

Underwriting AI's Impact on Software Borrowers From the Perspective of a Private Credit Specialist

Rapid improvements in AI-powered coding tools have catalyzed a reassessment of software company valuations. We believe AI will be a disruptive technology—this is not just a market tantrum. Having said this, we also believe the dystopian narrative around the demise of software is overstated and that AI's impact will vary materially across different software businesses.

SaaS in the AI Era

For the last several years, AI has dominated minds and markets. Initially, the focus was on growing demand for chips and data centers. Then, attention shifted to the potential for AI to enhance productivity. More recently, we have seen the emergence of a new theme: the possibility that AI will disrupt and even destroy a swath of existing businesses that have heretofore been growing and successful.

Underlying these shifts has been remarkably rapid progress in AI-powered coding tools and, on the horizon, agentic and generative AI. Even data scientists at the cutting edge of AI have been surprised at the pace of progress.

The market is grappling with this ultra-rapid pace of development, trying to distinguish winners from losers. One area the market has deemed a loser is the Software-as-a-Service (SaaS) space. Over the last three months, the equity market capitalization of the broader software sector has fallen by one-third, a revaluation that implies nearly zero percent long-term growth based on a traditional discounted cash flow analysis.¹

A Credit Specialist's View

Our perspective is grounded in long history and deep expertise in software lending (see Exhibit 1). We have been a leading lender to private equity-backed software companies

for 20 years, completing more than 1,000 transactions representing over \$90 billion in commitments. Over this 20-year period, we have experienced only four defaults, representing an average annual default rate of approximately 0.05%.² We attribute this record to our “credit-first” underwriting and active portfolio management, strong partnerships with leading private equity sector experts and a dedicated software team with experience navigating multiple credit and technology cycles.

Exhibit 1

Our Experience in Software

20+ Years
Investment experience

0.05%
Average annual default rate¹

\$90+ Billion
Committed capital²

1,000+
Software transactions closed²

25+

Software investment professionals

1. See footnote #2 at the bottom of the page.

2. Amounts shown are from January 1, 2006 to December 31, 2025.

1. McKinsey Software Report: SaaS Apocalypse or SaaS Renaissance, February 2026.

2. Reflects the average annual default rate of first lien middle market leveraged loans monitored by Golub Capital's Software & Technology underwriting team. The default rate is defined as (a) the aggregate principal amount of first lien middle market leveraged loans on a cost basis that are classified as defaults during the calendar year divided by (b) the aggregate principal amount of first lien middle market leveraged loans outstanding at the end of the period. A loan is classified as a default if it falls within one of the three scenarios: (a) There is an uncured payment default with respect to principal or interest, (b) the loan has been restructured with a full or partial debt-for-equity exchange or (c) a loan is amended such that (i) cash interest is reduced to a rate less than the applicable base rate + 1% for at least two consecutive quarters and (ii) the loan had an internal performance rating of 1 or 2. Scenario C became effective as of January 1, 2018.

Lessons Learned

Our experience has taught us that the SaaS industry is too complex for generalizations. SaaS firms range widely in maturity (from entrepreneurial ventures to “cash cows”); they cover a wide range of industries (some growing and some declining); some are tools-based and narrow in focus, while others are enterprise-wide and deeply embedded. We can’t have a useful conversation about AI-related risk or opportunities unless we are more specific about the kinds of companies we are talking about. To address this as a lender, we have developed a framework to identify and assess relative risk and reward in the sector. The section below outlines the key elements of this framework.

1. We incorporate AI risk into our underwriting and monitoring process.

Beginning in 2023, we incorporated borrower-specific AI risk assessments into our underwriting process when evaluating all new software investments. We also created a framework for assessing potential AI risk across our existing portfolio, including the durability of the company’s product, value proposition, revenue model, end markets and clients served.

2. We focus on resilient SaaS borrowers.

Even before AI, the principal theme of our underwriting has been to lend to market leaders with sustainable competitive advantages. We have long held the view that the most credit-worthy software companies are B2B enterprise software providers that are dominant players in niche markets. These “winners” are typically best-of-breed providers of mission-critical software entrenched in daily operations. These firms’ products typically take a long time to install and are very difficult to replace. They provide a compelling value proposition to end clients. These companies have a robust and diverse installed base of clients with a long track record of consistently renewing core software solutions and expanding the number of users and use cases. These resilient SaaS borrowers tend to have structural moats that can protect against AI disruption (see the next point).

