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Are We in an AI Bubble? The Answer Depends on Where You Look.



MARKET PERSPECTIVES

AI has attracted extraordinary investment, and there are signs of excess. But calling the entire market a bubble misses an important distinction: AI may be overvalued in places without being overrated as a technology.

Unlike a purely speculative bubble, AI is already changing enterprise workflows and driving demand across software, compute, data infrastructure, cybersecurity and automation

The more useful question is: Where is AI creating durable value, and where is capital simply chasing the hype?

A Reset Could Be Good for SaaS

AI enthusiasm has put pressure on traditional software valuations as investors question whether agents will reduce seats, compress pricing and make applications easier to replace. But expectations may be getting ahead of reality. Bottomline, the AI bubble bursting could become a SaaS recovery catalyst, but not a return to old SaaS.



1. **"AI replaces SaaS" gets de-rated**
   If agents prove less capable, reliable or economical than expected, investors can put greater value back on entrenched workflow software.

2. **The installed base suddenly matters more**
   SaaS incumbents already own workflow + proprietary data + integrations + customer relationships + permissions/security.

   If building an AI agent isn't sufficient, the incumbent becomes the natural distribution layer for AI.

3. **AI becomes a margin story instead of a disruption story**
   If investors stop paying enormous multiples for AI optionality, durable recurring revenue and cash flow become relatively attractive again.

4. **Capital rotates from speculative AI back toward FCF**

5. **M&A gets really interesting.**
   PE could buy established SaaS at value multiples, layer AI into the product and cost structure, and underwrite both margin expansion and some multiple recovery.

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What This Means for M&A

The divide between AI hype and durable value creates an interesting environment for technology M&A. The AI bubble may ultimately create the next SaaS buying opportunity: AI doesn't eliminate software, it changes which software deserves a premium.

For Buyers and Investors

- ***Strategic buyers may have an advantage.*** Existing customers, data, distribution and infrastructure can allow them to extract greater value from acquired AI capabilities.
- ***Established SaaS could become more attractive.*** A normalization in AI expectations could create opportunities to acquire proven software businesses and use AI to enhance products, improve efficiency and expand margins.
- ***FOMO creates risk***. Buyers need to distinguish businesses with genuine differentiation from those simply benefiting from an AI premium.
- ***Diligence needs to evolve.*** Proprietary data, model dependencies, inference costs, pilot-to-production conversion, security, IP exposure and product differentiation are increasingly important considerations.
- ***Deal structures may evolve.*** Where expectations and underwriting diverge, earnouts, minority investments, partnerships and other structures can help bridge valuation gaps.

Looking Beyond the Hype

A reset in AI valuations would not necessarily mean the AI thesis was wrong. Instead, it could force the market to become more discerning about where AI actually creates defensible economic value.

That could ultimately be healthy for software and M&A, shifting the focus from AI optionality toward businesses with recurring revenue, proprietary data, embedded workflows, strong unit economics and demonstrable AI monetization.

The winners will not simply be companies that "have AI." They will be the companies that turn AI into durable revenue, stronger customer retention, improved margins and defensible competitive advantage.

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