

Jennison

How is AI reshaping the software industry

Owen Hyde, CFA – Managing Director, Large Cap Growth Equity Research Analyst

Audio Starts

Owen:

So we have seen an explosion in net new code creation which has been a very big deal, not only for the private markets and the revenue generated within these AI labs, but it's also had an impact in the public space, as you've seen a lot of software vendors in the SaaS world actually get negatively impacted and had their share prices declined significantly, just simply because there's a new element of competition that's come in with an application software. So there's a lot of questions around what the moats are in software, and that's almost a direct impact from the new product market fit that we've seen develop inside of the AI labs around coding. Over time, we think that a lot of these application software vendors will actually adopt this technology and perhaps use it to improve their products, but there's definitely some dislocation and people have more questions around terminal value within application software.

The questions around software have really become, in the future, will folks be interacting more with large language models directly? And those applications actually become more of a data store on the back end and something that the AI model is actually access for information. And questions begin to arise whether or not that reduces the pricing power of traditional application software. What we think is that over time, there actually is going to be a major bifurcation between winners and losers in software. And the market right now is sort of treating all software as the net loser of this. And so what we think is that infrastructure software and cybersecurity will actually be almost immediate beneficiaries as they are actually more tied to volume growth of software. And application software, depending on the application, may start to see some pricing power erode. But ultimately on the application software side what it is really about is being able to build a useful AI Agent.

Audio Ends

This video is for informational or educational purposes, and it does not constitute investment advice and should not be used as the basis for any investment decision. This video does not purport to provide any legal, tax, or accounting advice. In providing this information, Jennison Associates LLC ("Jennison") is not acting as your fiduciary. The information in this video has been obtained from sources that Jennison believes to be reliable as of the date presented; however, Jennison cannot guarantee the accuracy of such information, assure its completeness, or warrants such information will not be changed. The information contained herein is current as of the date of issuance or such earlier date as referenced herein and is subject to change without notice. Jennison has no obligation to update any or all such information; nor do we make any express or implied warranties or representations as to the completeness or accuracy. Past performance does not guarantee future results.

Any projections or forecasts presented herein are subject to change without notice. Actual data will vary and may not be reflected here. No liability whatsoever is accepted for any loss whether direct, indirect, or consequential that may arise from any use of the information contained in or derived from this video. Jennison may make investment decisions that are inconsistent with the recommendations or views expressed herein. The opinions and recommendations herein do not take into account individual client circumstances, objectives, or needs and are not intended as recommendations of particular securities, financial instruments or strategies to particular clients or prospects. No determination has been made regarding the suitability of any securities, financial instruments or strategies for particular clients or prospects. Distribution of this information to any person other than the person to whom this video has been originally delivered, and to such person's advisers, is not permitted. Any reproduction of this video, in whole or in part, or the disclosure or redistribution of any of its contents, without the prior written consent of Jennison, is prohibited. This video may contain confidential information and the recipient thereof agrees to maintain the confidentiality of such information.

Jennison is a registered investment advisor under the U.S. Investment Advisers Act of 1940, as amended, and a Prudential Financial, Inc. ("PFI") company. Registration as a registered investment adviser does not imply a certain level of skill or training. Jennison Associates LLC has not been licensed or registered to provide investment services in any jurisdiction outside the United States. Additionally, vehicles may not be registered or available for investment in all jurisdictions. Prudential Financial, Inc. of the United States is not affiliated in any manner with Prudential plc, incorporated in the United Kingdom or with Prudential Assurance Company, a subsidiary of M&G plc, incorporated in the United Kingdom.

Please visit <https://www.jennison.com/us/en/institutional/about-us/important-disclosures> for important information, including information on non-US jurisdictions.

The information contained in this document should not be construed as a solicitation or offering of investment services by Jennison or a solicitation to sell or a solicitation of an offer to buy any shares of any securities nor shall any securities be offered or sold to any person in any jurisdiction where such a solicitation or offering would be unlawful under the applicable laws of such jurisdiction.

This content is intended for Institutional and Professional Investors only. All investments involve risk, including the possible loss of capital.