RATHBONES

Weekly Digest

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Anthropic IPO: A SaaS swansong or the beginnings of a counterpunch?

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The potential $2tn listing of AI startup Anthropic has set us thinking about who might win out in the AI wars. That's an important question for investors.

Quick take:

- Anthropic could be heading for a blockbuster IPO.
- Software companies are proving more resilient to AI disruption than many expected.
- In AI, the landscape shifts fast so today's loser can quickly become tomorrow's winner.

Last week, news hit the market that artificial intelligence (AI) research and development startup Anthropic could become a listed company as early as October, with a touted $2tn valuation.

This is a truly meteoric rise for a company very few had heard of even a year ago. However, market sentiment towards the AI complex has become more mixed of late, with more focus on competition between models than we've ever seen before.

Fear and greed swinging in both directions

Anthropic and OpenAI are the world's largest and most advanced large language model providers (LLMs). LLMs can be considered the engines of generative AI applications. By this we mean AI that can generate things on prompts from a user. These two companies account for the lion's share of AI revenue and sit at the epicentre of the AI trade.

A major debate facing investors is where value for them will accrue in the AI sector: among the 'picks and shovels' companies that don't provide AI but make it possible, the data centre operators, the model layer, (companies like Anthropic and OpenAI that build and train the AI itself) or the application layer (the businesses that plug into those models to build everyday products, from customer service tools to coding assistants)?

Since early this year, the release of products by Anthropic that compete at the application layer, combined with an unprecedented surge in spending on data centres, has triggered a rotation out of tech software in favour of technology hardware and AI enablers, companies involved in the build-out of AI. As faith in long-standing competitive advantages shrank, so did valuation multiples of established winners. Specifically, software and data stocks, steady compounders of returns for much of the last decade, took a beating.

Public investors instead expressed AI enthusiasm through infrastructure beneficiaries, ranging from semiconductors and networking equipment to power and cooling providers. As demand expectations surged, backlogs expanded, margins improved, and valuation multiples, such as forward-looking price-earnings ratios, rose.

However, of late, there's been a slight change in tone; there's a little more caution about the hardware names, and more a nuanced appreciation of the risks and opportunities facing the software-as-a-service (SaaS) sector, which has outperformed the widely cited PHLX Semiconductor index since the end of June.

The software response

Now that there is more data and customer experience on AI usage in the rear-view mirror for us all, we've had a little time to see strategies, products, costs, and experiments. Every series of results leaves new clues, and management commentary takes us beyond the hard data.

Take models: much has been said this summer about the performance of Chinese models, their uptake, and their relatively low cost. As the cost of AI to enterprise users – businesses and other organisations, rather than individual consumers – has risen, large consumers of tokens, the primary unit through which AI usage is measured and often monetised, in software development are getting creative and attempting to wrestle back control. One such user, digital music, podcast and video service Spotify, has built an internal tool called Chirp, which it uses instead of directly using Claude Code or ChatGPT's Codex. As Spotify Co-CEO Gustav Victor Soderstrom says:

"Chirp lets our engineers switch models mid-task and route every job to the best available price performance, including open-source models that we host ourselves, so we are never locked in. It also shares the context across not just different models and different developers, but across the company. So, we don't pay for the same reasoning twice, and we don't lose our own data."

American educational technology company Duolingo's CEO Luis Von Ahn has talked about reducing the cost of its AI-enabled Video Call feature from $0.30 to under $0.01 per call over the last year, mainly by using cheaper open-source models:

"The reality is the quality's indistinguishable for many applications that we use. For example, serving a call – like a conversation practice to somebody who can only speak 100 words of a language... Your model doesn't need to be as good as a philosopher."

We're seeing similar commentary from others like restaurant delivery service DoorDash, cloud-based IT platform ServiceNow, and cryptocurrency exchange Coinbase. This ability to toggle to lower-cost models is important because it protects the margin structure of software companies that were at risk of seeing their value leak to the AI labs.

Many software names continue to post solid numbers that defy fears of immediate disruption. Talk of AI driving faster product, and better and more services at lower costs, is perhaps also beginning to land. Hosting marketplace provider Airbnb CEO and Co-Founder Bryan Chesky said during its Q2 earnings call, earlier this month:

“We've reduced the time from concept to launch by as much as 60% and compared to the same six months last year, we've increased the number of features and improvements we shipped this year by nearly 80%.”

