

AI is making software cheaper to build and more expensive to buy

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Generative AI is redrawing the boundaries of enterprise software. It is changing what companies build themselves, where investors see value and which capabilities will become the acquisition targets of the next software cycle.

For the past two decades, the economics of enterprise software rested on a relatively simple assumption: developing complex applications internally was slow, expensive and risky, so companies were generally better off buying standardized software from specialist vendors.

Artificial intelligence is beginning to weaken that assumption. Generative AI makes software faster and cheaper to create, allowing businesses to build more applications around their own processes instead of adapting those processes to standardized products. But this does not mean that software is becoming less valuable. It means that value is shifting, from writing code towards controlling the data, workflows, governance and distribution that make software strategically important.

This apparent contradiction is already reshaping enterprise technology. It will also change which software companies attract capital, how they are valued and, ultimately, how the next wave of technology M&A develops.

“Funding has created a new generation of AI-native software companies. The next phase will be defined by which become platforms, which emerge as consolidators and which capabilities strategic buyers choose to acquire.”

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AI is changing how enterprises build and buy software

AI is triggering a structural transformation of the software industry. Much like cloud computing enabled the shift from on-premises applications to Software-as-a-Service, generative AI is lowering the cost and complexity of creating software and changing the traditional boundaries between software vendors, developers and their customers.

Three distinct models are emerging:

1. Traditional enterprise software providers such as Microsoft, Salesforce, SAP and ServiceNow are embedding AI into their existing platforms
2. *Vibe-coding* platforms such as Cursor, Lovable and Replit are lowering the barriers to software creation
3. A new category of AI-native software factories is emerging that combines AI-generated development with the architecture, testing, governance and control required for enterprise-grade software

Together, these developments are beginning to change the traditional build-versus-buy equation. As AI makes software faster and cheaper to develop, enterprises can increasingly consider building applications around their own differentiated processes rather than adapting those processes to standardized third-party software.

The shift is already becoming visible. Retool's 2026 Build vs. Buy Report, based on a survey of 817 customers and software builders, found that 35% had already replaced at least one SaaS tool with a custom-built solution, while 78% expected to build more custom internal tools during the year. Starbucks is taking the idea further: the company is reportedly developing internal alternatives to inventory and maintenance applications supplied by Microsoft and IBM as it reviews an annual software bill of approximately \$400m.

AI is changing what enterprises build themselves

This does not imply the end of enterprise SaaS. Instead, it changes what enterprises build themselves, what they continue to buy and which technology capabilities become strategically important to own. Building an initial application may become easier but maintaining it securely and reliably across a large organization remains difficult. Systems of record, regulated applications and widely standardized processes will often still be more economical to buy.

We therefore expect the transformation of software to translate directly into the Technology M&A environment. Incumbents will increasingly look externally for AI capabilities that would take too long to develop organically, while emerging AI-native companies will use acquisitions to add complementary technologies and accelerate enterprise readiness. As the market matures, capabilities such as data infrastructure, security, testing, governance, observability and agent orchestration could become increasingly important areas of strategic interest.

As AI redraws the boundary between building and buying software, it is also likely to redraw the Technology M&A landscape, creating both pressure to reposition and a new generation of strategically valuable acquisition targets.

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Starbucks'
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Source: Oaklins research

Capital is shifting towards the next generation of software companies

What began as a specialist venture theme is rapidly becoming a broader institutional investment category. AI attracted a record \$243.9bn of venture investment in 2025, accounting for more than half of global venture deal value. Within this wider investment wave, software creation has emerged as one of the most visible categories, with investors backing companies that have the potential to reshape how software is developed and delivered.

The scale, pace and valuations of recent financings demonstrate this conviction:

- Cognition raised >\$2bn at a reported valuation of \$48bn in September 2026, only four months after being valued at \$26.0bn.
- In August 2026, Lovable raised \$400m in Series C funding at a \$13.3bn valuation, doubling its valuation since December 2025. The Series C was led by Menlo Ventures and co-led by the Scaleup Europe Fund, managed by EQT, after reaching approximately \$500m in annual recurring revenue.
- 8090 announced its Series A of \$135m in June 2026 led by Salesforce, one of the largest early-stage financings in the category.

Companies such as Cursor, Replit and Poolside have similarly attracted substantial growth capital. Collectively, these financings show how quickly category leaders are progressing through the funding cycle, with increasingly large rounds being completed at valuations traditionally associated with much more mature software businesses.

