hg Wealth

Mission-Critical Software in the Age of AI

How AI-transformation is creating the next decade's winners and why specialism matters now more than ever

Our software thesis doesn't change. It accelerates. 2

Not all software is created equal. 3

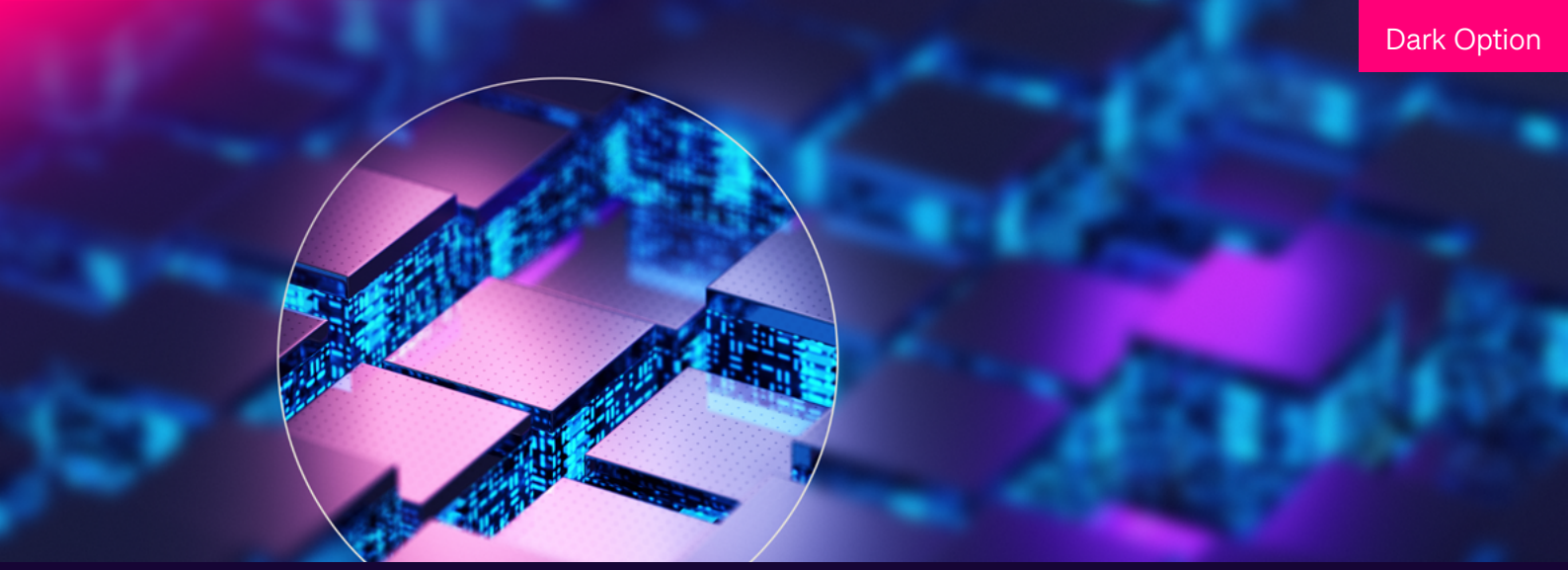
AI-transformation will drive the next cycle of workplace automation. 4

Execution is everything. 5

Europe: Where complexity becomes a competitive advantage. 6

The next decade belongs to the specialists. 7

Dark Option



Our software thesis doesn't change. It accelerates.

Following public market volatility, investors are rightly asking whether software remains the investment opportunity it once was.

We believe that for vertical software companies the opportunity is accelerating.

This paper explains why that is and why we see AI-transformation as the next cycle of workplace automation.

For half a century, software has been the engine of white-collar productivity. Steadily automating the routine, the repetitive and process-heavy tasks, improving efficiency, productivity and accuracy, and allowing professionals to focus on higher-value work.