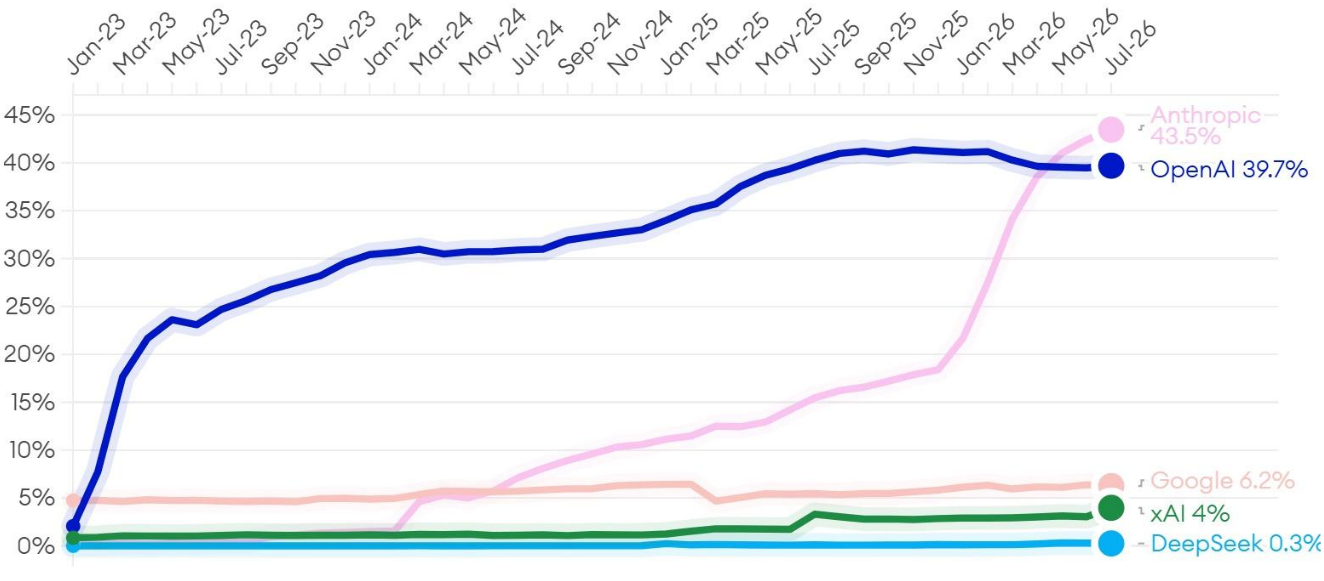
Back in February, global software company Atlassian positioned itself as an AI beneficiary with increased growth in active users and seats from its AI services. However, at the time, the market remained convinced that AI was going to reduce the requirements for software users and in so doing reduce software billings and revenue. Now the same message is landing alongside accelerating revenues. CEO and Co-Founder Michael Cannon-Brookes had this to say:

“I think there's going to be more developers in the world in five years' time than there are today. The cost of building technology is going down. The amount of technology we're going to build is going to go up...the number of people building technology that we don't necessarily call developers is also growing. So, we're seeing people in finance and in HR and in marketing using a lot of these tools to build technology of various different forms.”

Following Q2 results in early August, the stock is up over 60% across the month.

Anthropic takes the lead

Share of US businesses with paid subscriptions to competing AI models, platforms, and tools



Source: Ramp AI, Rathbones

The AI labs

The Anthropic IPO will represent one of the first opportunities for public investors to value a frontier lab (leading AI research organisations) directly, rather than through the surrounding ecosystem of companies that enable frontier labs to do what they do. Investors will effectively be betting that the model layer can achieve sufficient revenue growth and ultimately profit to justify valuations that now surpass the largest listed software companies.

While the picks-and-shovels companies may be agnostic about the end-model winner, the frontier labs' commitments to purchase hundreds of billions of dollars of data centres has supercharged their growth outlook in the medium term. That means any hint of reduced investment and enthusiasm hurts this AI-sensitive cohort. That triggers volatility across names from $1tn Korean memory stock Samsung at the top of the benchmark to UK small-cap industrials, because of their high correlations to the AI investment theme.

