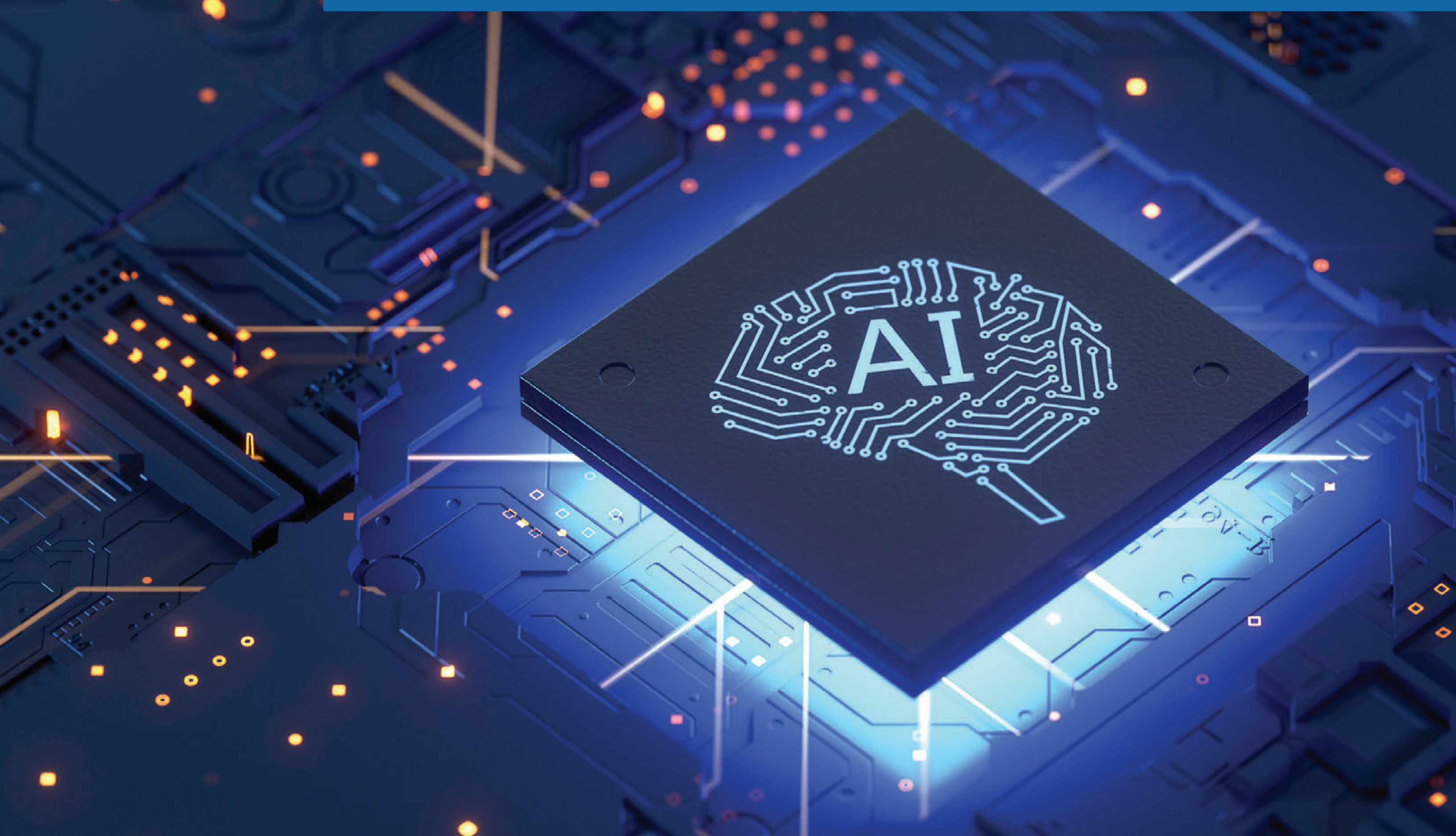
Houlihan Lokey

Artificial Intelligence and Software Valuations
A Framework for Assessing Enterprise Values

March 2026



AI Considerations for Software Company Valuations

Start: Asset-Level AI Assessment

01 Determine Whether AI Impact Reflects Market Sentiment or a Structural Business Change

This assessment is informed by company-specific evidence such as changes in revenue durability, margin structure, pricing power, or competitive positioning.

Evidence of Fundamental Business Impact?

- **Yes** → **Proceed to Structural Classification**
- **No** → **Conclusion: Market-Driven Signal**
  No Fundamental Business Model Impact

02 Classify Business Model

Horizontal

- Characteristics: Broad use cases, cross-industry deployment.
- AI substitution risk: **Higher**.
- Rationale: More likely vulnerable to "unbundling" by focused, AI-native startups that can replicate a single feature more effectively.