As one of Europe's leading technology and services investors, we have backed that trend for more than two decades, focusing on vertical software that manages processes in industries such as tax, payroll, legal, compliance, healthcare, treasury and regulatory reporting. We've been building our in-house AI capability since 2016 and now have a team of 150+ AI experts dedicated to supporting the Hg portfolio.

These systems sit at the heart of how businesses operate. They execute complex workflows, handle sensitive data and need to be right every single time.

Switching these systems out is not a decision made lightly. In fact, that is precisely what has made them so resilient. It's been a trend played across decades, with global software spending forecast to reach $1.43 trillion in 2026, according to Gartner.[1]

But now there's a more significant shift at play. AI expands the automation story into entirely new territory, broadening the range of tasks technology can handle from structured processes into judgment, prediction and decision support. That expansion creates a significant new opportunity. The question is who is built to seize it.

Building our AI capability since

2016

150+

person Data & AI team

1,600+

live AI projects across the Hg portfolio

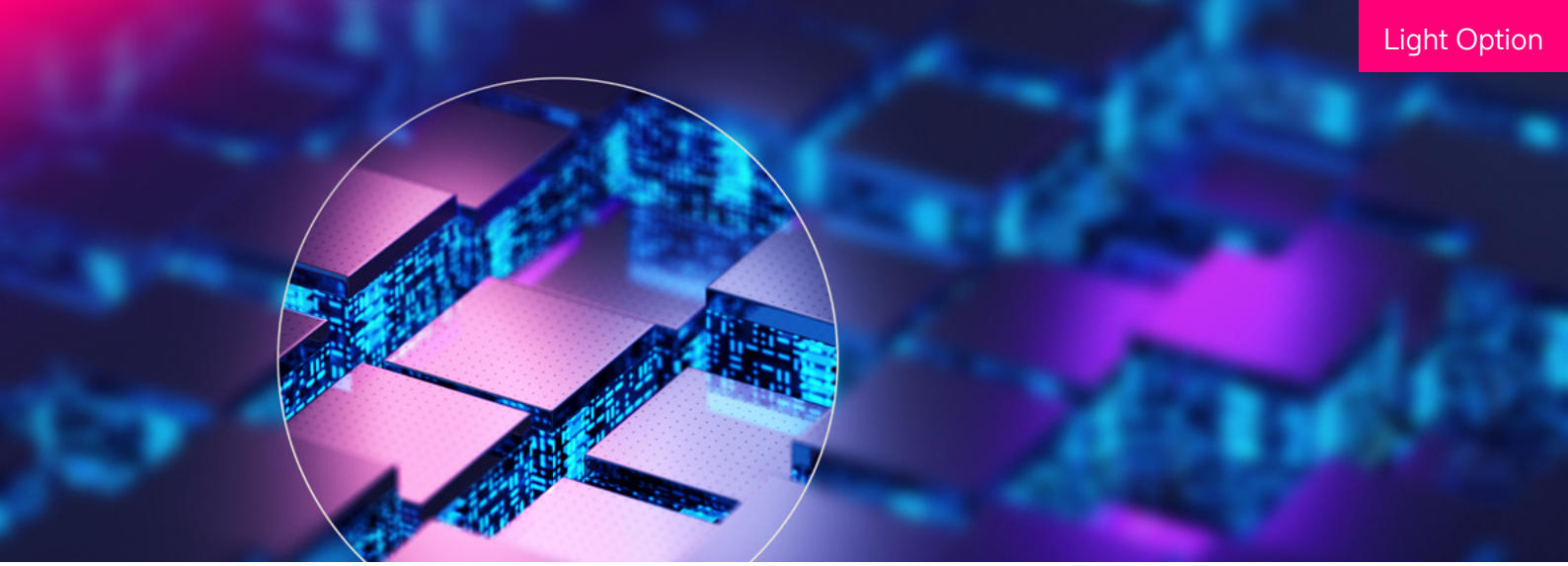
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AI product builds across 60 companies

[1] Gartner, "Gartner Forecasts Worldwide Software Spending to Exceed $1.4 Trillion in 2026," 2026.

