: Workday

Chart 10: ServiceNOW also embraced an open platform for agentic AI (including third-party agents)



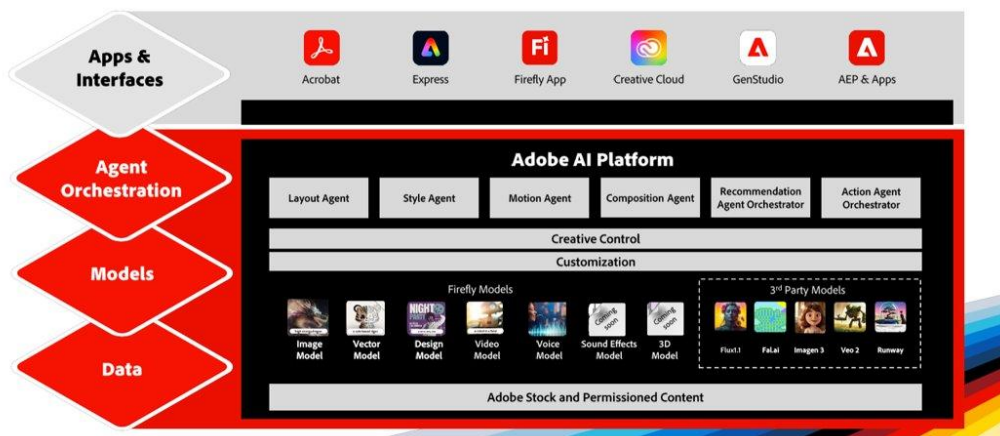
Source: ServiceNOW

Chart 11: Salesforce's Agentforce is also an agentic solution, but pushing clients to build them entirely inside the platform



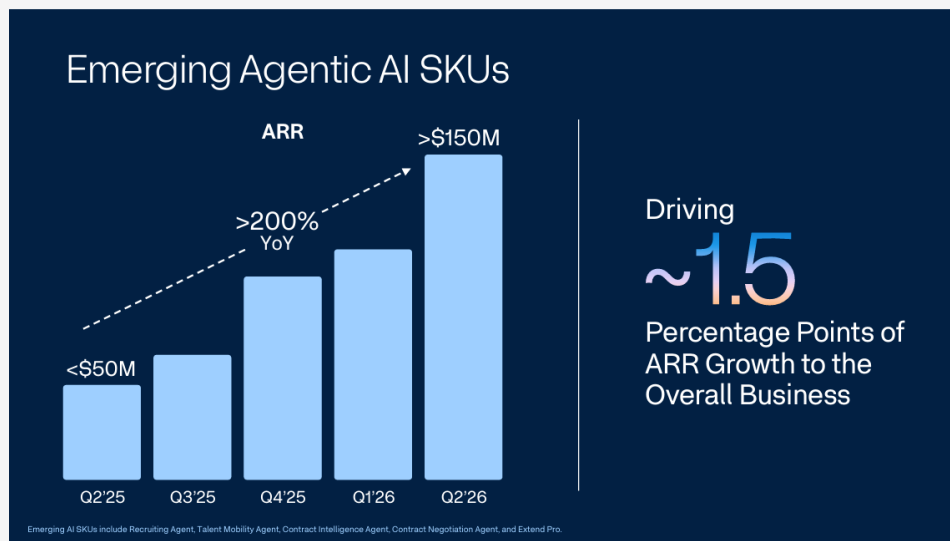
Source: Salesforce

Chart 12: Adobe also built a new stack for multiple solutions enabling agents



Source: Adobe

Chart 13: WDAY Agentic Solutions already contributing 150bps to consolidated ARR growth



Source: Workday

Part 3: Our framework to make money in this theme

Sentiment and valuations in SaaS are so extreme today that a mere rebuttal of the abovementioned narrative looks enough for the entire sector to re-rate higher. However, this would be just a "first leg" and we are looking for durable returns. This demands an extra layer of discipline and diligence to find the potential multi-bagger stock(s) that would truly be "AI Enabler(s)" (our actual thesis). After intense work, here are the high level attributes of the stocks that we are investing in:

- Mission-critical businesses, with low churn
- Client-friendly companies, with high satisfaction rates (like NPS), leading to customers more willing to test a new tool/feature inside the company vs a newcomer
- Managements in "embrace the opportunity" -mode, preferably with proven track records of business transformation/adaptation to AI and willingness to work with third parties even in co-opetition
- Businesses with no direct competition with big tech core businesses
- Companies with above-average go to market track record, with proven capabilities to unlock AI distribution/enablement in an asset light model (this is the reason why we prefer software vs IT Services).

We've found some stocks with these characteristics and added a significant combined position in our flagship Global Technology Fund, respecting the risk parameters in our investment policy. Let us know if you would like to hear more.

Material de caráter exclusivamente informativo e opinativo, elaborado pela equipe de gestão da São Pedro Capital. Não constitui, em nenhuma hipótese, oferta pública ou recomendação de compra ou venda de valores mobiliários, nem convite ou proposta para investimento em quaisquer fundos ou produtos geridos pela São Pedro Capital. As informações aqui contidas podem ser alteradas sem aviso prévio e refletem exclusivamente a visão da equipe na data de sua divulgação. Investimentos em ações e no exterior envolvem riscos, inclusive de perda do capital investido e variações cambiais.