

BlueBox Funds - BlueBox Global Technology Fund

Direct Connection

Global
Technology
Fund

bluebox

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BLUEBOX TECHNOLOGY – THOUGHTS ON SOFTWARE AND GENERATIVE AI

In the past couple of months, the debate over the impact of generative AI on cloud software companies has become ever more heated, even as those stocks have almost relentlessly underperformed. In the last couple of weeks there has been increasing pushback from a number of sources (ranging from experienced tech investors to the CEO of NVIDIA), suggesting that an apparent panic out of software stocks is at least overdone, if not completely wrong.

Successful cloud software companies have been superb businesses, with low capital intensity, high returns, strong customer lock-in and the potential to grow through customer wins, user growth at existing customers, additional products/ functionality and price increases. The current bear argument is that the ability to easily write new software using GenAI threatens or even reverses that growth. There are several possible mechanisms:

- GenAI makes customers' staff much more efficient, leading to headcount reductions and thus declining seat numbers for software vendors.

[Incidentally, I think this point is completely incorrect in most circumstances – after an initial period of adjustment, greater efficiency usually increases demand for staff. As an example radiologists, the profession supposed to be most threatened by AI over the past decade, is seeing surging demand, and recruitment can't keep up in either the UK (Royal College of Radiologists) or the US (American College of Radiology).]

- GenAI makes it much easier to create competing software, whether from new disruptive competitors or within the customers themselves, demolishing barriers to competition for the existing cloud players.
- GenAI creates completely different ways to achieve the same goals as the traditional software vendors, making them obsolete.
- The factors above act to limit the ability of the software companies to push through regular price increases.

My own view is that GenAI, although clearly increasing risk for the cloud software businesses, may in the end prove beneficial to these well-established platforms. Enterprise IT buying is extremely conservative and risk-averse, and the resulting inertia gives incumbents time to regain the initiative. The platforms own the customers, data, domain expertise and vast resources of cash and engineering talent. They've all read *The Innovator's Dilemma* and are paranoid about disruption and willing to take big risks to avoid it, backed by massive cashflows. They will endeavour to copy, acquire or destroy insurgent competition (I'm not saying this a good thing!)

I might well be wrong, as there are plenty of extremely well-informed commentators arguing the reverse. That's why we reduced our long-term target weights for our cloud holdings more than a year ago – risk is clearly higher now. However, that's not really what this note is about: I wanted to highlight an interesting anomaly in how the stocks concerned are performing. I shall use Adobe and Salesforce as the models, with data from Bloomberg.

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Figure 1 plots Adobe's stock price in white, and its 12-month forward P/E multiple in orange. Adobe was initially seen as a GenAI winner, hence its strength in 2023, but for the last 24 months both lines have been trending relentlessly downwards. This is as one would expect given the conversation in the market: Adobe is a valuable franchise that is facing its greatest risk for 20 years, so the P/E multiple and stock price are falling.

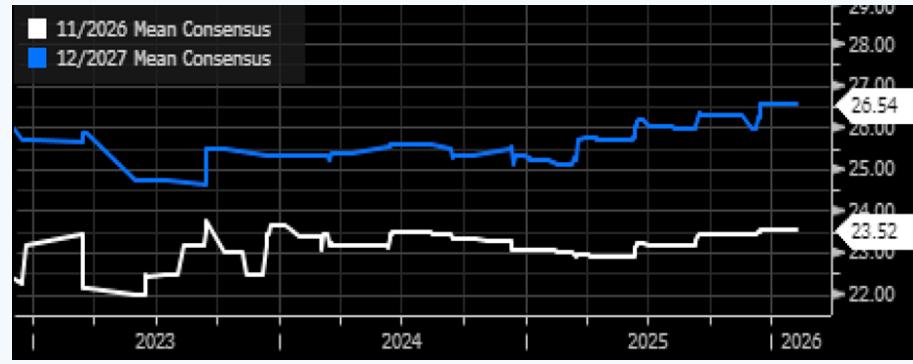
Fig. 1 ADBE Stock Price & 12m Forward P/E Ratio to 09/02/2026



Source: Bloomberg

The weird bit is the next chart (Fig 2): consensus EPS estimates for the current year (ends November 2026) and next FY (ends November 2027, not 12/2027 as labelled). Both lines have been going upwards for the best part of a year, even as the forward P/E has declined to 11 (chart above). That is very much NOT what one would expect to see: estimates of profit two years out are steadily increasing, not declining, despite the Sword of Damocles suspended above the SaaS industry.

