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European Equity Strategy | Europe

Muse/Agentic AI - Disruption, Dislocations & Regulation

We map potential Muse/agentic AI disruption risk in European equities finding generally low to moderate levels of exposure across 12 sectors, pockets of opportunity, and a complex regulatory backdrop (GDPR, DMA) which may delay &/or constrain agentic disruption somewhat relative to the US.

Key Takeaways

- A unique consideration when assessing AI risk in Europe & the UK is relative levels of regulation. Whilst certain AI agents are already available to European consumers (e.g. Grok Bot, Instinct), the EU's Digital Markets Act designates Meta, Alphabet, Apple, & others as 'gatekeepers', requiring increased levels of user consent before combining or cross-using personal data which has led to delays & product adaptation in the past.
- Further, the General Data Protection Regulation (GDPR) in Europe & the UK governs how organisations collect, use, store, & share personal data. AI agents would need to satisfy core GDPR requirements with penalties for non-compliance including fines of up to 4% of global turnover for the most serious infringements.
- That said, ultimately Agentic AI capabilities / access in Europe & the UK should follow the US trend & markets will read-across disruption impacts. In MSCI Europe, we map 24% of the index weight having some level of exposure to agentic AI disruption risk but only c. 3% with at least a 'moderate' or material level of exposure.
- In addition to mapping potential disruptions across 12 sectors, we note select stock dislocations (notably: Experian, Verisure, & Top Pick Scout24), & potential opportunities (Top Pick Adyen, IONOS, 1&1, Digi Spain)
- Details below & inside across Banks, DivFins, Insurance, Telecoms, Classifieds/ Internet, Business Services, Software, Utilities, Travel & Leisure, Staples, Food Retail, Apparel & Luxury Retail.

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Exhibit 1: We map *relative* European sector exposures to Muse/Agentic AI disruption risk (1= opportunity &/or minimal, 2= low, 3= moderate, 4/5 = relatively high vs other sectors assessed)

Sector	Score	Notable stock / sub-sector exposures	Avg rel. perf since Muse launch (8-Sep)	Pre-existing AI Disruption Debate?
Div Fins - Payments	1	Opportunity for Adyen	-10%	✓
Telecoms - Challenger Brands	1	Opportunity for 1&1, Digi Spain	2%	
Insurance - Re-insurers	1	Munich Re, Hannover Re, SCOR, Swiss Re & Lancashire insulated	5%	
Business Services - Select B2C	1	Verisure & Experian insulated; Rentokil more exposed; Opportunity for TP	-6%	✓
Food & General Retail	2	Tesco, M&S better positioned	1%	
Software - Webhosting	2	Potential opportunity for IONOS	-3%	✓
Staples - Food & Beverages	2	ABI, Campari, Magnum & Lindt insulated; Glanbia more exposed	-4%	
Staples - Consumer Health	2	Haleon, L'Oreal, Danone insulated	-2%	
Travel & Leisure - Hotels	2	Whitbread; Accor & IHG less exposed	4%	
Banks	2	Broad-based; UK / Ireland relatively more exposed	-4%	
Utilities - Retail Supply	2	Potential risk isolated to supply businesses - Centrica, E.ON, Endesa, Enel, A2A (~20% of mix)	1%	
Luxury	2	Broad-based	-5%	
Insurance - Personal lines P&C	3	Gjensidige, Tryg, Sampo; Admiral & Aviva less exposed	-4%	✓
Div Fins - Wealth Management	3	St James Place, Mediolanum, Fineco, Julius Baer	-2%	✓
Discretionary Retail - Other	3	Hugo Boss, Pandora & Adidas; Inditex less exposed	1%	
Travel & Leisure - Package Holidays	3	TUI	3%	
Staples - Homecare / Lower-End Personal Care	3	Henkel, Reckitt, Beiersdorf	0%	
Software - Travel Distribution	3	Amadeus, HBX	1%	✓
Internet & Media - Classifieds	3	Hemnet, Rightmove, BCG, Vend Marketplaces & SMG; Autotrader & Scout24 less exposed	-9%	✓
Discretionary Retail - Value Apparel	4	H&M, ABF (Primark)	-6%	
Telecoms - Select B2C	4	Vodafone, Orange, Zegona, Telenor	1%	
Discretionary Retail - Third-Party Aggregation	5	Zalando, JD Sports	0%	

Note: Adyen underperformance largely driven by stock-specific factors; Source: Morgan Stanley Research

Select sector highlights:

Banks (2 = low exposure) earn c. 50% of their revenues from Net Interest Income, & c. half of which is the 'deposit margin', i.e. income banks earn thanks to their ability to raise deposits cheaply. In a theoretical bear case, AI agents could reduce customer deposit inertia. However, in line with the above, we believe EU regulators are likely to take a cautious approach regarding deposit sweeping & guardrails are possible: customer-set limits, minimum benefit thresholds, frequency caps, clear consent & revocation, resilience requirements, liability rules, & potentially restrictions on fully automated sweeping during stress events. Further, **Neobanks have been offering higher deposit yields than incumbent banks now for a decade** yet the market share in non-remunerated accounts has barely changed. Fintechs like Raisin, which allows customers to seamlessly move deposits across different banks also already exist, & have had limited success.