Vertical

- Characteristics: Industry-specific workflows with deep regulatory and operational integration.
- AI substitution risk: **Lower**.
- Rationale: High switching costs, deep workflow integration, and proprietary data moats make replacement difficult. AI is more likely a complementary tool to enhance the existing system, not substitute it.

03 Subsector Mapping

AI Impact Varies by Software Subsector and Use Case

Subsector	AI Role	Primary Impact	Mechanism
Infrastructure/ Dev Tools/ Data Platforms	AI as Engine	Stack Reset/ Performance Leverage	Complementary (Moat)
Cyber/ FinTech/ Healthcare IT	AI as Co-Pilot	Margin Expansion/ Embedded Workflow Lift	Complementary (Margin)
SMB SaaS/ Collaboration	AI as Auto-Pilot	Labor Replacement/ Pricing Compression	Substitution (Displacement)

04 Assess Data Moat, Switching Friction, and Workflow Entrenchment

- Data Ownership/Proprietary Data
- Workflow Integration
- Regulatory or Compliance Entrenchment
- Customer Switching Costs/Implementation Complexity
- Operational Dependency/Mission Criticality

Additional Consideration:
Management/Sponsor AI Readiness and Strategic Positioning

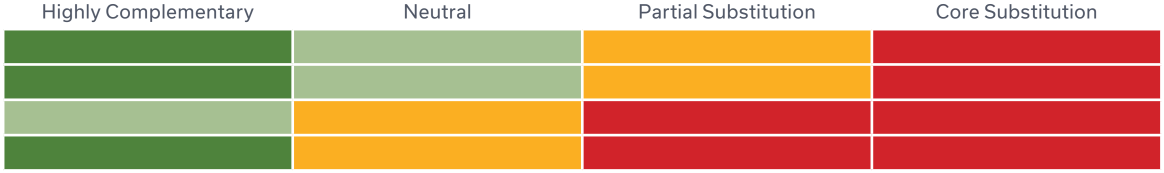
High Entrenchment?

- **Yes** → **Lower Substitution Velocity**
  AI = Complementary/Gradual Adoption
- **No** → **Higher Substitution Velocity**
  AI = Substitution/Rapid Disruption

05 Determine AI Impact on Enterprise Value Drivers

Four Drivers of Enterprise Value: Revenue Durability; Margin Structure; Pricing Power; Competitive Moat

AI Exposure (Based on Steps 2 to 4): Highly Complementary | Neutral | Partial Substitution | Core Substitution



Assess Impact Horizon: Immediate (0–2 Yrs) → Medium (2–5 Yrs) → Structural (5+ Yrs)

Legend: Positive | Positive to Neutral | Neutral | Neutral to Negative | Negative

These assessments may inform valuation considerations under both the income (discounted cash flow) and market approaches, including assumptions related to growth, margins, discount rates, and multiple selection.

Note: Color-coded exposure reflects Houlihan Lokey's qualitative assessment of the potential impact of AI on key enterprise value drivers (revenue durability, margin structure, pricing power, and competitive moat), based on the framework outlined in Steps 2-4. Assessments consider factors such as workflow entrenchment, switching costs, data moats, customer dependency, and the degree to which AI is expected to act as a complementary enhancement versus a substitutive force. The indicated exposure levels (Highly Complementary, Neutral, Partial Substitution, Core Substitution) and corresponding color scale represent directional judgments across immediate, medium-term, and structural time horizons, rather than precise quantitative measurements.

Public Equity Market Performance: Horizontal vs. Vertical Software Platforms

Market Observation

Public market performance across software platforms suggests two distinct periods. Following the launch of generative AI applications in late 2022 and the rapid adoption through early 2023, both horizontal and vertical software companies generally experienced significant increases in market capitalizations.

More recently, many software platforms have experienced valuation corrections, with horizontal software platforms generally showing larger median market capitalization declines relative to vertical software peers.

The cohorts below represent broad groupings comparing horizontal enterprise platforms with industry-specific vertical software providers. GOOGL is excluded from median and mean calculations given its diversified revenue mix and scale, which may make its market performance less comparable to enterprise software platforms. In addition, GOOGL's direct exposure to AI infrastructure and model development may make its market performance less comparable to more pure-play enterprise software platforms.