Much like the Grand National

This is not to say that we're seeing the beginning of the end for the frontier labs. They are growing revenue at an astounding pace, while innovating. According to financial technology platform Ramp, despite growing interest in open-weight models, only 6% of AI-spending businesses currently use the inference platforms most associated with them, rising from 4.5% of businesses at the beginning of this year. The point is that at this early stage, AI is a highly dynamic market where we expect, like the Grand National, there will be frequent changes in leadership.

For example, at the beginning of Summer 2025, Alphabet was an AI loser, before a sharp change in perception shifted the story to a full-stack beneficiary. Until 2 weeks ago, US Human Capital Management software provider Workday was firmly in the sights of the SaaSpocalypse – the current parlance for a potential destruction of software companies' business – before news of a potential $50bn+ take-private by private equity firm Silver Lake Capital gave those waving the white flag pause for thought.

Regional highlights

UK. Last week was another busy one for UK economic data. The most important were consumer price data, which showed CPI inflation reaccelerating from 2.6% in June to 2.9% in July. On the surface that might sound concerning for the Bank of England, but the rise was expected. While the increase in the energy bill price cap added 0.4pp to inflation, that had been announced back in May. Elsewhere, there was an upside surprise from furniture and clothing prices, but this was reportedly due to earlier timing of sales, so it should only be temporary. The big picture is that underlying inflationary pressures are continuing to ease. Services inflation – which has proven persistent - edged down again, with prices rising at their slowest pace since January 2022. We don't think anything in the data will trouble rate-setters at the Bank of England.

Meanwhile, the first insight into economic activity in August was released, with the flash purchasing managers index (PMI) surveys. The decent start to Q3 implied by the July data appears to have continued, as the composite index improved again, driven by robust momentum in the services sector. The GfK measure of consumer confidence also rose in August, to a two-year high. Admittedly, retail sales data for July showed a contraction. But that comes on the back of two good months in May and June. Over a longer time span, sales are still growing.

Finally, the latest set of public finance figures delivered another bit of bad fiscal news for the government. Public sector net borrowing was £1.8bn, contrary to consensus forecasts for a small surplus. Overall borrowing this fiscal year is still broadly as expected. But the data will remind new Chancellor John Healey of the challenges he faces as he prepares the October Budget.

US. Economic data was lighter across the pond last week. The main release was industrial production data for July, which was a bit softer than expectations. But it did include upward revisions to June data. It also showed the AI buildout remaining a driving force in the US economy, with manufacturing of computers, communications equipment, and semiconductors rising 1.9% month-on-month.

Away from data, we also saw the minutes of the latest Federal Reserve meeting. We already knew that three members of the FOMC – the committee that sets US interest rates – dissented, backing a hike in rates. The more detailed account of the meeting suggested concern about inflation was a bit more widespread than the votes alone implied. However, data since the meeting are unlikely to have done anything to exacerbate those concerns. So it still seems more likely than not that rates will be held again at the September meeting.

The other key development last week was the announcement that the US Treasury planned to at least double its buybacks of long-dated bonds, and issue more short-term debt in exchange. The announcement appears an attempt to provide relief to longer-dated US debt. This has been under pressure of late, with the 30-year yield hitting a 19-year high. Initially, buyback led to a drop in yields, but they eventually rebounded to where they started. While the action here is small-scale, it serves as a timely reminder that governments are becoming more open to intervening in markets to manage their debt burdens. We discussed the risks of this last year here.

Europe. In the eurozone, last week brought even more evidence that economic activity is proving resilient in the face of higher energy prices. The steady stream of positive survey data we have highlighted over the past few weeks continued. The composite PMI was up fractionally in August, pointing to the fastest pace of expansion since November. The German Ifo business survey also improved and beat expectations, reaching its highest level in a year. There's now evidence from an array of early indicators that the eurozone economy is growing at close to its pre-Iran conflict pace. That's nothing special in absolute terms. But it is a positive surprise given the headwinds.

We also received the final release of eurozone inflation data for July. This confirmed that headline consumer inflation was 2.9% last month. It also provided useful detail. On the positive side, there's little evidence of higher energy costs putting upward pressure on prices elsewhere in the economy yet. However, we're seeing more evidence of strong demand for AI-related goods pushing up prices for IT equipment, as has been the case in the US. Look out for more on this in an upcoming piece in our September Investment Insights magazine, which you can access here.

And while AI-related industries remained a bright spot, the fact that aggregate industrial production growth still slowed demonstrates how this isn't sufficient to fully offset domestic factors.

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