



# Technology Sector Ripples:

Has GenAI eaten SAAS?

# Technology

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## Technology Sector Ripples: Has GenAI eaten SAAS?

### AI innovation puts SAAS model firmly in the spotlight in Q1 2026

During Q1 2026, we have seen increased volatility across the technology sector. The Enterprise Software segment has seen a significant de-rating in multiple ranges as public markets bought into the short thesis that AI could irrevocably disrupt its business model forcing valuations down c.35% with average forward-looking Enterprise Value to Annual Recurring Revenues (EV/ARR) multiples dropping to c. 4x from c. 6x in a \$2tn software market cap wipeout. The ramifications of new AI tools disrupting existing enterprise software as a service (SAAS) tools are without question a risk however we ask: 1) Is this a rational sell off? 2) What does it mean for revenue models? And 3) how can the incumbents respond? On 1); We see clear value angles and mispricing across from this sell-off event and as companies begin to reassure the market on outlook and reassert their sectoral leadership. On 2); We believe that revenue models will be disrupted particularly with enterprise SAAS revenues coming under pressure, on a per seat pricing basis with new metrics becoming more important such as gross retention rates. On 3); Incumbents deemed at risk of AI disruption may be able to evolve, pivot and grow faster through scaling their own AI revenue and business models. This depends on their industry segment; customer stickiness; product quality and data control but also via proactive strategic M&A.

### We are in an industry-defining capex period for hyperscalers

We are amid the greatest capex lifecycle for hyperscalers in their history. In 2026 alone, hyperscalers have signalled an intention to deploy north of \$650bn on AI Capex. In context, the scale of the spend is roughly twice that of last year with a cumulative forecast of over \$5tn by 2030. Bringing that supply on-line is the risk.

### Irish data centre developments point to continued gridlock

One of the key requirements for continued investment in data centres is high quality infrastructure development including a modern grid network capable of facilitating significant capacity. This is an area currently at threat in an Irish context with Bytedance turning down a second data centre build in Dublin favouring the Nordics citing capacity advantage. Hyperscalers are targeting national partnerships as countries seek to build a compute edge. Recent partnerships by Microsoft in Japan (\$10bn) and Thailand (\$1bn) underline this.

### Cyber opportunities are extremely compelling

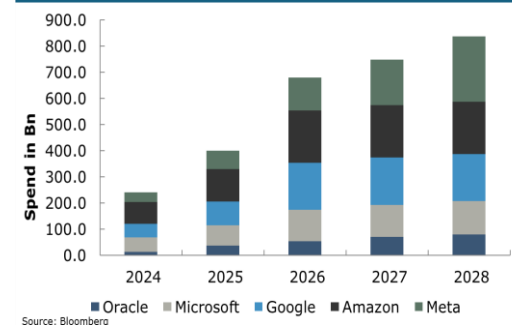
The prolific roll out of Generative AI (GenAI) is expanding the threat landscape. Areas such as Agentic AI are driving new risks including data leakage/theft, loss or misuse activating confidential data in the public domain. In addition, AI tools in the hands of bad actors are creating a litany of novel risks that require new defence solutions. Furthermore, cloud security solutions are in high demand as organisations move to more complex multi-cloud environments to protect data.

### Q1'26 Global VC Activity sees significant growth and concentration in AI

	Value(\$bn)	% Total	No. Investments	Y/Y Change
<b>Total Invested</b>	300		6,000	150%
<b>Subsegments</b>				
of Which AI focused	242	81%		
<b>By Geography</b>				
US	250	83%		
China	16.1	5%		
UK	7.4	2%		
<b>By Type</b>				
Early Stage	41.3	14%	1,800	40%
Late Stage	246.6	82%	584	205%
Seed	12	4%	3,800	-30%

Source: Crunchbase

### Total AI Capex Spend Forecasts by Hyperscaler



Source: Bloomberg

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## The AI spending supercycle; Total AI data centre spend to exceed \$5tn by 2030

With over \$650bn set to be deployed on AI data centres from hyperscalers alone in 2026 (equivalent to c. 2.2% of US GDP and over \$800bn when including the top ten spenders on AI infrastructure such as Coreweave), we outline the potential spend trajectory through to 2030. Amid strong demand, hyperscalers are investing ahead of that demand wave to feed cloud demand, arising from AI usage. The overall quantum could be more than \$5 trillion in cumulative AI capex spend by the end of the decade.

