



A Contrarian Case for Software: Why Physical AI May Be the Next Great Frontier



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language models (LLMs) – which have introduced unprecedented questions about the fundamental economics of software businesses.

The traditional Software-as-a-Service (SaaS) model was elegant in its simplicity. Software was mostly sold by seat licenses: build once, sell many times through per-seat licensing. More employees meant more logins, more subscriptions, and more recurring revenue. The economics were elegant as well: high upfront R&D, near-zero marginal delivery cost, and renewals that became more predictable as workflows standardized. Gross margins north of +70% was the norm since delivering software to the next customer cost only the cloud hosting bill once the software was compiled and stored.

Software investors face a paradox. Once a growth sector in technology that has defined decades of venture & public market returns now sits at a crossroads. The culprit? Artificial intelligence – specifically, the rapid evolution of large



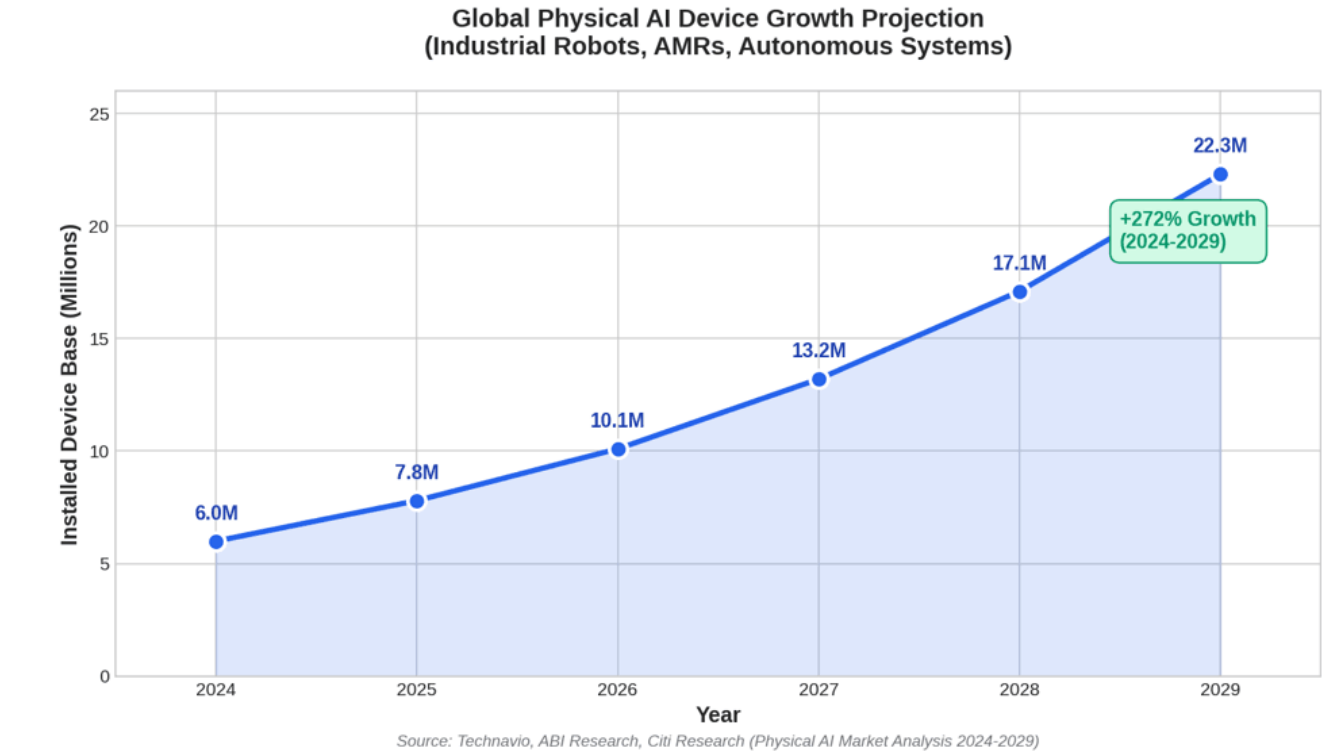
Today, “software is broken” has become an easy narrative as SaaS companies confronts two existential challenges.

First, LLMs are reshaping white-collar work at a rapid pace. When AI can automate workflows, the software subscriptions they occupy become uncertain. Enterprise CIOs are now asking how many employees do we need in the future? If headcount flattens out or declines, so too will seat licenses. This creates genuine concern about the total addressable market for traditional enterprise software.

Second, the cost structure of AI-infused software fundamentally differs from traditional SaaS. Running inference on foundation models requires substantial compute resources that scale with usage. Where legacy software had

negligible marginal costs, AI-powered features carry real delivery expenses that accumulate with every customer interaction because the answers are generated in real-time (hence the name *GenAI*). Gross margins that once seemed inviolable now face meaningful compression. Software companies must either absorb these costs or pass them to customers; neither option is without risk. If companies shift to consumption pricing, buyers may resist rising budgets that were built for predictable subscriptions and approvals, not variable bills and usage spikes.

Yet within this uncertainty lies a compelling contrarian bullish thesis: physical AI. While investors debate the impact on knowledge work, a parallel revolution is unfolding in the physical world. Robotics, autonomous vehicles, industrial automation, and connected devices are experiencing explosive growth. Massive construction projects and datacenter buildouts are creating unprecedented demand for intelligent physical systems. Unlike seats in a software application, these physical assets represent durable, expanding demand that



Projected Growth in Physical AI-Enabled Devices (2024-2029)

grows with capital investment rather than shrinking with workforce optimization.

Consider the chart below. According to public research, the global installed base of physical

AI-enabled devices—industrial robots, autonomous mobility, drones, and other intelligent systems—is projected to grow from approximately 6 million units in 2024 to over 22 million by 2029. That represents nearly +275%

growth in just five years.

Software companies serving this market operate on a different model entirely: per-asset, per-device pricing. The positive inflection in number of installed devices spans across a variety of fields found at construction sites, warehouses, and utilities, such as fleet management platforms for vehicles, industrial IoT systems for connected machines, and robotics systems.

While traditional SaaS faces margin pressure and demand uncertainty, physical AI software benefits from tailwinds in automation adoption, reshoring of manufacturing, and infrastructure spending. Asset-based revenue correlates with capital expenditure cycles, which remain robust as companies invest in automation to address labor shortages. Thanks to GenAI, there is a massive infrastructure buildout underway – datacenters, manufacturing facilities, logistics networks – creating increased demand for software that orchestrates physical systems.

It is my belief after two decades of investing

that the market is over-discounting certain corners of software because of unknown variables on revenues and cost of goods on the per-seat model. The underappreciated opportunity is select, founder-led software companies that price by the asset—where AI improves the economics of physical systems and revenue scales with deployed devices and output. The contrarian insight is that the software opportunity is not disappearing, it is migrating. As LLMs reshape knowledge work, investors should look toward growth in physical AI. The companies that master software for the physical world may define the next era of technology investing, much as the SaaS pioneers defined the last era.

