



Navigating the SaaS Apocalypse

Why AI Kills Weak SaaS but Strengthens Disciplined Vertical Investors

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The global software sector lost \$830B+ in six trading sessions. The fear is real. The narrative is incomplete. This is the full picture — market data, attribution analysis, and why disciplined vertical investors are positioned to win.

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AI kills weak SaaS and strengthens disciplined vertical investors

MARKET ANALYSIS · ARTIFICIAL INTELLIGENCE · ENTERPRISE SOFTWARE

SECTION I

Executive Summary

-30%

IGV PEAK-TO-TROUGH

\$830B+

MARKET CAP ERASED

5.1x

MEDIAN EV/REV

16.35

RSI — MOST OVERSOLD

The iShares Expanded Tech-Software Sector ETF (IGV) plunged 30% from its September 2025 peak, erasing over \$830 billion in market capitalization in just six trading sessions. Jefferies coined the term "SaaSpocalypse" to describe the carnage.

Our central finding: AI disruption fears account for approximately 60–70% of the selloff's severity. However, AI gave the market "permission to finally re-rate what the numbers had been screaming for three years" — persistent growth deceleration, valuation compression, and deteriorating profitability metrics.

The critical distinction: the SaaSpocalypse is overwhelmingly hitting horizontal, general-purpose SaaS. Vertical SaaS with deep domain expertise, regulatory moats, and embedded workflows is structurally insulated — and positioned to benefit.

SECTION II

Six Months of Escalating Pressure

What began as quiet multiple compression accelerated into the most aggressive repricing of the SaaS business model in two decades.

SEP 2025

IGV peaks at ~\$118

All-time high for the software sector ETF. Beneath the surface, growth rates declining since 2021.

OCT-DEC 2025

Silent deceleration

Quiet multiple compression. Median EV/Revenue falls from 7.3x to 5.1x.

JAN 12, 2026

Claude Cowork launched

Autonomous AI for non-coding work tasks. Enterprise disruption fears reignite.

JAN 29

Worst software trading day since COVID

ServiceNow -11% despite beating earnings. Microsoft sheds \$360B in a single session.

JAN 30

Cowork plugins released

Legal, finance, sales, marketing plugins demonstrate autonomous agency across workflows.

FEB 2

Palantir Q4 earnings

CEO Alex Karp declares AI is "replacing, not augmenting" enterprise software. Revenue +70% YoY.

FEB 5

OpenAI unveils Frontier

A "Semantic Operating System" treating enterprise apps as data silos for AI agents.

FEB 6

Tentative stabilization

IGV closes at \$82.46 with +3.5% bounce. Trading volume 37.5M shares — nearly 5x normal.

SECTION III

This Selloff Isn't Unprecedented

Every major SaaS drawdown in the past two decades has fully recovered. The current rout follows a familiar pattern.

2008–09 GFC: Software fell 52% and recovered to new highs within 3 years.

2020 COVID: A 34% decline recovered in 5 months and doubled within 12.

2022 Rate Rout: IGV dropped 30% and recovered to September 2025 highs in under 2 years.

"This notion that the software industry is in decline and being replaced by AI is the most illogical thing in the world and time will prove itself." — Jensen Huang, CEO, NVIDIA

Three Truths the Market Is Missing

Truth 1: It Is Mostly Horizontal. The damage is concentrated in horizontal, general-purpose SaaS. Vertical SaaS is growing ~32% annually versus ~12% for horizontal — 2–3x faster.

Truth 2: Growth Was Already Declining. Public SaaS growth rates declined every quarter since 2021. Median growth fell from 30% to 15%. AI gave the market permission to re-rate what numbers had been signaling for years.

Truth 3: Rates Changed Everything. The 10-year Treasury went from 1.5% to 4.5%, re-rating all long-duration assets. Paying 9x revenue at 4.5% reflects stronger conviction than 10x at 1.5%.

Vertical Software Is the Place to Be

~4x

TARGET ENTRY EV/REV

85%+

TVPI IN PROFITABLE COS

~32%

VERTICAL GROWTH

~12%

HORIZONTAL GROWTH

Domain expertise, regulatory moats, workflow depth, and value-based pricing create structural insulation that generic AI cannot breach.

At-Risk SaaS

Pure automation targets with simple admin workflows. Low switching costs and thin workflow wrappers. Seat-based pricing without usage migration. Mid-market horizontal SaaS. Document and content tools easily replicated by AI.

Strengthened SaaS

Core workflow orchestration in regulated verticals. Deep data moats and proprietary domain data. High switching costs and compliance requirements. AI-enablement layers embedded in vertical workflows. Usage-based and outcome-based pricing models.

AI as Tailwind

As capital retreats from software broadly, competition for quality vertical deals declines. AI lowers barriers to build v1, but v1 is 2% of the work. Portfolio companies embedding agentic features become AI-native cooperators, not casualties.

AI-driven efficiency gains compress R&D, improve margins, and improve Rule of 40. 85%+ of TVPI is in profitable companies.

What's Actually Driving the Selloff

AI disruption is real — but it ignited a fire in a forest that had been drying out for three years.

Direct AI Disruption

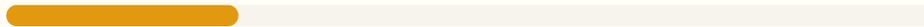
60–70%



Seat-based licensing crisis, "vibe coding" threat, application layer invasion, budget reallocation to AI infrastructure

AI-Accelerated Trends

20–30%



Growth deceleration since 2021, valuation compression from pandemic peaks, Rule of 40 deterioration

Non-AI Factors

10–20%



Interest rate environment, app fatigue, vendor consolidation, market rotation to value/cyclicals

The fear: "AI kills SaaS."

The reality: AI kills weak SaaS.
And strengthens disciplined vertical investors.

Vertical software is
structurally insulated

Buying discipline at
~4x was ahead of reset

Cash-flow-centric DPI
reduces exit dependency

AI-native design turns
the threat into a moat

Interested in our research?

Golden Section publishes research on market dynamics, vertical SaaS,
and the intersection of AI and enterprise software.

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The Enhancement Doctrine — How AI Went from Existential Threat to Strategic Partner