**This is driven largely by just five major companies as we set out below.**

### Eyewatering spend concentrated across five companies

- Amazon has announced an intention to spend c. \$200bn in AI capex in 2026 up from \$131.5bn** (+57% y/y) in 2025 and \$83bn in 2024. Much of the capital is focused on equipping data centres with the right product to drive AWS services and GenAI applications. The investment is backed by accelerating growth in AWS which is expected to grow 29% in 2026; and 37% in 2027 having grown 24% y/y in Q4'25 to \$35.6bn. AWS is becoming one of the core infrastructures for AI training such as OpenAI and Anthropic and is seeing significant demand from custom chips like Trainium and Graviton now at over \$10bn in ARR.
- Meta plans to spend \$115-\$135bn on capex related to data centres this year up from \$72.2bn in 2025.** The spend is part of an effort to support Meta Superintelligence Labs efforts and its core business. Meta previously announced in November 2025 that the company would deploy \$600bn on US data centres by 2028 which is likely to drive significant y/y upticks in spend over the next few years. This spend will help to drive the business product cycle powered by its own AI models. It is working on a variety of chips that support each of its workloads which require a higher magnitude of data centre capacity. Meta noted that the demand for compute resources outpaced the supply available in 2025 pointing to a demand constraint. Meta plans to build tens of gigawatts (GW) of capacity alone this decade to facilitate that demand. Examples include a \$10bn facility in Texas which includes capacity for 1 GW alone.
- Alphabet is planning to spend \$175bn-\$185bn in 2026;** roughly double its 2025 spend. This comes amid a significant spike in its cloud revenue base of over 48% in the current quarter; well ahead of Microsoft Azure growth in the mid-20% range. Alphabet noted the spend includes compute capacity for Google Deepmind and significant cloud customer demand. Alphabet noted that its revenue backlog at Google Cloud at Q4'25 (which includes AI products/services) now exceeds over \$240bn at the end of Q4 within its cloud unit; almost 100% increase y/y and 55% growth sequentially.
- Microsoft plans to spend c. \$150bn this year on AI related capex.** It points to a revenue backlog of c. \$625bn reflecting the strong demand profile (45% of which is contracted from OpenAI) amid \$51.5bn in cloud revenue. Clearly, the quicker it brings the hardware online; the faster it can activate and scale revenue growth.
- Oracle increased its 2026 Capex spend estimate to \$50bn;** which has seen free cashflow move into negative territory. However, on the demand side, Oracle reports remaining performance obligations of c. \$553bn (+325% y/y). This huge increase is largely driven by concentrated agreements. Oracle plans to spend c. \$90bn in 2027 on AI capex which signals confidence in sustained demand conversion.

**This is unprecedented capex. All players point to a significant demand pipeline. The reaction to these spending announcements has been uncertain. Investors are not sure if the investments can generate an adequate return on investment. Furthermore, the available cash buffers of the hyperscalers are being strained and several players are adding debt to fund roll-out.**

## Other consideration and constraints to achieving Return on Investment

We examine what the main blockages might be operationally to achieving an efficient roll out of up to \$5tn of capex over the coming years. These include:

- **A significant build out requirement:** The top four hyperscalers (excluding Oracle) currently run 600 data centres cumulatively globally with over 500 in planning or construction stages which highlights the scale of the build out required.
- **Power constraints:** Despite the need to drive investment live; one of the critical constraints for hyperscalers is power access. Substations, transformer and cooling systems now have lead times of up to 100 weeks from companies such as Scheider Electric in Europe. This is driving completion delays. Data shows about 60% of data centres were delayed at least 3 months last year.
- **Change of cooling systems:** New chips (NVIDIA Blackwell) and its architecture require a shift to cooling systems from air to more complex liquid systems as they create too much heat for traditional systems. This requires plumbing and water purification infrastructure adding more complexity and time to go live.
- **Power requirements:** Next-generation server racks used in AI data centres draw on a level of power that traditional mechanisms of delivering electricity are not compatible with. This is driving an ongoing shift to solid-state transformers as used for fast charging of electric vehicles driving competition with carmakers for components.
- **Renting becoming a theme:** Hyperscalers are turning to renting space from specialists where they cannot turn on their own data centres in time.
- **Middle East tensions:** Many data centres are using diesel as a backup energy source, and we have seen AWS data centres targeted in the Middle East during the war. The overall rise in energy prices points to a potential inflationary mix for the hyperscalers and potentially a shortage of energy which drives delays in bringing the data centres online.
- **Returns on investment projected to fall:** Looking more closely at what this means for return on investment, if you look at consensus estimates for return on invested capital by 2030, there is a large drop projected. Microsoft is the most eye catching at 95% in 2020; expected to fall to 36% by 2030. All players are on a downward spiral.
- **Mounting costs:** Memory and storage prices (DRAM, HBM) are rising alongside server costs, adding to the expense of building AI-ready capacity.
- **In an Irish context, there is a need for a significant modernisation of the grid network and infrastructure to house modern data centres.** With the hyperscalers investing, there is a real opportunity now for Ireland to become a centre point in Europe for that investment. However, examples such as the Bytedance decision to choose Norway given the capacity capability and infrastructure gaps create risks.

