



Distinguishing Financial Stress from AI-Driven Structural Impairment

How can lenders and investors identify where AI risk is emerging in the SaaS space and prioritize action?

For years, software lenders relied on recurring revenue, high retention and strong margins as evidence of credit quality. Artificial Intelligence (“AI”) is complicating that assumption. A software-as-a-service borrower can still report healthy annual recurring revenue (“ARR”) growth and net revenue retention (“NRR”) even as platform bundling, reductions in paid seats and AI-native competitors begin to erode its long-term competitive position.

The underwriting question is therefore changing. Lenders must assess not only whether a borrower is experiencing financial pressure today, but also whether its product, pricing model and customer relationships are becoming structurally less defensible. That matters because private credit has substantial exposure to the software sector. According to a March 2026 analysis by the Bank for International Settlements, outstanding private-credit loans to SaaS companies exceeded \$500 billion, or approximately 19% of direct loans, by the end of 2025.¹

For lenders, the challenge is no longer simply identifying financial stress, but determining whether competitive erosion occurs before it appears in traditional credit metrics.

A Two-Lens View of SaaS Credit Risk

To explore that risk, we analyzed 133 publicly traded enterprise software companies through two lenses.

The first evaluates observable financial performance across five areas:

- Revenue growth
- Customer retention
- Profitability
- Cash generation
- Leverage

The second assesses AI disruption risk across four areas:

- Product substitution and response
- Revenue model resilience
- AI delivery capability
- Competitive defensibility

Each lens was scored on a 1-to-4 scale, with higher scores representing greater risk.

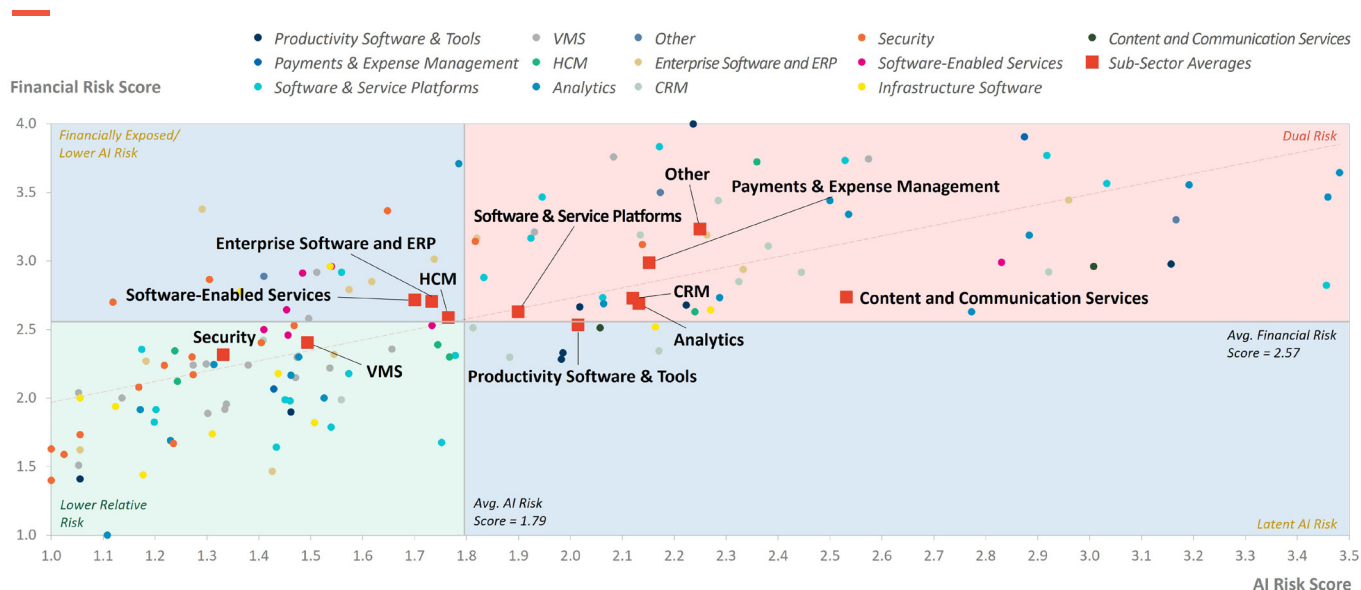
The resulting matrix groups companies into four risk profiles:

- **Lower relative risk:** Stronger financial performance and lower assessed AI risk
- **Financially exposed/lower AI risk:** Weaker financials, but challenges appear more operational, cyclical or

balance sheet-related than structurally driven

- **Latent AI risk:** Comparatively healthy financials, but elevated exposure to future pricing, retention, seat or margin pressure
- **Dual risk:** Financial stress and AI exposure coincide, increasing the risk of reinforcing pressure on growth, margins, liquidity and refinancing

Figure 1 – Enterprise SaaS PubCo Tracker: Financial risk vs. AI disruption exposure across 133 public enterprise SaaS companies¹



The analysis reveals a visible relationship between higher AI disruption risk and financial stress, but the dispersion is more important for lenders.

