

## IS AI A THREAT TO DIGITAL BUSINESS MODELS? NOT QUITE.

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### Key Takeaways

- AI is reshaping the future of software services, but does it mark the end of the road for data providers and digital business models?
- Guided by our quality growth investment approach, we seek digital business models that can become more essential as AI adoption accelerates.
- Our research highlights a diverse mix of software providers, data platforms and digital payment models across the US, Europe and Asia with strong durable competitive advantages.
- In our view, these moats are rooted in proprietary, high-quality data, sustained innovation and deeply customer-embedded workflows that are difficult to replace.



### The limits of AI “vibe-coding”

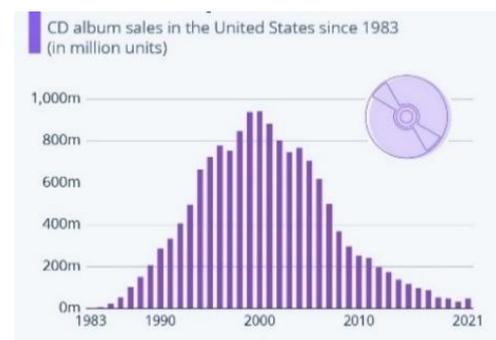
In 2002, Watts S. Humphrey, an American pioneer of software engineering, argued that every company was becoming a software company.<sup>2</sup> In retrospect, his observation was prescient. At the time, technology providers such as Microsoft relied on the physical distribution of CD-ROMs to install software. For access to any upgrades, customers would then have to purchase new boxed versions of software products such as Microsoft Windows or Word.

Over two decades later, that world has largely vanished. Software is now typically delivered as a service (SaaS), hosted in the cloud and updated automatically across laptops and smartphones. The same transition has taken place among data providers. Offices that once housed floor-to-ceiling shelves of manuals, binders and reference books have shifted to searchable digital services with integrated tools. Professionals who relied on the latest print editions to keep pace with changing rules and research now access databases that deliver current, trustworthy information on demand.<sup>3</sup>

Nine years after Humphrey’s remarks on the rise of software, Silicon Valley venture capitalist Marc Andreessen took the idea one step further, writing that, “software is eating the world.”<sup>4</sup> Since 2011, the shift to digital software has been rapid. Physical CDs have become far less common in the age of streaming platforms like Spotify and Netflix, as shown in *Figure 1*.

If “software ate the world” over the past decade, a new question is now emerging: will AI eat software?<sup>5</sup> The rapid rise of AI has prompted market watchers to reassess their assumptions about software services, data providers and exchanges. A growing “AI will replace everything” narrative has taken hold in the market. Some now ask whether AI could displace parts of the software stack itself. Others have become proponents of so-called “vibe-coding,” a shorthand for using large language models (LLMs), such as ChatGPT, Claude, Gemini or DeepSeek, to create software from scratch and potentially replicate the services provided by traditional software companies and digital business models.<sup>6</sup>

**Figure 1. Rise and fall of compact discs in the United States (1983-2021)**



Source: Richter, Felix. “*The Rise and Fall of the Compact Disc*.” Statista, 17-Aug-2022.

<sup>1</sup> Including data platforms, exchanges and digital payment models.

<sup>2</sup> Sheppard, Neil. “*Is Every Company Really a Software Company Now?*” LeanIX, 4-Jan-2024.

<sup>3</sup> SenGupta, Reena. “*Digital Delivery from the Daily Grind for Younger Lawyers*.” Financial Times, 10-Dec-2021.

<sup>4</sup> Andreessen, Marc. “*Why Software Is Eating the World*.” Andreessen Horowitz, 9-Sept-2024.

<sup>5</sup> Barr, Alistair. “*Software Ate the World. Now AI Is Eating Software*.” Business Insider, 5-Feb-2026.

<sup>6</sup> Tidy, Joe. “*Major ‘vibe-Coding’ Platform Orchids Is Easily Hacked, Researcher Finds*.” BBC News, 13-Feb-2026.

## AI is widening the moat between structural winners and the rest

At Comgest, we rely on our quality growth investment approach grounded in bottom-up research. We do not believe AI spells the end of software as we know it. Even when access to proprietary data is uneven, AI can enable cheaper, faster and more innovative ways to leverage available information, raising competitive intensity and potentially unsettling the current landscape. As with the telecom build-out and the early internet, investors may overestimate the pace of change while underestimating AI's multi-decade impact.<sup>7</sup> We believe this dynamic environment could allow durable businesses to keep compounding profits well before any debates about terminal multiples become relevant.

Comgest's portfolio companies span the digital infrastructure spectrum – from data providers, exchanges and payment rails to enterprise resource planning (ERP) and application software. In parts of the digital economy, barriers to entry can appear low or even minimal, as is the current case for programming software. From our perspective, the harder test is staying relevant over time. This is where the barriers to long-term success emerge: scale, sustainable profitability, network effects, regulatory survivability, data governance, built trust and brand recognition. These are what distinguish enduring software and digital businesses from aspiring AI challengers.