## Rapid AI deployment and funding places SAAS future in the spotlight

One of the enduring themes of the current quarter is the acceleration in deployment of AI tools and significant investor focus on AI related growth. **This raises questions on the viability of existing software models where AI tools can potentially replace those workflows and accelerate productivity.**

### Funding rounds for Anthropic and OpenAI highlight the investor appetite for AI

At the model layer, the two leading players have secured massive funding rounds. OpenAI raised \$122bn at a post-money valuation of \$852bn led by Softbank, and Andreessen Horowitz. In terms of adoption, ChatGPT now has 900m weekly active users and over 50m subscribers. The revenue projections indicate a run-rate revenue of c. \$24bn so the multiple at c.36x Revenue is high; though indicates investor focus on the disruptive nature of AI.

Similarly, Anthropic, the market leader in enterprise AI and coding via Claude, completed a funding round of \$30bn in February at a post-money valuation of \$380bn which was co-led by DE Shaw Ventures, Dragoneer, Founders Fund, ICONIQ and MGX. Funds will continue to fuel frontier research, product development and infrastructure expansion. At a run-rate revenue of c \$14bn, it implies an enterprise value to revenue ratio (EV/Revenue) of over 27x though we note the run-rate revenue has since increased to over \$30bn, doubling in under two months indicating the scale of the take up. **Some operational stats:** Over 500 of its customers were spending \$1m per annum on the platform at the end of February and this is now at over 1,000 with 80% of the revenue enterprise-focused and it is predicting Free cash flow positive by 2027. Business subscriptions to Claude have more than quadrupled since the start of 2026 as AI begins to scale across the enterprise. Claude product updates have been some of the most persistent reasons for market disruption in the SAAS area.

### Venture funding concentrates on AI in Q1 dominating over 80% of deals

- According to Crunchbase data, \$300bn was raised across 6,000 companies in Q1 2026 (150% growth y/y). Over \$240bn has been deployed into AI in Q1 at over 80% of total venture volume concentrated into larger deals – for reference in Q1'25 AI accounted for 55% of deals.
- OpenAI and Anthropic are mentioned above whilst xAI raised \$20bn and Waymo (Self-driving) raised \$18bn together accounting for 65% of global venture deals. The areas seeing the most attention include **generative and physical AI, autonomous vehicles, semiconductors, data centres, robotics, and defence.**
- **Geographically**, the US accounts for 83% of deal flow up from 71% in Q1'25 with China in second place at \$16.1bn followed by the UK at \$7.4bn.
- **Exits:** M&A was a stronger environment for liquidity versus IPO in Q1. Overall IPO activity was weaker in the US given the software sell off.

### Funding focus is all on AI deployment leaving SAAS in the spotlight

The major players at the AI model layer are securing funding at significant levels as investors bet on a new future in which AI replaces traditional workflows in the enterprise. We believe that AI roll out is continuing to develop progressively but valuations do look stretched in the short term and we ascribe to the view that traditional models will need to evolve, in traditional software seat-based pricing mechanisms where these workflows can now be automated more effectively with AI.

We believe areas that are more protected include...

- **Organisations with strong product-first approaches;** sector specialism and strong integrated applications to other parts of the enterprise.
- **Systems of record:** Sensitive areas including Finance; HR and Public Services also offer protection given regulatory challenges of adopting autonomous AI tools here and ripping out incumbent SAAS frameworks.
- **Vertical over horizontal;** If the SAAS provider operates in distinct vertical with long-dated customer relationships; high-quality product-sets in areas that decision-making is important for the company strategically.
- **Data Ownership;** In an era of expanded Agentic AI and autonomous workloads; where the company has valuable first-party data that can be used to drive decision making; then this also acts as a defence mechanism to AI replacement.

## AI amplifies cyber threats; Data explosion creates opportunities

AI is fundamentally transforming the cyber-attack and defence strategies. On the attack side, the rise of AI generated phishing emails, and deepfakes, as well as other personalised attacks using AI make it easier, faster and cost-effective for attackers to gain access to sensitive information undetected. Ultimately, the tools in the hands of attackers are now at a significantly more professional and personalised level which suggests more potential of success. In essence, this means Chief Information Security Officers (CISOs) need to expand their defence strategies which includes novel AI tools. The rapid addition of AI in the workplace with novel, automated tools is happening without the appropriate governance and regulation that protects organisations from data hacks. This will bring significant attention to the cyber sector as organisations deal with the financial implications of data hacks.