		Market Capitalization ($M)				
Company	**Ticker**	**3/31/2023** *(AI Big Bang)*	**10/29/2025** *(S&P 500 Tech Index Peak)*	**3/12/2026** *(Current)*	*% Change From 3/31/2023-10/29/2025*	*% Change From 10/29/2025-3/12/2026*
Horizontal						
Alphabet	GOOGL	$1,330,081.5	$3,319,232.1	$3,670,195.4	*149.6%*	*10.6%*
Microsoft	MSFT	$2,146,048.6	$4,025,004.1	$2,984,063.3	*87.6%*	*-25.9%*
Oracle	ORCL	$250,865.6	$784,823.2	$457,751.5	*212.8%*	*-41.7%*
SAP	SAP	$135,455.7	$261,219.8	$195,005.7	*92.8%*	*-25.3%*
Salesforce	CRM	$195,984.2	$239,389.9	$183,935.4	*22.1%*	*-23.2%*
Intuit	INTU	$125,076.0	$182,907.2	$120,335.2	*46.2%*	*-34.2%*
ServiceNow	NOW	$94,338.2	$189,195.1	$118,166.6	*100.5%*	*-37.5%*
Adobe	ADBE	$176,769.2	$141,428.2	$109,972.3	*-20.0%*	*-22.2%*
Workday	WDAY	$53,497.1	$61,773.1	$34,480.6	*15.5%*	*-44.2%*
Atlassian	TEAM	$43,868.7	$41,927.5	$19,343.0	*-4.4%*	*-53.9%*
				Median (exc. GOOGL)	**46.2%**	**-34.2%**
				Mean (exc. GOOGL)	**61.5%**	**-34.2%**

		Market Capitalization ($M)				
Company	**Ticker**	**3/31/2023** *(AI Big Bang)*	**10/29/2025** *(S&P 500 Tech Index Peak)*	**3/12/2026** *(Current)*	*% Change From 3/31/2023-10/29/2025*	*% Change From 10/29/2025-3/12/2026*
Vertical						
Shopify	SHOP	$67,924.5	$232,652.3	$164,539.7	*242.5%*	*-29.3%*
Autodesk	ADSK	$44,709.2	$63,206.3	$52,726.8	*41.4%*	*-16.6%*
Veeva Systems	VEEV	$29,370.8	$46,987.5	$29,718.6	*60.0%*	*-36.8%*
Dassault Systèmes	DASTY	$49,773.8	$32,191.8	$23,987.5	*-35.3%*	*-25.5%*
Global Payments	GPN	$27,760.7	$19,216.9	$19,691.1	*-30.8%*	*2.5%*
CoStar Group	CSGP	$28,006.3	$29,883.7	$18,202.2	*6.7%*	*-39.1%*
Toast	TOST	$9,351.2	$20,836.4	$16,256.4	*122.8%*	*-22.0%*
Guidewire Software	GWRE	$6,692.5	$20,244.2	$13,344.6	*202.5%*	*-34.1%*
Procore Technologies	PCOR	$8,784.0	$10,789.9	$8,560.2	*22.8%*	*-20.7%*
ServiceTitan	TTAN	NA	$8,957.5	$7,156.6	*NA*	*-20.1%*
				Median	**41.4%**	**-23.7%**
				Mean	**70.3%**	**-24.2%**

Source: S&P Capital IQ. Company cohorts are constructed to represent broadly comparable publicly traded enterprise software platforms, segmented into (i) horizontal software providers offering multi-industry solutions and (ii) vertical software providers focused on industry-specific applications. Companies were selected based on primary business model, revenue composition, and market classification (e.g., GICS/industry coverage), with an emphasis on scaled, publicly listed software companies with meaningful recurring revenue and enterprise-focused offerings. The selected universe is intended to reflect representative market participants rather than an exhaustive list.

Structural Interpretation

Following the launch of generative AI applications in late 2022 and early 2023, public market investors initially rewarded software platforms perceived to be well positioned to deploy AI capabilities at scale. During the initial AI adoption phase in late 2022 and through early 2023, horizontal software platforms experienced strong market capitalization expansion.

More recently, as investor focus has shifted toward AI monetization and economic impact, many of these platforms have experienced larger valuation corrections. This pattern is directionally consistent with the possibility that broadly deployed horizontal platforms, whose modular features often support discrete productivity functions, may face greater exposure to AI-driven feature substitution.

By contrast, vertical software platforms often benefit from deeper workflow integration, proprietary industry data, and higher switching costs, which may reduce the near-term likelihood of AI displacement. In these cases, AI may function more as a complementary capability within existing workflows rather than an immediate direct substitute, although longer-term competitive dynamics remain uncertain.

Framework Implications

While multiple factors influence public market performance, the divergence observed between horizontal and vertical software platforms appears directionally consistent with the framework outlined in the prior page. In particular, market performance outcomes appear to reflect differing levels of exposure to potential AI-driven feature substitution versus AI acting as a complementary enhancement to existing software systems.

Directional Takeaway: *Public markets appear to be differentiating between software platforms based on perceived exposure to AI-driven feature substitution risk.*

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