



Thinking Through the SaaS Opportunity

A framework for selecting the best-positioned companies.

Presented by:

Mayur Thaker, CFA

OpenAI, Anthropic, Google Gemini and xAI Are Threatening Software

- Large language models have become so advanced, they are able to execute both mundane/repetitive tasks and complex workflows. What once required hundreds of programmers and millions of hours of work is now being executed in less than a tenth of the time and labor.
- AI models are still only as good as the data they are trained on and the strength and thoroughness of user prompts
- However, agentic AI is the next wave, which replaces the need for humans to think and 'guide' the AI query – the software begins using logic independently beyond the original prompt to ultimately arrive at a final destination

Agentic AI Upstarts Will Threaten Legacy Software Industry In Two Ways

- AI upstarts using either frontier or advanced LLMs will build apps that provide highly capable alternatives at a lower price.
- Chief Information Officers (CIOs) at large and medium sized firms will give serious thought to developing in-house software to replace expensive subscriptions

Practical 3-Step Framework for Assessing Durability Within the SaaS Complex

Question	Quality 1	Quality 2	Quality 3
Is it irreplaceable?	Serves critical need; deeply embedded into workflows	High switching costs	Proprietary data
Is it AI capable?	AI improves product competitiveness	AI drives R&D productivity	Rising or stable operating margins
Does it have pricing power?	Recurring enterprise-wide license revenue	Fixed enterprise contract and/or variable by data usage, not by user	

Companies with the greatest durability will satisfy all three criteria.

Who in the SaaS space is at high risk, moderate risk, and low risk?




Microsoft





Highest Durability Software





Alphabet
Google


Company	Business Model	Irreplaceability	AI Capable	Pricing Power
	Cybersecurity via next-gen firewalls, cloud security, security analytics	Critical need, high switching cost	Cortex Copilot is an AI-driven capability	Moderate/high as PANW will defend itself with AI as a premium offering


Company	Business Model	Irreplaceability	AI Capable	Pricing Power
	Cybersecurity: AI-native endpoint protection	Critical need, high switching cost, massive data moat & network effects	AI/Machine learning is a core value proposition of Falcon endpoint security	Pricing at enterprise level; agentic AI is actually a demand lever

Company	Business Model	Irreplaceability	AI Capable	Pricing Power
	Cybersecurity: network gateways, firewalls, cloud security	Critical need, high switching cost	AI integration into cloud firewalls	Pricing more reliant on throughput; per seat less so

Company	Business Model	Irreplaceability	AI Capable	Pricing Power
	Cloud data storage & management	Major system of record, high switching cost and workflow integration	AI agents will sit on top of and rely on Snowflake, not replace.	Enterprise-wide + throughput pricing

Company	Business Model	Irreplaceability	AI Capable	Pricing Power
	IT helpdesk, customer service management, HR case management	Major system of record, high switching cost and workflow integration	ServiceNow was literally built on automation, and AI agents will only assist that further	Individual seat license revenue is significant; but this is slowly changing to throughput

Company	Business Model	Irreplaceability	AI Capable	Pricing Power
	<p>Cloud platform for regulated content, data, compliance workflows for pharma. Run clinical trials, manage regulatory submissions.</p>	<p>Wide moat system of record for highly regulated pharma, proprietary data, very high switching costs</p>	<p>Veeva AI launched in 2025 for shortcuts across every Vault function, now has 125+ clients using</p>	<p>Individual seat license revenue still significant; impact will be partially blunted by upselling clients with native AI agents</p>