Fig. 2 ADBE Consensus estimates to 09/02/2026



Source: Bloomberg

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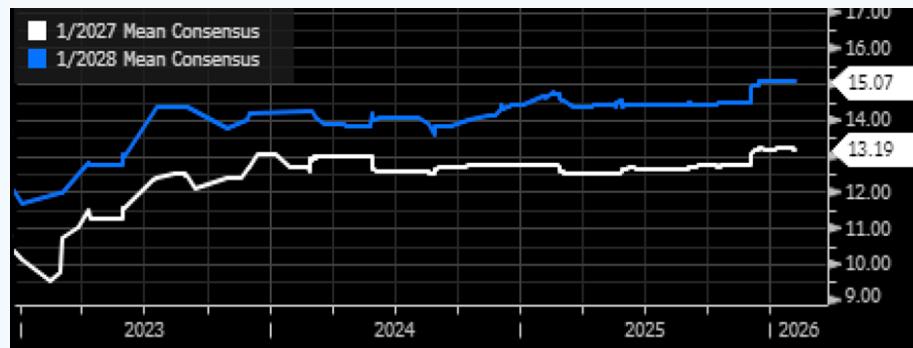
The charts for Salesforce look very similar – P/E and stock price (Fig. 3) falling ...

Fig. 3 CRM Stock Price & 12m Forward P/E Ratio to 09/02/2026



... but estimates 2 years out (Fig. 4) are still rising:

Fig. 4 CRM Consensus estimates to 09/02/2026



I would be the last to argue that forward estimates tell you what is going to happen. In general they follow the stock price up or down, being more of a lagging than a leading indicator. However, they do give an indication of current perceptions of the direction of change for a business, and despite downgrades and declining price targets for both companies, for almost a year actual estimates have been trending upwards for the current and out years, for both companies. These businesses are so strong and continue to grow so relentlessly that sell-side analysts are finding it difficult to cut their estimates, even in the light of predictions of greatly increased competition.

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One might argue that the risk is not this year or the one after, but three years ahead ... however, in my view anyone who claims they know what's going happen in tech three years out hasn't been following the industry for very long – that's aeons in Tech Years!

This situation seems to me to be an anomaly and unsustainable. There are probably three interpretations.

- a. The SaaS bears are correct, and estimates are going to plummet as the new reality strikes home, gutting profitability and growth. Rather than being on 11x next 12 months' earnings, Adobe turns out to have been on 20x or more, and the stocks are toast.
- b. Alternatively the SaaS companies make GenAI their own, powering another wave of growth; the relief rally in these names could be spectacular.
- c. Somewhere between the two, with the market having correctly priced in roughly flat adjusted earnings for the next two years (rather than the current 26% consensus CAGR for Adobe FY25 – FY27) and thus a ~15x forward P/E. Although the company might have lost its growth for now, it would still have very decent returns and free cash flow, so a mid-teens multiple would seem fair. Eventually estimates would come down to match reality, but maybe not moving the stocks much.

The BlueBox Global Technology Fund is positioned for somewhere between (b) and (c), but not to the extent that this will on its own decide the future performance of the fund. We've been on the wrong side of this question for over a year, but still outperformed in 2025 and January 2026, because our semiconductor and semi equipment exposure remain the foundation of our strategy, and these stocks are still the clearest beneficiaries of the AI capex wave.

However, it seems to me that the tension in the SaaS names is growing and approaching a decision point, one way or the other, and there is the potential for some substantial moves in these names. Salesforce reports on 25th February and Adobe on 12th March – maybe we'll find out more then?

William de Gale, FCA, CFA

Lead Portfolio Manager BlueBox Global Technology Fund

12 February 2026

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