Disclaimer: Hg's internal estimates as at June 2026; actual outcomes may differ materially.

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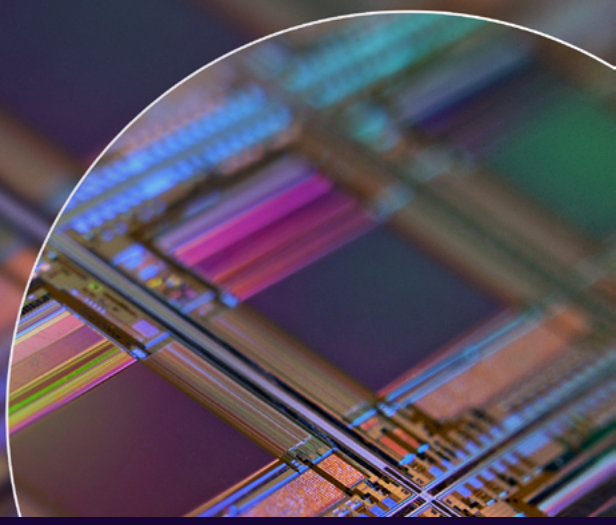
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Not all software is created equal.

The public market volatility in the first half of 2026 reflects a broader question that investors are grappling with: which software businesses will be strengthened by AI and which will be threatened by it?

At Hg we believe that the companies most at risk are those providing 'horizontal' tools that can be used across any business. They are often interface-heavy products whose primary role is to organise and present information, and they don't need context of a specific industry or 'domain'. In other words, if the interface is the product and AI removes the need for the interface, those companies are exposed.



Mission-critical vertical software.

Hg invests in mission-critical vertical software such as payroll and accounting platforms and enterprise resource planning, which is a fundamentally different proposition. The value of their products is tied to rules, processes, regulation, customer-specific configurations, integrations, audit trails and compliance obligations. That is much harder for AI to replicate and, because of the critical workflows they automate, these platforms cannot afford to be wrong. We think about this through a framework we call the 'four Ds'. They are:

Data

Decades of structured, verticalised client datasets embedded in workflows → proprietary transaction records, filings and workflow data that are not available publicly and / or on the internet.

Domain

Deep expertise in specialised industries → complex tasks executed around payroll tax compliance, revenue-cycle management or legal case management.

Distribution

Established customer relationships and strong route-to-market → customers using systems that sit close to finance, employees or regulated obligations.

Deterministic

High-accuracy, mission-critical workflows where reliability and compliance are crucial → 'mostly right' is not good enough. When precision matters, deterministic software has a structural advantage over purely probabilistic models.

The four Ds create a meaningful advantage when building agentic AI products on top of an existing platform. But that advantage is not automatic. It requires moving fast, investing in innovation and ensuring AI capability translates directly into customer value.

"The global software market is over $1 trillion. The global labour market is over $50 trillion."

This is what will enable them to evolve from systems that store and organise information into systems that actually do the work, handling multi-step tasks from start to finish, with humans managing their progress. In doing so, they can start capturing something far larger than a share of the software budget: the cost of human labour itself.

To put that opportunity in perspective: the global software market is over $1 trillion.[2] The global labour market is over $50 trillion.[3] For specialist software companies that move quickly, AI will be a powerful accelerant of growth.