The investor universe is broadening

Specialist software and technology investors such as Andreessen Horowitz, Accel, Thrive Capital, Khosla Ventures and Lux Capital remain highly active, but they are increasingly joined by growth and crossover investors including Insight Partners, DST Global

and Blackstone, as well as larger institutional investors such as EQT and Carmignac. Strategic technology investors, including Salesforce Ventures, NVIDIA and Google, are also deploying capital into the category. Lovable's latest financing illustrates this convergence particularly well, bringing together venture, institutional and strategic investors including Menlo Ventures, EQT, Balderton Capital, Carmignac and Tencent.

Strategic activity reinforces the same message. Windsurf became the subject of competing interest from OpenAI and Google before Cognition ultimately acquired its product, IP, brand and business to combine the Windsurf development environment with Cognition's technology. This demonstrates how quickly strategically relevant AI software assets can attract competing interest from both emerging platforms and global technology leaders.

The strategic importance of AI now extends far beyond pure-play software. SpaceX's acquisition of Cursor is emblematic of a broader shift, as leading technology companies increasingly view AI capabilities as strategic assets that warrant significant capital investment. This expanding strategic interest adds another source of capital to the market and could ultimately become an important catalyst for both investment and M&A activity.

From venture experimentation to broader market validation

The broadening of the investor universe marks an important transition from venture-led experimentation towards broader category validation. As AI-native software companies scale, we expect competition for the strongest assets to intensify across venture, growth, institutional and strategic capital. This will lay the foundations for a more active M&A environment as technology leaders compete to secure strategically important capabilities.



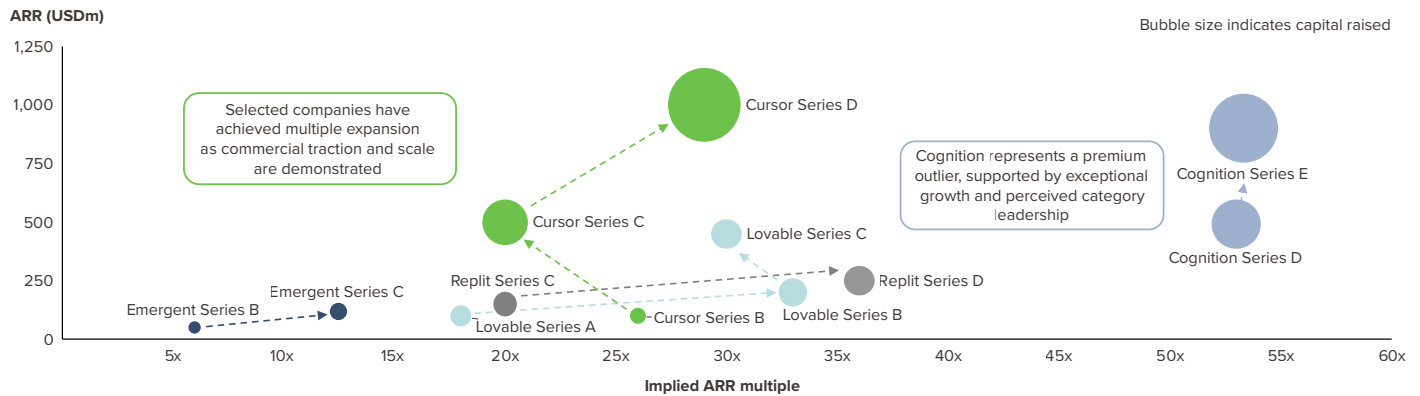
AI software funding rounds

Date	Company	Country	Funding round	Amount raised (USD)	Reported valuation (USD)
Sep-26	 Cognition		Series E	>\$2.0bn	\$48.0bn
Aug-26	 Lovable		Series C	\$400m	\$13.3bn
Jul-26	 emergent		Series C	\$130m	\$1.5bn
Jun-26	 8090		Series A	\$135m	n.a.
May-26	 Cognition		Series D	>\$1.0bn	\$26.0bn
Mar-26	 Replit		Series D	\$400m	\$9.0bn
Jan-26	 emergent		Series B	\$70m	\$300m
Dec-25	 Lovable		Series B	\$330m	\$6.6bn
Nov-25	 CURSOR		Series D	\$2.3bn	\$29.3bn
Sep-25	 Cognition		Series C	>\$400m	\$10.2bn
Sep-25	 emergent		Series A	\$23m	n.a.
Sep-25	 Replit		Series C	\$250m	\$3.0bn
Jul-25	 Lovable		Series A	\$200m	\$1.8bn
Jun-25	 CURSOR		Series C	\$900m	\$9.9bn
Jan-25	 bolt.new		Series B	\$106m	\$700m
Jan-25	 CURSOR		Series B	\$105m	\$2.6bn
Oct-24	 poolside		Series B	\$500m	\$3.0bn
Aug-24	 CURSOR		Series A	\$60m	\$400m
Apr-24	 Cognition		Series B	\$175m	\$2.0bn
Mar-24	 Cognition		Series A	\$21m	n.a.
Oct-23	 CURSOR		Seed	\$8m	n.a.
Aug-23	 poolside		Seed	\$126m	n.a.