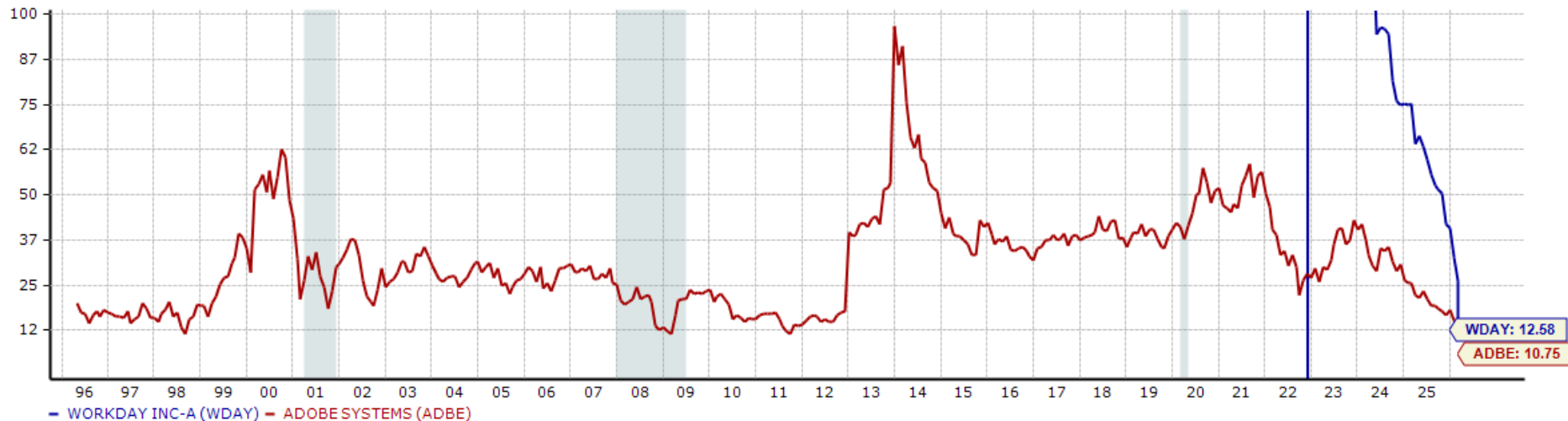
Company	Business Model	Irreplaceability	AI Capable	Pricing Power
	<p>Commercial property database & analytics for brokers, investors/REITs, and lenders.</p>	<p>Significant proprietary data analytics supplier, high switching costs, large network effects</p>	<p>Azure OpenAI, GPT-4 models built on top of their proprietary database</p>	<p>Per seat pricing dominates revenue model today, but this can be pivoted to fixed API access fees.</p>

Higher Risk Plays with Possibly Lucrative Returns



Both companies are priced for significant disruption to growth & margins at historically low P/Es, but if they can hold off the AI threat, the upside is significant.

P/E - F12M
 WORKDAY INC-A (WDAY) vs. ADOBE SYSTEMS (ADBE)



Title	High	Low	Median	Current	Start Date	End Date
WORKDAY INC-A (WDAY)	233,045.00	-10,397.30	94.53	12.58	11-30-2012	03-02-2026
ADOBE SYSTEMS (ADBE)	96.77	10.75	29.69	10.75	04-30-1996	03-02-2026

Workday – The Investment Thesis

Workday is the system of record for HR/payroll and corporate finance, selling multi-year subscriptions that sit at the core of customers' people and financial operations. It's also a workflow service for processes like hiring, performance reviews, payroll, budgeting/forecasting.

Switching costs are also significant – large implementations can take months to migrate data and redesign processes.

Workday is exposed to AI-driven seat compression, but its deep process and data embedment, plus the ability to pivot toward AI- and outcome-linked pricing, likely allow it to preserve a significant degree of pricing power—though with more scrutiny on ROI and potentially slower like-for-like ARPU growth in a fully agentic scenario.

At just 12x forward P/E, the implied EPS growth rate is just 1-3% over the next decade (vs management guidance of +13% for FY 2027). This is highly unlikely, in my view.

Adobe – The Investment Thesis

Creative Cloud: Photoshop, Illustrator, Premiere Pro, After Effects, Express, etc., for visual, video, and design work.

Document Cloud: Acrobat and PDF services for creating, editing, e-signing, and automating document workflows.

Experience Cloud: Marketing, analytics, personalization, and customer data platform tools for enterprises.

Firefly is Adobe's answer to generative AI competition and is integrated into Photoshop, Illustrator, Premiere, etc.

Pricing power has been challenged by AI upstarts, but this is largely priced in, in my view, at a forward P/E of just 10x.

This implies an EPS growth rate of just 1.5% over the next decade, vs management guidance of 9% for FY2026.

ADBE is priced for disruption. But if AI upstarts fail to derail Adobe's net income growth profile, or is much slower at doing so than feared, significant upside in shares is likely from today's levels.

866-794-6065

researchdesk@zackspro.com

www.zackspro.com



Zacks Professional Services



@ZATools