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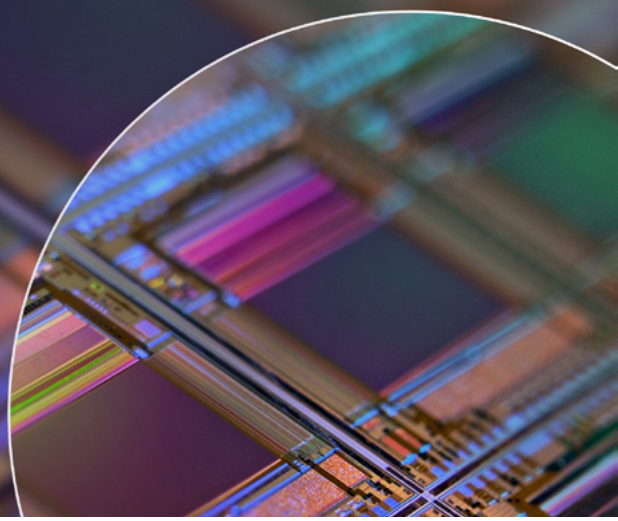
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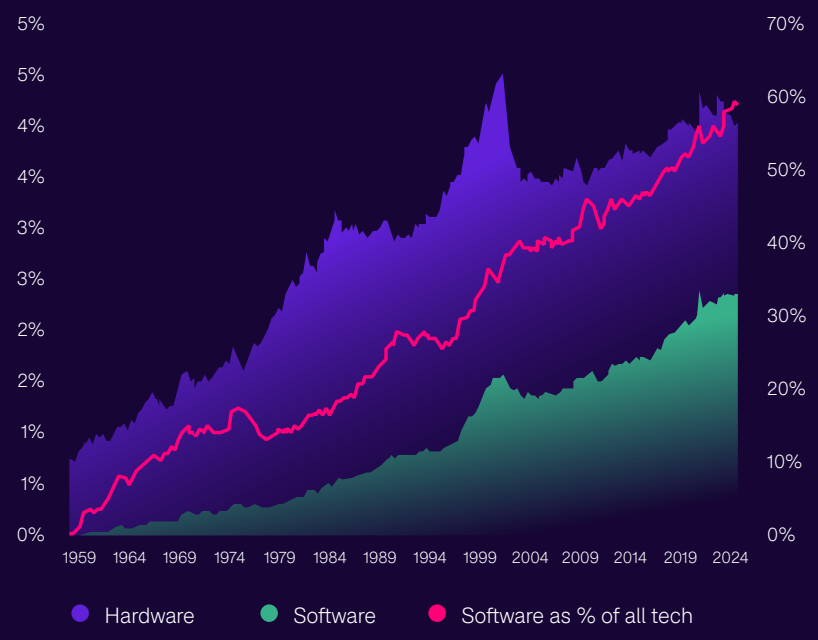
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AI-transformation will drive the next cycle of workplace automation.

The shift from hardware to software has been one of the defining business transitions of the past two decades. Software's role in business operations is now so deeply embedded that its value is easy to take for granted.

Software and Hardware spend as a percentage of U.S. GDP



Source: Hg, Market Opportunity Analysis: "Long-term Shifts in ICT Spend (U.S.)," 2023, based on U.S. Bureau of Economic Analysis (BEA) ICT fixed-asset investment data.

"It's estimated that only 16% of humans have ever used generative AI."

The emergence of cloud infrastructure providers – Amazon Web Services, Microsoft Azure and others – removed the need for businesses to build or maintain their own physical compute and storage.

Cloud distribution expanded access to enterprise-grade tools, meaning a small business today runs on the same accounting, payroll and ERP infrastructure as a global conglomerate.

As a result, companies reduced how much they spent on hardware, funneling capital into software instead. That shift is structural and permanent, and it continues to drive software spending as a share of GDP steadily upward today.[4]

AI is the next chapter in this story. But for many industries, the automation journey is still in its early stages. For instance, less than one-third of European enterprises have moved even half their workloads to the cloud, according to McKinsey.[5] EU enterprise AI adoption sits at around 20% today, up from just 8% in 2023.[6] It's estimated that only 16% of humans have ever used generative AI.[7] For mission-critical software providers, that means the opportunity is not just about AI, but about completing a transformation that is well underway, but far from over. The window for those who move decisively and with the right resources and expertise is open.