Source: Oaklins research based on publicly available sources

AI is creating a valuation split, not a universal premium

AI software valuations relative to revenue scale



Source: Oaklins research based on publicly available sources

Note: Multiples use reported funding valuations and the latest disclosed annualized revenue or ARR available at the time of each round. Revenue definitions vary by company

The AI investment wave is creating a new valuation paradigm within software. Traditional SaaS fundamentals such as ARR, growth, retention and enterprise adoption remain important, but they increasingly explain only part of the valuation. Recent financings show how strongly investors value selected AI-native software leaders. These valuations reflect expectations of exceptional growth, large addressable markets and potential category leadership.

Recent financings illustrate the magnitude of this premium. Cursor's \$29bn Series D valuation represented approximately 29x annualized revenue, while Lovable's Series C valued the company at approximately 30x ARR. The premium is even more pronounced for selected autonomous software engineering platforms: Cognition's latest financing at a \$48bn reported valuation implied approximately 53x run-rate revenue. These multiples are particularly notable given that many of these businesses remain relatively young and are still defining the categories in which they compete.

However, headline multiples tell only part of the story. Investors are underwriting exceptional growth alongside the potential for these companies to develop into much broader platforms. Cursor, for example, grew from more than \$100m to more than \$1bn in annualized revenue during 2025, while Lovable progressed from approximately \$100m ARR in mid-2025 to several hundred million within roughly a year. At these growth rates, today's apparently elevated valuation multiples can compress rapidly if commercial momentum continues.

AI functionality alone is unlikely to command a sustainable premium

A split is emerging within software valuations. AI functionality alone is unlikely to command a sustainable premium. Instead, investors will increasingly distinguish between companies that use AI to improve an existing product and businesses with the potential to own a strategically important part of the enterprise operating layer, the systems that connect data, decisions and day-to-day work.

The latter combine traditional SaaS fundamentals with additional sources of strategic value:

- Proprietary technology and enterprise context
- Ownership of mission-critical workflows and high switching costs
- Strong governance and security
- The ability to expand across customers and use cases

This distinction will become increasingly important as the market matures from fundraising towards M&A. Strategic acquirers are unlikely to value AI-native targets solely on current ARR; they will also assess the cost and time required to replicate the technology, the strategic importance of the workflow, the quality of the installed customer base and the target's potential role within a broader platform.

Funding has led the AI cycle

– M&A will follow

In recent years, the growth of AI-native software businesses has been financed primarily through large funding rounds. This is a natural feature of an emerging software cycle: companies require capital to develop their products, secure computing capacity, attract scarce technical talent and establish positions in newly created markets. Funding is therefore typically the first engine of category formation. Now that several AI-native leaders are reaching meaningful scale and enterprise adoption, the conditions for the next phase are beginning to emerge.

Recent transactions provide the first indications of this shift. SpaceX's \$60bn acquisition of Cursor shows how a category-leading AI-development platform can become a strategic asset at unprecedented scale. Cognition's acquisition of Windsurf reflects the same development from within the AI-native market, combining Devin's autonomous engineering agent with an established development environment, \$82m of ARR and more than 350 enterprise customers. Their significance lies in what buyers are acquiring: differentiated technology, distribution, access to valuable workflows and, above all, time to market.

Earlier software cycles provide useful precedents. During the 1990s, ERP vendors accessed venture and public-market capital to finance product development and international expansion alongside the rapid adoption of client-server systems. PeopleSoft, for example, raised venture capital in 1991, completed an IPO in 1992 and returned to the public markets six months later, while SAP, Baan and JD Edwards also accessed public capital during the period. As the market matured, consolidation accelerated: Microsoft acquired Great Plains and Navision, PeopleSoft acquired JD Edwards and Oracle subsequently acquired PeopleSoft. The cloud-software cycle provides an even closer parallel, with companies including GitHub, Qualtrics, MuleSoft and Slack raising substantial private capital before becoming multi-billion-dollar acquisition targets. These examples show how capital can first finance category formation and scale, after which acquisitions become more important as market leaders and strategic capabilities become clearer.

