The AI SaaSpocalypse

Learning and opportunities for today and beyond

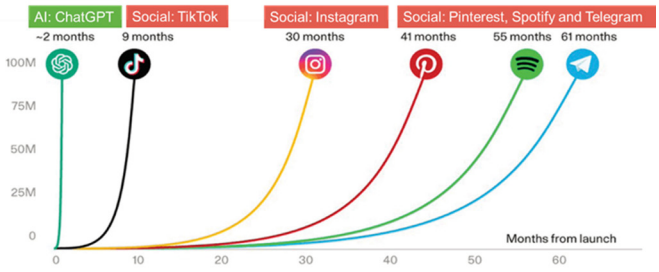
Chris Smith

Artificial intelligence (AI) is one of the biggest technological developments in history. Since 2025, the market has worried that AI will displace software-as-a-service (SaaS). Are leaders in SaaS such as Xero, TechnologyOne and WiseTech about to lose their competitive advantage? This paper examines reasons for these firms adopting and adapting to become AI winners, and why AI is showing opportunity across many sectors, including resources, energy, real estate and industrials.

AI and its partner, 'big data' are rapidly changing the world in almost every part of our lives. AI is working at so many levels and well beyond what we can see, changing the world as we know it and offering significant opportunity for investors who know where to look, and what for.

While large language models have been around for a decade, it could be argued that AI's true inflection point in the psyche of the general populace was the November 2022 launch of OpenAI's ChatGPT (Chat Generative Pre-trained Transformer), a large language model-based chatbot that has proved a watershed in the potential for AI to change the world. As an example of how quickly ChatGPT was adopted, while it took 55 months for Spotify to reach 100 million users, ChatGPT reached the same number of users in less than two months (see Figure 1).

Figure 1: The ever-faster growth to 100 million users



Source: Huang S & Grady P, 'Generative AI's act two', Sequoia, 20 September 2023

With the emergence of ChatGPT, it became widely apparent that computers were now 'smart' enough to help humans to solve problems without having to write code; instead, at the straightforward command of our voices and keyboards. But does this mean that code, which took years but can now be written in days with AI, is the end of technology companies as we know them and, importantly, the death knell for SaaS companies?

The recent market panic of early 2026 which some call the 'SaaSpocalypse' points at the fear that AI could spell the end for established leaders in SaaS. There are a number of compelling reasons we believe this is not the case, and that we see AI as not the end of SaaS, but the beginning of new productivity and products which can make SaaS and almost any other leader in the market even stronger.

Figure 2: SaaS: What constitutes winning in the time of AI?

Ausbil AI 'moat' framework	Accounting & Business Management	Logistics & Shipping	Councils & Education
AI strategy in place	++	+++	+++
Distribution and scale	++	++	++
Monetisation opportunities	+++	++	+++
Market leading software	++	+++	+++
Switching costs and risks	++	+++	+++
Data moats	++	++	++
Regulation and compliance	++	+++	++
Brand and trust	+++	++	+++

Rating guide: +++ Excellent, ++ Very good, + Good

Source: Ausbil, 31 March 2026. Rating scale developed by Ausbil to illustrate its house view of the differences by company in each category. Ratings data is based on assumptions which are not guaranteed. Ausbil may or may not hold positions in these three SaaS names from time to time.

It is a risk to think of AI as simply the code, user interface and features that can be programmed to almost any task, including launching new platforms to compete with existing companies, such as SaaS firms, which have built and tested their offering over long periods of time.

Moreover, it is detrimental to assume that AI, the tech we can see, is all there is. This invites the risk of believing that nothing below the surface matters anymore or has little value for existing market leaders. For example, what is the value of decades of accrued proprietary client data or customer trust built over many decades? Can AI simply replace this? Are customers actually willing to shift to the next new idea with complex and critical processing such as payroll, taxes, operations, billing, customer service?

Advantages for SaaS incumbents

Distribution

In a world where coding costs trend toward zero, distribution becomes a very valuable and scarce asset. In services, established brand and trust means that loyal customers are less likely to consider a new offering, especially incumbent customers that understand the depth of process and workflow, experience and intellectual property (IP) that underpins the offering. In sensitive areas like accounting, invoicing, compliance, payroll, tax, distribution, and incumbency matter a lot (Xero); so too in freight (WiseTech); and in enterprise resource planning for complex councils and government organisations (TechnologyOne).

Network effects

Customers in leading Australian SaaS businesses like Xero, Technology-One and WiseTech benefit from every other customer in the network through the cumulative effects of increased efficiency, shared IP growth, security, process excellence and productivity improvement. Such a mutually beneficial environment is hard to replicate in a startup, and adds to the protective moat for these types of businesses.

Switching costs

In critical services like freight management, accounting and enterprise planning, customers are hesitant to switch if there is risk of disruption, especially in crucial operational areas. Hesitancy to take on switching risks and costs further favours incumbent businesses.