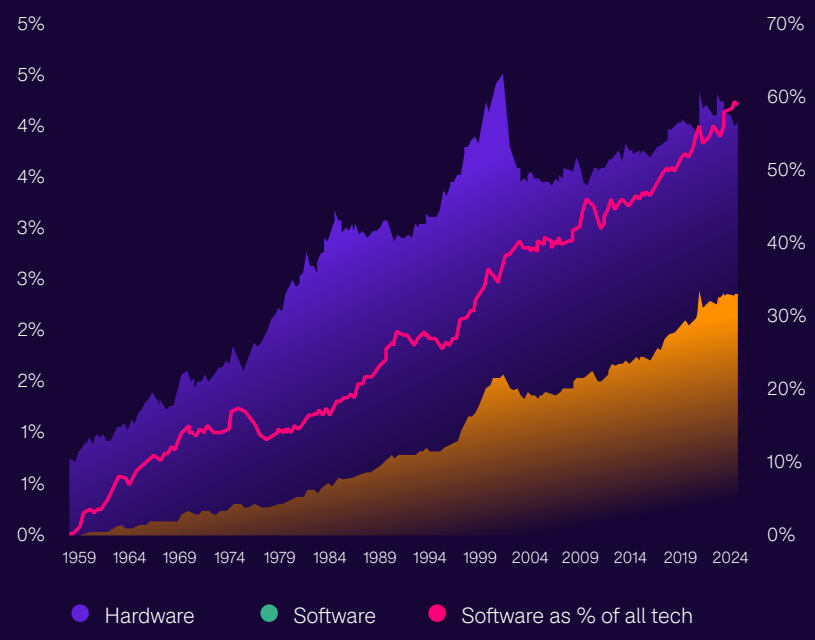
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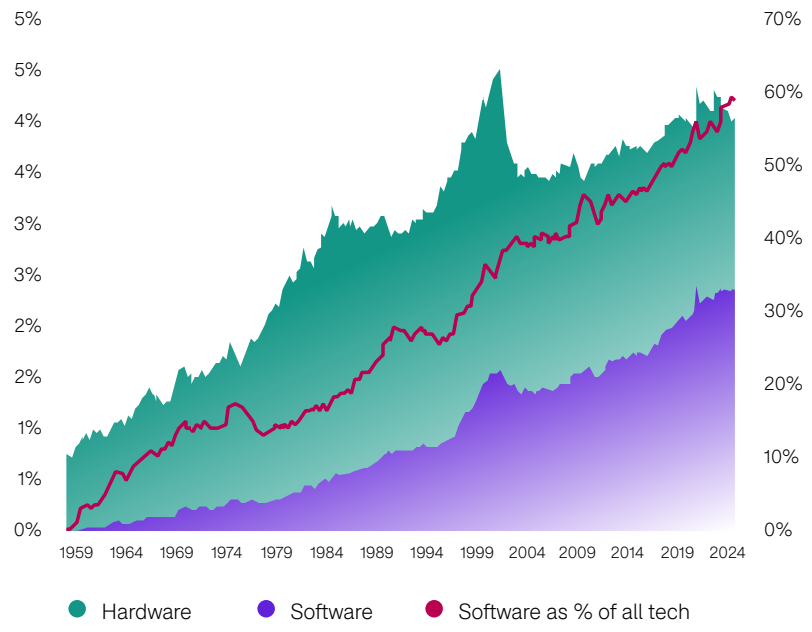
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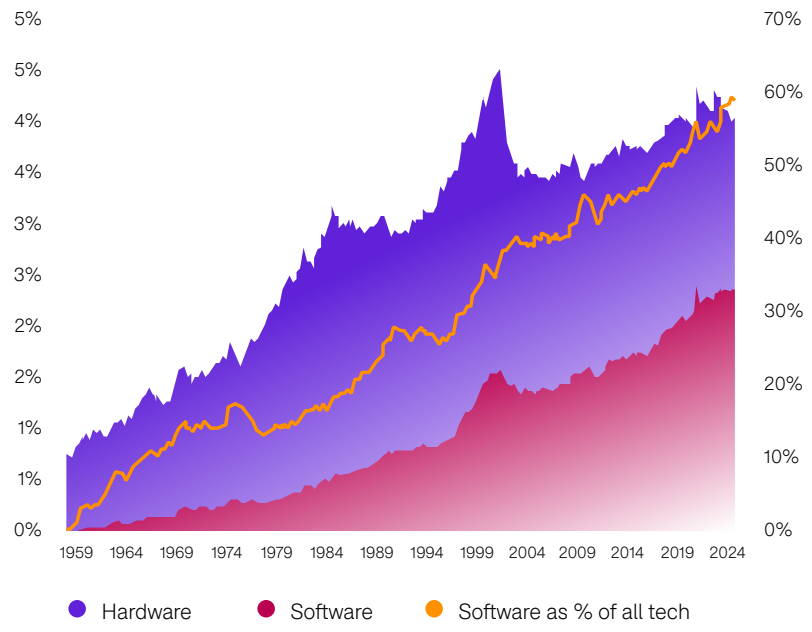