3. We have identified a series of structural moats that can protect SaaS companies from AI disruption.

Our software borrowers typically have structural moats against AI. These may include (i) long implementation cycles and high switching costs; (ii) functioning as clients’ systems of record or supporting mission-critical workflows; (iii) deep integration with native proprietary data that enterprises are unwilling to share and LLMs cannot readily access; (iv) strict requirements for uptime and deterministic accuracy and auditability; and (v) serving highly regulated industries or mission-critical use cases

where the cost of failure is high and switching to a new, unproven solution poses significant risk (e.g., cybersecurity or infrastructure). We believe such companies are resilient to AI-related competitive pressures; in fact, in some cases they will be net beneficiaries, as AI enables SaaS leaders to expand the functions of their products.

4. We study client behavior to assess the power of structural moats.

There are real challenges and risks associated with switching complex enterprise software platforms to “home-grown” AI solutions. Before adopting an AI-native solution, enterprise clients would need to evaluate the ongoing costs and internal resources required to maintain these new solutions. We believe enterprises choose a software solution not only for its functionality but also for the value of a third-party vendor whose core business is to maintain and continuously improve the product over time. This includes providing vertical industry expertise, ongoing development, scalable infrastructure, platform security, efficient economics and dedicated customer support. We conduct due diligence on how often and why new clients choose a SaaS vendor over its competitors and how often and why existing clients choose not to renew and where they go. Actual client behavior provides an insight into the power of the SaaS provider’s defensive moat.

5. We constantly assess and reassess risk—including AI risk.

We continually evaluate risk in our portfolio. Specifically, we identify defensive moats for each credit and evaluate each company’s AI product roadmap. This assessment considers the potential for AI disruption at the product level, the end-client level and the end-market level, as well as any resulting impact on the revenue model. Based on the totality of this analysis, we score each company on a 1–5 scale with respect to AI risk (1 = low; 5 = high). Our most recent analysis has categorized approximately 8% of our software portfolio in the higher risk categories of 4 and 5.³ We attribute this low level of high-risk credits to our longstanding underwriting standards and our attention to AI as a standalone risk well before the current market dislocation. To date, our software portfolio has experienced minimal financial impact from AI disruption.

6. We believe well-managed SaaS companies have AI-driven opportunities.

There’s upside to consider as well. For many software companies in our portfolio, AI provides an opportunity to drive revenue growth through new product development while also improving operating efficiency across the organization. Many of our software borrowers have developed (or are developing) their own agentic AI products

3. As of December 31, 2025. Based on outstanding debt par value.

that deliver additional value to end clients and can be cross sold, supporting incremental revenue and deeper product entrenchment. On the cost side, software companies are deploying AI-enabled tools across their organization to drive efficiency and scalability (e.g., increased R&D efficiency using AI coding solutions).

7. We look at the world through credit-colored glasses.

We evaluate companies through a different lens than equity investors. Credit outcomes depend primarily on performance over a shorter, contractually defined time frame, not on long-term growth narratives or terminal value assumptions. In the context of AI, this means assessing whether technological change could impair client retention, pricing power or margins in ways that threaten cash flow available for debt service during our hold period. As first lien, senior secured lenders, we also focus on our position in the capital structure and the size of equity cushion as part of our assessment of downside protection—specifically, how much pressure a business can absorb before the repayment of principal is at risk. This credit-first orientation reinforces our focus on resilient software businesses that can adapt to AI-driven change while continuing to meet their contractual loan obligations, even in downside scenarios.

8. We keep ourselves plugged in to the leading experts in the field.

AI is evolving rapidly, and no single person or firm has all the answers. We recognize that our underwriting and monitoring framework must continue to evolve as new technologies, use cases and competitive dynamics emerge. To stay informed, we maintain active dialogue with a broad set of experts, including software investors, consultants, operators, clients, engineers and researchers. We seek out diverse—and in particular, contrarian—perspectives that challenge prevailing market narratives and test our assumptions about both AI risk and opportunity. These inputs help us distinguish between theoretical disruption and real-world impact and inform how we refine and apply our underwriting framework.

In short, we believe the popular narrative around the demise of SaaS is overstated.⁴ AI's impact will in some cases be negative, in some cases it will be neutral and in some cases it will provide new momentum through enhanced agent-enabled use cases and larger addressable markets.⁵ Successful lenders to SaaS companies will be expert at telling the difference. We have done so in the past, and we have cautious optimism that we will be able to do so going forward. We approach the task with humility, recognizing that AI's impact on software will take time to fully play out. In the meantime, we remain committed to an open and transparent dialogue with our investors about our approach.

4. "The 2028 Global Intelligence Crisis," from Citrini Research, February 22, 2026.

5. McKinsey Software Report: SaaSocalypse or SaaS Renaissance, February 2026.

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