- **Cloud security is on the rise as organisations continue to broaden cloud needs**

In a multi-cloud environment as organisations use different solutions with a variety of workload requirements; this creates a tailwind for related cloud-security solutions. Companies are raising money in the space and expanding with organisations seeking enterprise-grade security in the cloud. Looking recently, the Alphabet acquisition of Israeli-based Wiz which completed for over \$32bn (priced at over 32x ARR) this quarter positions Alphabet nicely for cloud related security. It allows it to compete more effectively with AWS (Amazon) and Azure (Microsoft). While Wiz will operate within the Google cloud environment, it will also offer its security platform across AWS, Azure and other platforms. The deal should allow a focus on enterprise grade security across hybrid cloud environments increasing detection and threat responses to cyber risks. This is a service organisations need from smaller and bigger providers as data extrapolates across multiple cloud environments.

- **Protection of the attack surface an ongoing issue for CISOs**

The ability to protect supply chains, third party vendors remain a key challenge as bad actors exploit processes that people, AI and others use to detect sensitive information. This is driving a requirement for real-time AI solutions for defence and threat detection; and continuous monitoring based on new novel attack techniques.

- **The broader roll out of Agentic AI demands a similar cyber defence solution:** AI Agents are proliferating into the enterprise without sufficient control, and this is extrapolating the cyber risk landscape for companies potentially placing data at risk of leakage or theft. This autonomous model creates significantly increased requirement for autonomous solutions.

- **Regulatory push in Europe:** The EU AI Act established in Europe forces companies that are using AI into a broader suite of compliance measures. In essence, the Act emphasizes security by design and default in the deployment of AI tools. It means that developers creating AI tools in Europe must embed security measures during operation, updates and decommissioning including reporting serious incidents to relevant authorities.

- **M&A trends set to accelerate:** At the enterprise layer, we expect this is going to accelerate deal activity to acquire novel cyber solutions for an Agentic AI world. We have witnessed a significant platformisation at the enterprise end of cyber with CISOs looking for one-stop solutions to manage the ever-increasing attack surface and incumbents moving AI first.

- **AI Threat to Incumbents:** We have seen some recent weakness in major cyber names such as Palo Alto Networks and Zscaler driven by the proposed release of Mythos from Anthropic; a stated powerful cyber-security-based tool in its latest model update. **Our view is that the wider ramifications of AI have created a significantly larger attack surface that expands the Total Addressable Market (TAM) creating space for novel solutions from incumbents and for new entrants. Indeed, we note that some of the large cyber security companies are working with Mythos already pre-release to accelerate threat hunting and vulnerability testing globally as risks spike on the attacker side with AI.**

## Summary View – An exciting time to be building in the Technology Sector

- **AI usage is growing globally**, which is accelerating capex commitments and trends as hyperscalers seek to take a market leadership positioning on warehousing the compute resources and running the required workloads. This has real return on investment implications however the evidence points positively in the hyperscalers direction for now; but it is not entirely within the hyperscalers control if that capex can be turned revenue-generative quick enough given power consumption and other applications required to move on-line. The other concerning point is that if the return on investment is not immediate, it poses balance sheet risks for hyperscalers who are moving from significantly cash positive to net debt positions.
- **The growing AI usage has placed enterprise SAAS in a moment of truth around business models** and future ways of serving the enterprise. This is accelerating a shift to a more productised environment for enterprises and faster decision making is inevitable.
- **Data centre roll out globally with over \$5tn forecast to be spent by the end of 2030 presents a game changing opportunity for market leadership in Europe** from an Irish context and recent wins in terms of inward investment from frontier research labs including OpenAI and Anthropic outline the potential bigger prize of hosting more of the data that they are going to produce. That boils down to our willingness to support and collaborate with hyperscalers on their requirements including grid infrastructure and capacity.
- **The opportunities are significant for builders as companies of all sizes begin to experiment more with new efficiencies from increased AI usage.** We believe the most significant opportunity waits for cyber security companies who evolve for the latest wave of AI-infused threats that occur due to weaker governance controls in the face of a revenue-first mentality from AI tools providers. Examples of cyber defence leaders in an Irish context include Tines (Automation); TitanHQ (Web/email security and now part of CyberCentriq, a cloud-based cyber security platform for managed services providers targeting over \$100m in ARR by 2028); EdgeScan (Vulnerability Management Platform); Smarttech247 (Managed Detection and Response and Vaultree (Data-in-use encryption) amongst many others in a sector with strong growth potential particularly in the areas of compliance and testing.



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