Data moats

Years of proprietary customer data cannot just be replicated, modelled or found by AI, as it is heavily guarded by the owners of that data. AI models rise and fall with the quality of their data. No amount of learning and estimation can replace real-world operational data often collected over decades, and the inherent corporate knowledge that results. However, AI can be richly deployed by incumbents across proprietary data to drive further improvements in experience, risk management and product improvement. Proprietary data provides valuable context for incumbents that an AI challenger cannot adequately replicate.

Brand, trust, knowledge and expertise

Critical services and software are a hard sell for established players, and an even riskier and harder sell for new entrants. Companies and decision-makers typically suffer inertia in favour of critical systems that are working—especially in areas where companies like Xero, WiseTech and TechnologyOne are operating. A lot of this comes down to trust infrastructure that has been built over many years, and the demonstrated knowledge and expertise which as accrued between clients and their SaaS providers.

Regulatory and compliance infrastructure

Years of investment in compliance, regulation, corporate learning, system development, proprietary data and training have created regulatory and compliance services with leading SaaS platforms that are far greater than the sum of their coding. If anything, AI can be deployed by

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The quote

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leading incumbent SaaS players to further strengthen the regulatory and compliance moat, even if the moat is largely based on trust and brand. In many cases, the asymmetric downside risks of change (cost, training, conversion, testing, and user acceptance) far outweigh the marginal cost benefits of a cheaper new offer for leading SaaS players in critical areas like Xero, WiseTech and TechnologyOne.

Evaluating established SaaS players

Ausbil has taken a systematic approach to looking critically at incumbent SaaS players to determine where they sit regarding the crucial elements already discussed regarding AI and AI success. Figure 2 on the preceding page illustrates by way of example three SaaS companies that we believe are well placed to deploy AI to further improve their leadership in their respective marketplaces.

The 'on premises to cloud' transition rewarded companies which recognised that software delivery was changing and positioned themselves on the right side of that shift. Xero is a good example of this, whereas MYOB, which had market leadership before the shift to cloud computing, failed to make the shift to the cloud and lost their leadership to others.

Rather than 'miss the boat', SaaS leaders like those in Figure 2, are integrating the new capabilities of AI into their existing software stack. The companies that win will be those that embed AI into products with strong distribution, proprietary data, and deep workflow integration, along with many of the other characteristics. The companies that lose will be those whose products are made redundant by AI, or who lack the trust, scale and capability to compete in an AI-augmented market.

What the market may not have realised in the indiscriminate selldown of SaaS companies in early 2026 was the fact that the best names enjoy 'moats' and competitive advantages not just from AI scalability, but also from the non-AI features of their businesses, such as:

- distribution (e.g. the legacy of Salesforce with its client base, which involves trust)
- expertise (e.g. demonstrated leadership that is hard for new players to displace, like Xero for accounting)
- network effects (e.g. total-solution software offered by Microsoft)
- switching costs (the cost of shifting from an existing leader in SaaS to an unproven startup)
- data moats (e.g. Tesla's current advantage in historical trip data)
- data context
- regulatory and compliance infrastructure (e.g. the persistent dominance of banks in the modern world of tech).

SaaS companies like Xero, TechnologyOne and WiseTech are each launching and driving monetisation using AI agents this year. Block Inc. has also launched its Goose AI agent and is embedding AI across both its Square (Seller) and Cash App businesses in the next 12 months, helping to drive revenue, and materially reduce costs (noting that Block recently announced an effective 40% reduction in headcount).

Life360, which develops and operates a mobile application focused on family safety and communication, has been growing its user base such that one-in-ten people in the US now use the app. With the acquisition of Fantix in 2025, Life360 is using AI across its platform to drive revenue, enhance advertising with AI-driven customer insights, improve the effectiveness of path-to-purchase data, and maximise personalisation for optimised advertising campaigns to raise ad revenue, directly benefitting earnings and earnings growth.

In terms of these companies becoming victims to the AI revolution, we would strongly urge caution as there is far more to these companies than just code and software which is likely to ensure client bases remain and grow.

AI tech companies on the ASX for Australian investors

The Australian listed market does not have an investable semiconductor sector, other than some very small micro-cap companies that may loosely fit the description. The Australian Securities Exchange (ASX) does, however, have a range of technology companies that are engaged in AI and related businesses, as well as companies that are beneficiaries of the advances in AI technology.

In terms of AI and machine learning, which place heavy demands on data processing, other than SaaS players, ASX-listed companies like Megaport, Macquarie Technology, NextDC, Infratil's CDC, and Telstra through InfraCo are all enablers of data centre connectivity and cloud storage.

Moreover, real estate companies including Goodman Group and Charter Hall have built major global businesses in data centres and smart/robotic warehouses, driven largely by the exponential demand from AI and machine learning, and the benefits this brings to the operational efficiency of their tenants.