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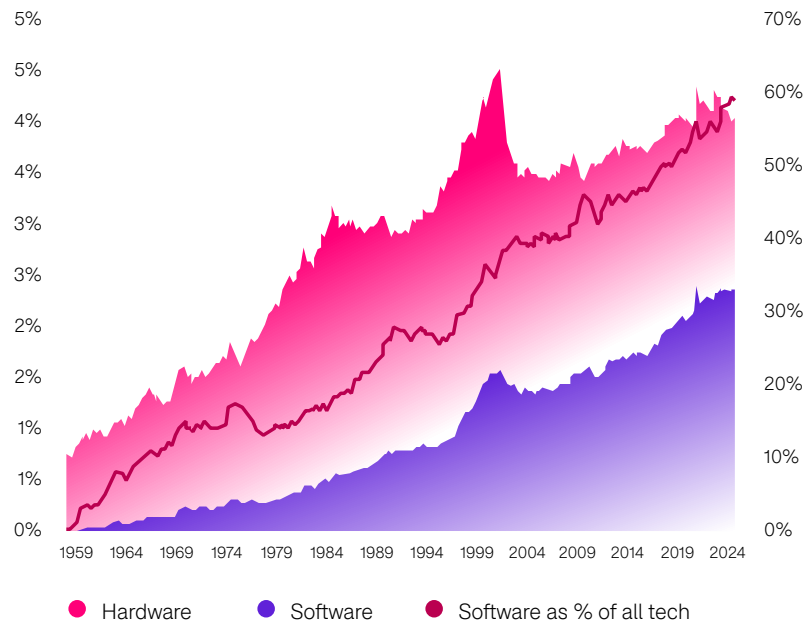
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Execution is everything.