Some companies show weak financials despite comparatively low AI risk, suggesting more conventional operating or balance-sheet challenges. Others remain financially healthy while already exhibiting product, pricing or competitive vulnerabilities that may not yet be visible in ARR, NRR or cash flow.

Where AI Risk Appears Most Concentrated

The analysis suggests that AI risk is not distributed uniformly across software. On the 1-to-4 scale, security averaged an AI Risk Score of 1.33, compared with 2.12 for CRM; vertical market software and infrastructure software each averaged 1.49. The gap is consistent with qualitative differences in defensibility, including mission-critical workflows, specialized data, integration depth and switching costs.

Cybersecurity illustrates why: a bundled feature may not displace an incumbent where customers require proven

performance, regulatory compliance, deep integrations and rapid threat response. Vertical market software can benefit from similar protections when it serves as a system of record embedded in regulated or specialized workflows.

Enterprise software, enterprise resource planning (“ERP”), human capital management (“HCM”) and software-enabled services occupy a more balanced middle ground. Their exposure depends less on the category itself than on whether the product controls a critical workflow, possesses differentiated data and can adapt its pricing and operating model.

Customer relationship management (“CRM”), analytics, productivity software and software-and-service platforms warrant greater scrutiny. These categories are more exposed to feature commoditization, seat compression, platform bundling and AI-native alternatives.

The implication is that broad software classifications are insufficient for credit analysis. Two borrowers in the same category may have very different long-term credit profiles

depending on product substitutability, workflow criticality, data advantages and management's ability to respond.

These findings should be treated as directional when applied to private borrowers. Public companies provide more consistent disclosure but may have broader portfolios and greater resources to invest in AI. The score also captures relative exposure, not timing: lenders should separately assess whether disruption is likely to emerge within 12–24 months or over a three-to-five-year horizon, based on renewal cycles, bundling pressure, switching costs and how deeply the product is embedded in customer workflows.

The Risk May Not Yet Be Visible in the Numbers

Consider an illustrative project-management SaaS borrower growing ARR at 25% with 115% NRR. Traditional metrics suggest a healthy credit profile. But if AI assistants embedded within larger platforms begin replicating core functionality and reducing paid-seat requirements, long-term enterprise value may begin to erode before revenue growth or retention visibly weakens.

By contrast, a vertical market software company supporting regulated healthcare workflows might grow more slowly yet remain considerably harder to displace. Its system-of-record position, proprietary data, regulatory complexity and embedded customer workflows could provide stronger long-term defensibility, making the slower-growing company the potentially more durable credit.

From Enterprise Value to Recovery Value

AI disruption can alter a software lender's downside case even before liquidity becomes acute. Because many software borrowers have limited hard-asset collateral, recovery value often depends heavily on recurring-revenue quality, customer retention, intellectual property

and strategic-buyer interest.

If AI-enabled competitors or larger platforms weaken renewal rates, pricing power or paid-seat requirements, both cash flow and exit valuations may come under pressure. Refinancing capacity can deteriorate at the same time that potential recovery value declines.

Lenders should therefore stress downside cases not only for liquidity and covenant headroom, but also for lower retention, pricing pressure, incremental AI investment and weaker valuation support. A borrower may remain within covenant limits even as the competitive foundations supporting its enterprise value begin to erode.