There will inevitably be winners and losers. In our view, the most exposed are software, digital and online platform companies without sustainable moats, particularly those that fail to invest meaningfully in AI or translate it into added value, either for clients (through product integration) or themselves (through productivity and cost savings). Businesses unable to retain talent through share-based compensation or other incentives also risk falling behind. Likewise, companies that deploy AI marketing rhetoric while clinging to outdated per-seat pricing, rather than value-based pricing models, may struggle to remain relevant.

Against this backdrop, we tend to have limited exposure to more vulnerable software and digital franchises. When building our portfolios, we typically seek established software services and data providers with advantages that LLMs often lack, such as proprietary databases, embedded workflows and integrated products that create high switching costs. We also look for business models that are scaled and profitable, which allows for iterative innovation. Detailed fundamental analysis enables us to distinguish between these companies facing manageable, short-term disruption and those at risk of permanent structural damage to their business models (the "terminal decay" thesis).<sup>8</sup> In our view, the strongest franchises can harness AI to deepen their competitive advantages and sustain long term compounding growth.

## Riding the rails of quality data

As generative AI has spread, so too has the appetite for dependable, verifiable data. Many of the weaknesses users associate with LLMs, hallucinations and factual errors, stem from limitations in source material and poor curation.<sup>9</sup> There is also growing evidence that AI models produce erroneous results when trained on data generated by other (non-human) AI models.<sup>10</sup> For professionals operating in high-stakes environments, AI-generated mistakes could lead to meaningful financial, legal or reputational costs.



We believe that reliable, high-quality datasets are likely to become an increasingly vital input for software companies and equally for AI-based applications. In our view, **RELX Group**, the British information and analytics company, is well positioned to benefit this development. The company owns extensive digital archives and proprietary datasets that underpin products used by legal, medical and scientific

professionals—fields where precision and accuracy are essential. LexisNexis, RELX's legal information company, maintains one of the world's largest databases for legal and public records, with over 138 billion documents.<sup>11</sup>

RELX Group's price-to-earnings multiple expanded between 2021 and 2025, reflecting investor expectations that its data assets could be monetised through AI to unlock new opportunities.<sup>12</sup> Last year, its legal division reported nearly 9% revenue growth.<sup>13</sup> The company's continued share buybacks suggest management confidence in the durability of the company.<sup>14</sup>

<sup>7</sup> Foroohar, Rana. "Silicon Valley Called - the 1990s Are Back." *Financial Times*, 27-Oct-2025.

<sup>8</sup> Christensen, Clayton M. "The Innovator's Dilemma: When New Technologies Cause Great Firms to Fail." Harvard Business School, 1997.

<sup>9</sup> Zewe, Adam. "Researchers Discover a Shortcoming That Makes LLMs Less Reliable." Massachusetts Institute of Technology, 26-Nov-2025.

<sup>10</sup> Shumailov, Iliia, Zakhar Shumaylov, Yiren Zhao, Nicolas Papernot, Ross Anderson, and Yarin Gal. "AI Models Collapse When Trained on Recursively Generated Data." *Nature News*, 24-Jul-2024.

<sup>11</sup> LexisNexis website, Accessed on 16-Feb-2026

<sup>12</sup> Hughes, Chris. "AI Software Selloff: Who Is on the Other Side of the Trade?" *Bloomberg*, 11-Feb-2026.

<sup>13</sup> "Results for the Six Months to 30 June 2025." RELX, 24-Jul-2025.

<sup>14</sup> Pratley, Nils. "How to Deal with the 'Claude Crash': Relx Should Keep Buying Back Shares, Then Buy More." *The Guardian*, 12-Feb-2026.

Launched in the 1970s as the first online legal research service, LexisNexis has spent decades building a comprehensive archive of case law, court documents and judicial rulings. It also owns or controls a constantly refreshed corpus of licensed proprietary content, with nearly two million documents added daily.<sup>15</sup> Beyond raw data, it owns decades of editorial intellectual property—headnotes, citations, and summaries—that are copyrighted and difficult for generic LLMs to replicate.<sup>16</sup> Crucially, LexisNexis stands behind its products with contractual liability, whereas many AI vendors function as workflow layers built on licensed data rather than replacing the underlying proprietary datasets.<sup>17</sup>



**Verisk**, the US-based data analytics company, offers a similar structural advantage in insurance. Its proprietary datasets include approximately 39 billion underwriting records dating back to 1971 and over 1.9 billion claims records—among the largest repositories in US property and casualty insurance.<sup>18</sup> The depth, longevity and

embedded nature of this data support underwriting accuracy, fraud mitigation and risk assessment, creating a defensible competitive position that generic AI models may struggle to match.