Understanding why mission-critical software remains so attractive requires looking beyond the headline numbers. These products represent a relatively small share of most customers' overall cost base – yet they govern high-value processes and support compliance, control and execution. In many cases, they become more important during periods of stress, not less.

AI extends automation even further: from routine process support into prediction, optimisation, exception handling and decision support. A payroll platform that once calculated tax correctly can now explain anomalies, identify exceptions, surface likely errors and reduce manual intervention. A treasury platform moves from reporting on risk to helping identify and prioritise it.

This is where the idea of the 'last mile' becomes especially important. That is, the point at which software has to fit seamlessly into the real operational life of the customer and work reliably, day in, day out. That means the software has to account for the endless edge cases, exceptions and regional nuances that are common in these complex, mission-critical domains. If it only works 90% of the time, that's not enough.

It is here that many AI-native challengers will find it harder than their headline product demos suggest. Building a working prototype is one thing. Building software that sits safely inside payroll, tax, healthcare or compliance workflows – at scale, under regulatory scrutiny – is something different.



This reinforces rather than disrupts our thesis. The goal of workplace software has always been to improve accuracy, efficiency and productivity. AI doesn't change that objective, it dramatically accelerates the ability to deliver it. We have navigated shifts like this before. Across the 2010s we helped portfolio companies move from on-premise software to SaaS and the cloud. One example being Visma, backed since 2006, which transitioned into one of Europe's largest providers of cloud-delivered SaaS with revenue of €2.8 billion in 2025 and 2.5 million customers across Europe and Latin America.[8] We made our first investment in AI capabilities a decade ago and have been applying that same pattern recognition to AI ever since.[9]

Key takeaways

1.

Workplace software is deeply embedded in business operations.

From SMEs to global enterprises, mission-critical software now runs the core workflows businesses can't operate without, which is exactly what makes it hard to displace.

2.

Europe's automation journey is far from over.

With less than a third of enterprises having moved even half their workloads to the cloud10 and AI adoption still around 20%[11], the runway for further digitalisation is long.

3.

Mission-critical software becomes more valuable in times of stress.

Because these systems govern compliance, control and high-value processes, customers lean on them more when conditions tighten.

4.

AI offers opportunity for incumbent workplace SaaS platforms.

AI raises the prize for the specialists who can already execute the 'last mile', while exposing those who can't.

[8] Visma, First Quarter 2026 Trading Update, 2026.
[9] Hg, "Innovation to Application: 25 Years of Software Investing," 2025.
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Europe: Where complexity becomes a competitive advantage.

Specialism is not just about sector depth. It is also about geography. For more than two decades, Hg has built deep expertise in the regulatory, tax and compliance environments that define how software scales across Europe. That perspective matters because Europe is often where the specialist advantage compounds most visibly.

> "Less than one-third of European enterprises have moved even half their workloads to the cloud."

A product built for French payroll does not simply transfer to Germany, or Germany to the Nordics. That fragmentation has kept many generalist players at bay and made European markets genuinely difficult for large U.S.-based providers to penetrate at scale. For specialists with deep multi-jurisdictional knowledge, that same complexity becomes a structural advantage that is very hard for new entrants to replicate quickly.

The scale of the opportunity is significant too. Private European software revenues are estimated at around €135 billion – comparable in size to the U.S. mid-market, but with far fewer specialist investors competing for it.[12] And when 'last-mile' execution is the decisive factor, that specialist advantage is crucial.

That dynamic could intensify still. Gartner estimates that by 2027, 35% of European countries will be operating region-specific AI platforms, up from just 5% today.[13] For European specialists already embedded in those regulatory environments, that could be a significant tailwind.

This focus has produced a portfolio of European specialist software businesses and a depth of regional and sector knowledge that is genuinely difficult to replicate. As AI raises the stakes for 'last-mile' execution, that accumulated expertise becomes more valuable, not less.

Key takeaways

1.

Specialism compounds geographically.

Europe's regulatory, tax and compliance fragmentation, plus the variety of languages spoken, means the specialist advantage must be built jurisdiction by jurisdiction. This keeps generalists at bay and makes it harder for new entrants to catch up quickly.

2.

That advantage intensifies in an AI context.

As AI raises the stakes for 'last-mile' execution, the depth of regional and sector knowledge required to deploy it in European workflows becomes more valuable.

[12] Hg, Market Opportunity Analysis: "Aggregate Revenue Across Hg's Addressable Market Segments," internal research, 2023.
[13] Gartner, "Gartner Forecasts IT Spending in Europe to Grow 11% in 2026," 2025.



Europe: Where complexity becomes a competitive advantage.

Specialism is not just about sector depth. It is also about geography. For more than two decades, Hg has built deep expertise in the regulatory, tax and compliance environments that define how software scales across Europe. That perspective matters because Europe is often where the specialist advantage compounds most visibly.