What Lenders Should Do Differently

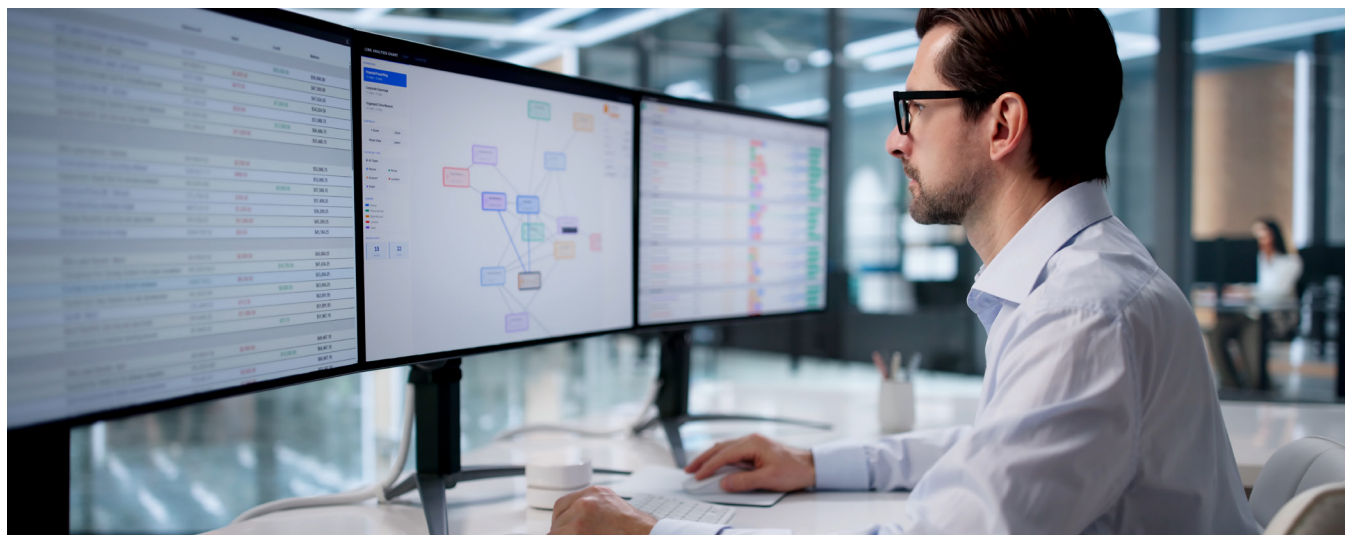
The practical implication is that AI risk should be incorporated throughout the life of a software credit, not assessed only when financial performance begins to deteriorate.

During origination

Lenders should test whether AI can replicate the borrower's core customer outcome, whether revenue depends heavily on paid seats, whether larger platforms can bundle competing functionality, whether the company controls differentiated data and whether management has a credible product and monetization roadmap.

During structuring

AI risk should also inform leverage, tenor, covenant design and recovery assumptions. For higher-risk borrowers, lenders may consider greater covenant cushion, NRR or seat-count reporting triggers, carefully defined baskets for AI investment and more conservative valuation and recovery assumptions. Capital stack position should reflect the speed and severity of potential enterprise value erosion.



During portfolio monitoring

ARR and NRR should be supplemented with leading indicators such as seat contraction, discounting, competitive win-loss trends, AI-product adoption, AI monetization, gross-margin pressure from inference costs and changes in implementation or support economics. These indicators may reveal a weakening competitive position before it appears in headline financial metrics.

During amendment discussions

The source of underperformance matters. For financially stressed companies with lower AI risk, conventional actions around liquidity, cost structure, pricing and sales productivity may be more appropriate than fundamental product transformation. For latent- or dual-risk borrowers, financial relief without a credible product, pricing and operating response may simply postpone the underlying problem.

During refinancing

Lenders should consider whether current growth, retention, margins and valuation assumptions remain sustainable as AI reshapes the category. A borrower that appears financeable on trailing metrics may warrant more conservative assumptions around forward growth, retention, pricing power, valuation multiples and recovery value if competitive defensibility is weakening.

Outlook

AI will not make every software borrower riskier. It is more likely to increase the dispersion between companies that own critical workflows, data and customer relationships and those whose functionality can increasingly be replicated or bundled elsewhere.

Traditional SaaS metrics remain essential, but they primarily reflect observed operating performance and may lag changes in a borrower's competitive position. Healthy ARR growth or NRR today does not necessarily indicate that pricing power, product differentiation or customer reliance on the product will remain equally durable.

The AI risk assessment should therefore be viewed as a screening tool, not the endpoint. For software lenders, the objective is to identify the specific pathways through which AI could affect customer behavior, pricing, margins, refinancing capacity and recovery value, and monitor those pathways before deterioration becomes visible in headline financial metrics.

Over the next several years, assessing competitive resilience may become as important to software underwriting as ARR growth, NRR and leverage are today. Lenders that identify structural deterioration early will be better positioned to protect enterprise value and credit recoveries.

Five AI Questions Every Software Lender Should Ask

1. Can AI or an AI-enabled platform replicate the borrower's core customer outcome?
2. Is the revenue model vulnerable to seat compression, bundling or changing pricing metrics?
3. Does the company control proprietary data, a system of record or a mission-critical workflow?
4. Is AI improving customer value and unit economics, or primarily adding cost?
5. Does management have a credible product, pricing and capability roadmap?

¹ Sebastian Doerr, Egemen Eren, Ingomar Krohn and Karamfil Todorov, "Private credit's software lending meets AI disruption," BIS Quarterly Review, March 16, 2026. https://www.bis.org/publ/qtrpdf/r_qt2603v.htm

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