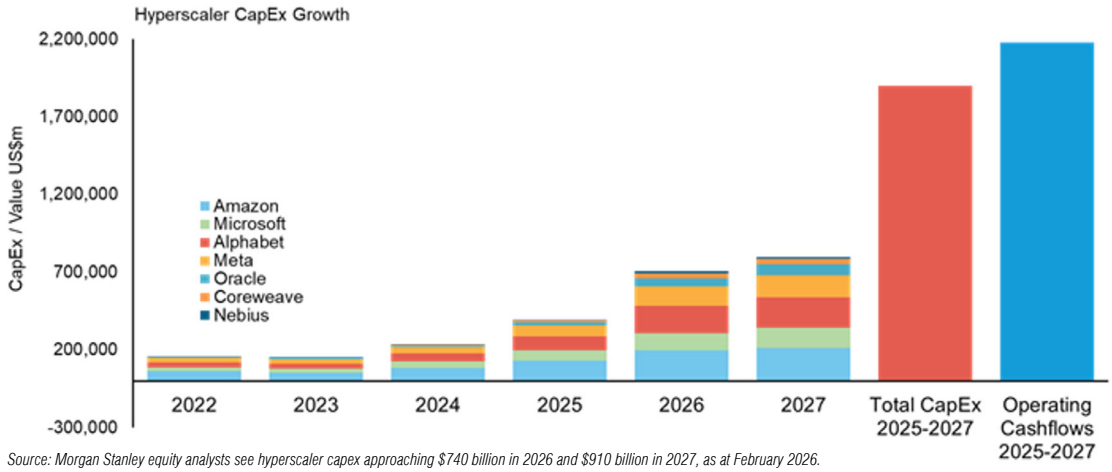
Types of non-AI companies that are beneficiaries of the AI revolution

In terms of non-AI companies, there is a rapidly growing list that are investing in and profitably deploying AI in ways that may directly improve earnings and earnings growth. AI is not just being deployed for improvement, optimisation or cost reduction. It is also creating new revenue lines for companies.

In the resources and energy sectors, the build-out of data centres and hyperscalers is dependent on access to energy and commodities like copper, aluminium, rare earths and lithium, making resources companies a major beneficiary of the AI revolution.

The fundamentals around demand from AI, including data centres, grid expansion, battery storage, AI operating requirements and energy consumption are seeing beneficiaries in the resources sector. This is expected to be advantageous to companies like Lynas Rare Earths and Pilbara Minerals in critical minerals; and BHP, Rio

Figure 3: Capital expenditure on data centres by hyperscalers is rising rapidly



Source: Morgan Stanley equity analysts see hyperscaler capex approaching $740 billion in 2026 and $910 billion in 2027, as at February 2026.

Tinto and Sandfire Resources with large businesses in copper, essential for the tech and power buildout of AI.

In the industrials sector, Brambles, founded in 1875, is applying AI across its global logistics and container network to optimise space and shipping. Brambles is one of the most sustainable logistics and supply-chain companies globally, offering reusable pallets made from certified sustainable timber. Brambles has been investing in digital and tracking technology for years, and benefits are starting to come through.

Further, AI has seen the pace of improvement rapidly contribute to efficiencies, including digitisation, optimisation with iASYS Group's proprietary BRIX platform [for automotive original equipment manufacturers and engineering companies], enhanced analytical tools improving customer outcomes, and autonomous tracking, all contributing to cost savings and underlying earnings growth.

Online services have been another beneficiary of AI. Companies like REA Group in online real estate classifieds and CAR Group in car classifieds are achieving product and efficiency enhancement from the application of AI. The online digital environment lends itself well to the application of AI, particularly given the data-driven consumer interactivity that helps propel models for optimisation, decision support, targeted advertising and intelligent content customisation.

Why AI is an opportunity and not a bubble

We believe that the AI revolution is a profound and fundamental advance in technology. Looking at the committed capex for US hyperscalers, we do not believe that AI is a bubble. When you combine the 2025–2027 estimates for capex, hyperscalers will have invested more on AI capex then the entire market cap of the ASX 200 (see Figure 3). However, they will have generated an even larger level of operational cashflows which can more than fund this expansion in activity.

As a house, we do not see the AI revolution as directly comparable to the bubble that precipitated the Tech Crash of 2001. The advent of the internet that drove the boom in technology investing at the end of the 1990s was a new technology where, across all sectors, it was not yet apparent what actual earnings accretion would be generated for existing and new companies deploying this technology.

In the AI era, companies are able to leverage AI in ways that are immediately accretive to earnings and earnings growth. As we have seen with SaaS, leaders in this sector can apply AI to further enhance their competitive advantages, which also benefits the outlook and resilience for earnings. We are already seeing large-scale AI monetisation on the ASX, with companies like WiseTech, Xero and TechnologyOne, all of which have launched AI agents and are rolling them out to customers.

AI has been under development and varying deployment for years. Data, online digitisation and cloud computing, which pre-date big data AI, are all revenue and earnings generative to good businesses. The growth in AI is both evolutionary and revolutionary. The nature of the technology is such that it can form the core of a business, or companies can incrementally experiment at low cost with how it can transform their earnings. We are observing the rapid emergence of AI applications that have the potential to improve business efficiency and earnings across almost every sector. The AI revolution is not just an opportunity in SaaS, but a chance for every leading company to expand and enhance its business and earnings, and with real benefits for investors that are focused on earnings and earnings growth as the key driver of returns. **FS**

The quote

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