> "Less than one-third of European enterprises have moved even half their workloads to the cloud."

A product built for French payroll does not simply transfer to Germany, or Germany to the Nordics. That fragmentation has kept many generalist players at bay and made European markets genuinely difficult for large U.S.-based providers to penetrate at scale. For specialists with deep multi-jurisdictional knowledge, that same complexity becomes a structural advantage that is very hard for new entrants to replicate quickly.

The scale of the opportunity is significant too. Private European software revenues are estimated at around €135 billion – comparable in size to the U.S. mid-market, but with far fewer specialist investors competing for it.[12] And when 'last-mile' execution is the decisive factor, that specialist advantage is crucial.

That dynamic could intensify still. Gartner estimates that by 2027, 35% of European countries will be operating region-specific AI platforms, up from just 5% today.[13] For European specialists already embedded in those regulatory environments, that could be a significant tailwind.

This focus has produced a portfolio of European specialist software businesses and a depth of regional and sector knowledge that is genuinely difficult to replicate. As AI raises the stakes for 'last-mile' execution, that accumulated expertise becomes more valuable, not less.

Key takeaways

1.

Specialism compounds geographically.

Europe's regulatory, tax and compliance fragmentation, plus the variety of languages spoken, means the specialist advantage must be built jurisdiction by jurisdiction. This keeps generalists at bay and makes it harder for new entrants to catch up quickly.

2.

That advantage intensifies in an AI context.

As AI raises the stakes for 'last-mile' execution, the depth of regional and sector knowledge required to deploy it in European workflows becomes more valuable.

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What is <hg_catalyst ?

Hg Catalyst is our AI product incubator. It embeds small, high-performance teams directly inside Hg's portfolio companies to conceive, build, and ship agentic AI products. These are not prototypes or pilots, but products that drive revenue and solve real operational problems. Operating from hubs in London and New York, Catalyst has a scaled capacity of over 100 AI engineers, product managers, and designers. As at June 2026, Catalyst has helped launch over 30 products across the Hg portfolio.

GTreasury

Hg Catalyst in action: GTreasury – from thesis to product in eight weeks

GTreasury is a treasury and risk management platform used by corporate finance teams worldwide to manage cash, forecast liquidity and control risk exposure. It's a good example of the kind of specialist, mission-critical software we've been describing and of what happens when you combine that foundation with dedicated AI capability.

Hg Catalyst kicked off with a two-day hackathon, mapping GTreasury's core workflows and producing three working prototypes. The winning concept went from demo to a live, priced, packaged product in just eight weeks. Two further

AI features followed within 12 weeks and the company compressed its release cycles from monthly to weekly.

The collaboration produced 'GSmart AI', GTreasury's new AI-powered forecasting and insights product. The impact was apparent almost immediately. The product hit 100% weekly active usage from launch and within weeks was generating significant new revenue and a strong pipeline. Importantly, GTreasury's AI strategy became a critical factor in Ripple's subsequent decision to acquire the business.

In October 2025, Hg agreed the full exit of GTreasury to Ripple at a total transaction value of over $1 billion – roughly double the investment's carrying value after just two and a half years.



The next decade belongs to the specialists.

AI isn't killing software. It's separating the winners from the rest.

Recent public-market volatility has reflected a broad reassessment of what different types of software are worth in an AI-enabled world. But broad market moves rarely draw clean distinctions between businesses whose economics are genuinely threatened and those whose value may, in time, increase. For specialists, that widening dispersion is an opportunity, rather than a risk.

That is especially true in European software, where access remains limited in public markets, local complexity continues to favour specialist providers and AI is extending the role software can play inside white-collar work.

We have spent two decades building expertise in exactly this market. We believe mission-critical software – powered by AI, backed by deep domain knowledge and built on proprietary data and entrenched customer relationships – represents one of the most compelling investment opportunities of the next decade. The thesis hasn't changed. The opportunity has grown.

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