Verisk's data is deeply embedded into client workflows, reinforcing high switching costs and recurring demand across cycles. Even during the 2007-2009 Global Financial Crisis, the company continued to expand.<sup>19</sup> With an organic growth rate of around 7% in 2025, it has demonstrated resilience and maintained market leadership.<sup>20</sup>

Credit data provides another example. **Experian**, headquartered in Dublin, is one of the three largest credit bureaus in the world.<sup>21</sup> It holds files on over one billion consumers and 150 million businesses globally.<sup>22</sup> The scale of Experian's databases, combined with the relationships built around them, creates formidable barriers to entry for potential AI competitors. For lenders making credit decisions, reliable data remains essential. In our view, that dependency reinforces the robustness of the company's business model.



Taken together, these examples illustrate one enduring source of advantage in software: proprietary, high-quality data. Another is workflow integration—where switching costs and implementation risk reinforce long-term customer relationships and support sustained compounding.

### High-retention businesses with staying power

We believe digital business models tend to be very “sticky,” exhibiting high levels of customer retention, because their products are deeply embedded in day-to-day workflows and integrated into the back-office systems of companies. Implementing ERP software, for example, can take six months to several years depending on the size, scale and complexity of a company.<sup>23</sup> ERP systems are the backbone of a company, linking human resources, payroll, supply chains and management reporting through customised interfaces and products.

Migrating these functions to an entirely new system can be expensive and disruptive. Processes must be redesigned, data transferred and employees retrained. This transition not only takes time but also carries operational risk. For these reasons, we do not expect certain ERP systems to be replaced overnight by LLMs.

**OBIC**, a Japanese ERP provider that we first added to our investment universe in 2005, illustrates this stickiness. Founded in 1968 by Masahiro Noda, who remains chair and the company's largest shareholder, OBIC focuses on serving Japan's small and mid-sized companies.<sup>24</sup> In its latest full-year results, the company delivered 8.6% year-on-year revenue growth and increased operating profit for the 31<sup>st</sup> consecutive year.<sup>25</sup>



OBIC has continued to expand its installed base, with client numbers rising from 24,000 four years ago to 28,000 in the third quarter of 2024.<sup>26</sup> It has also retained its position as Japan's leading domestic ERP provider, with an 11.8% market share at the end of 2024.<sup>27</sup> As Japanese businesses continue to digitise

<sup>15</sup> [LexisNexis website](#), Accessed on 16-Feb-2026

<sup>16</sup> Schmelzer, Ron. “AI-Powered Law Firms: LexisNexis CTO Reveals Why Waiting Is Not an Option.” *Forbes*, 25-Mar-2025.

<sup>17</sup> “Claude Crash Impact on Thomson Reuters + LexisNexis Is Irrational.” *Artificial Lawyer*, 4-Feb-2026.

<sup>18</sup> “2025 Annual Report.” Verisk, 18-Feb-2026.

<sup>19</sup> “Verisk at Bernstein Conference: Strategic Focus on Innovation.” *Investing.com*, 29-May-2025.

<sup>20</sup> “2024 Corporate Responsibility Report.” Verisk, 26-Feb-2025.

<sup>21</sup> Quinio, Akila, and Joshua Franklin. “New Approach to Credit Scoring Data Could Reshape Us Home Lending.” *Financial Times*, 2-Oct-2025.

<sup>22</sup> “Half-Yearly Results for the Six Months Ended 30 September 2025.” Experian, 12-Nov-2025.

<sup>23</sup> “Getting an ERP Transformation Back on Track.” McKinsey & Company, 14-Jul-2024.

<sup>24</sup> [OBIC Shares and Shareholders Information](#), Accessed 16-Feb-2026

<sup>25</sup> OBIC, [Financial Results Presentation](#), 31-Mar-2025

<sup>26</sup> OBIC, [Financial Results Presentation](#), 31-Mar-2025

<sup>27</sup> “OBIC Integrated Report 2025.” OBIC. Accessed 20-Feb-2026.

processes and migrate services to the cloud, including accounting and inventory control, we believe OBIC is well positioned to benefit from this structural trend.

### Categorising is not something we do

At Comgest, we do not approach AI as a thematic allocation. We continue to build portfolios stock by stock, guided by bottom-up analysis and our quality growth criteria. Whether assessing a software provider, a pharmaceutical company or a consumer business, we ask the same question: can this company sustain double-digit earnings growth on the back of durable competitive advantages? These may include strong balance sheets, sustained investment in R&D or a culture of consistent execution.

Based on this approach, we do not regard the software industry as a monolith. In the age of AI, we recognise that not all companies will adapt equally. Disruption is likely to expose software companies built on weaker foundations. Despite the current AI buzz, this pattern is familiar for us. Over Comgest’s forty-year history, we have seen successive waves of technological change reshape industries and displace incumbents.

The software industry has experienced this before, too. Physical media has steadily transitioned to digital platforms, such as Spotify and Netflix. Our task as quality growth investors is not to predict each technological inflection point, but to identify the companies with deep defensible moats that we believe can harness new technologies. In our view, software service providers with access to proprietary data, embedded workflows and highly integrated business models are better positioned to withstand disruption from the latest generation of AI models and “vibe-coders”.



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