We believe AI-native software is approaching the same point. The recent funding wave has created companies across software generation, data infrastructure, security, testing, governance, observability and agent orchestration. Capital is still needed to scale these businesses, but the market is beginning to distinguish between features, standalone products and potential platforms.

As those boundaries become clearer, strategic buyers can better assess which capabilities to develop internally and which would be faster or less risky to acquire.

The make-or-buy decision will therefore remain central. Companies can develop internally, partner, license technology, invest or acquire. Internal development becomes less attractive when a target controls proprietary technology, an established customer base or a strategically important workflow that would take years to replicate. AI may be reducing the cost of writing software, but it is simultaneously increasing the value of scarce capabilities within the emerging AI stack.

Transactions by established software groups already illustrate this logic. Salesforce's acquisition of Informatica added the data integration, quality and governance required to deploy AI agents across enterprise environments. ServiceNow's acquisition of Moveworks added an established AI interface, enterprise search and access to millions of employee users. These were not simply acquisitions of AI functionality; they strengthened the infrastructure, workflow ownership and enterprise trust required to build scalable platforms.

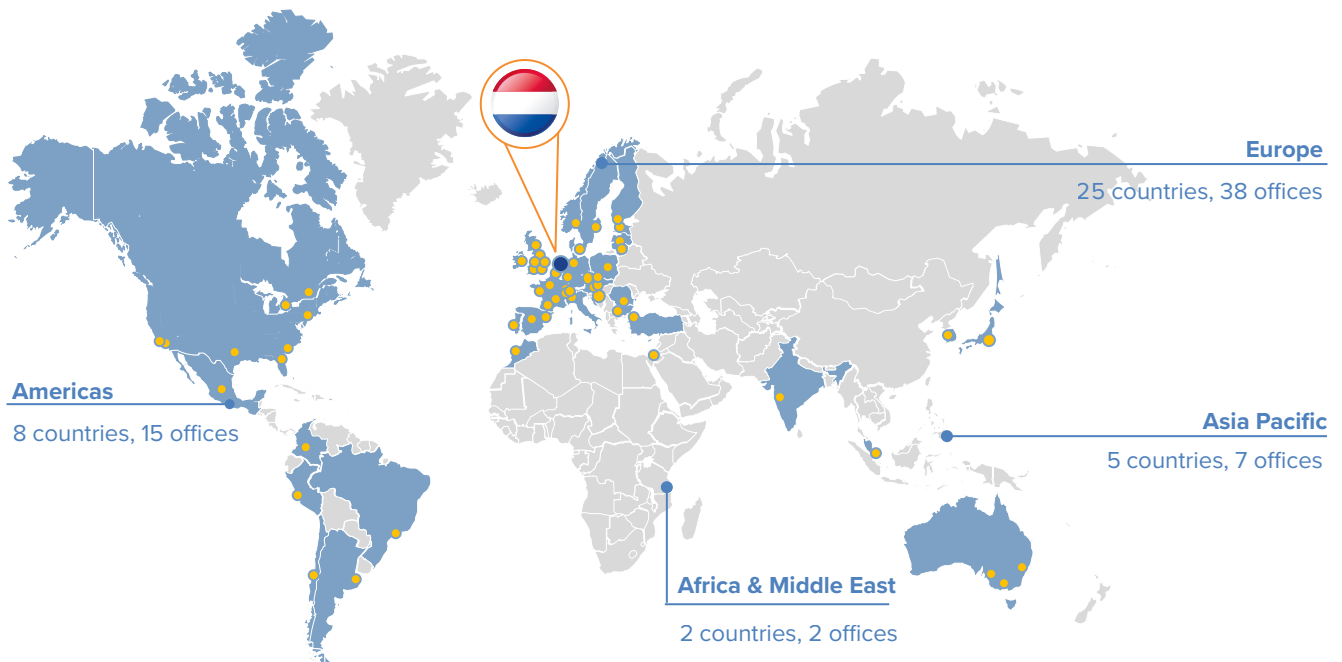
The next wave of activity will come from two directions

Incumbent software providers will acquire capabilities that accelerate their AI roadmaps, while AI-native leaders will use M&A to add adjacent technologies, customers and distribution. Smaller point solutions may become natural consolidation targets, and financial investors are likely to play a larger role once revenue quality and profitability are easier to assess.

Funding and M&A will therefore coexist: capital will continue to finance independent leaders, while acquisitions increasingly connect fragmented capabilities into broader technology stacks.

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