Select Utilities (2): Sector broadly benefits from HALO exposure. However, we recognize growing concerns businesses exposed to the final end of the value chain could be subject to margin risk if Muse/agentic AI were to efficiently reprice **retail customer tariffs**. Supply is c. 10% of sector aggregate EBITDA & concentrated in a handful of names e.g. **Centrica, E.ON, Enel, Endesa, & A2A** at c. 20% of mix. These businesses are already valued at relatively lower multiples. Further, Centrica & E.ON's pure retail businesses have been facing challenging competitive markets for many years with pre-existing disruption from price comparison websites & other software-led innovations such as Octopus. Iberia & Italian Utilities have noted relatively low churn ratios vs more competitive markets like the UK. Our discussions with key players indicate price is not the sole determinant of customer outcomes & procurement & hedging strategies are important in shaping supplier margins.

Select Insurance (3 = moderate risk): AI agents could automate shopping around at renewal which could reduce "inertia" & lead to lower retention, greater price competition & ultimately weaker top-line growth & margins. We view **personal lines P&C, especially personal motor & other "simple" products (travel, renters insurance)**, as **most exposed near-term**, given relatively standardized / easier to compare products. However, agents could compare more than just price (e.g.

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customer satisfaction, service features), unlike pre-existing price comparison websites, &, as per Banks, regulation is a possible hurdle - agents would likely need to meet EU/EEA Insurance Distribution Directive requirements. Less exposed: home insurance (greater variation in cover & service), life (infrequent purchase, long duration, switching friction, trust), large commercial & specialty lines e.g. marine, cyber, professional liability (complex, underwritten case-by-case). **Most insulated/ defensive in P&C: reinsurance.**

Telecoms (4 = relatively higher disruption risk): Muse/agentic AI disruption concerns have understandably triggered recent sector weakness. Telecoms is largely commoditised with multiple suppliers offering similar products at very different prices. We believe increased customer agentic activity & engagement in lowering out-of-contract costs could reduce front book - back book pricing gaps & thereby pressure ARPU & overall top-line growth. The **sector is already walking a top-line tightrope, with mobile service revenue growth currently trending at zero** (YoY, all countries, all operators). Any incremental price pressure could therefore tilt this into negative territory & operating leverage could further trigger outsized EBITDA impact. That said, bundling offers relative protection, BTB is less exposed, & European telcos are broadly lower risk vs US peers owing to lower ARPUs. US mobile ARPUs are ~$50 vs €10-20 across most of Europe. On the positive side, we see **challenger brands as potential beneficiaries e.g. Digi Spain, Iliad, & 1&1**.

Apparel & Luxury Retail (2-5): Risks vary materially by business model (Exhibit 52) with best-in-class brands which differentiate on more than just price &/or are tech-enabled potentially benefiting from an incremental customer acquisition tool. Conversely, agentic AI could increase discoverability of niche/independent brands, raise visibility of the resale market, & will generally put pricing gaps under an increased microscope in an already highly competitive, fragmented, & promotional industry. Business models that aggregate/curate non-exclusive third-party product are **at greater risk e.g. Zalando, JD Sports, & Next's 3P Label business**. H&M & ABF (Primark) are exposed if agents re-accelerate e-commerce penetration, given a large store base / limited online presence, respectively. **Inditex looks better insulated** through fashion appeal & differentiation. **Luxury's barriers to disruption are relatively strong**: brand desirability, heritage, craftsmanship & emotional nature of purchases.

BTC Business Services, Media/Classifieds (1-3): These sectors, alongside Software & Payments, already faced AI disruption debates, but we see differing Muse exposures & **potential dislocations**. In Business Services, **Verisure & Experian shares have been amongst hardest hit since Muse's launch (-8-13%) but are both insulated**, in our view. Verisure's differentiated home-security proposition, safety/ trust focus, low price transparency & robust human-managed cancellation process limit switching. Experian (credit bureau; consumer services c.27% of revenues) is positioning itself as AI agents' trusted data & decision layer, indispensable for credit data, eligibility, fraud/identity & execution. In Media/Classifieds, **Top Pick Scout24 (-9% since Muse launch) screens as most defensive to AI disruption risk in the sector**, in our view - real estate classifieds benefit from proprietary supply, high direct traffic, deep agents/dealer relationships, & unique data (e.g. valuations, market signals). Scout24 is already showing tangible AI monetization evidence.

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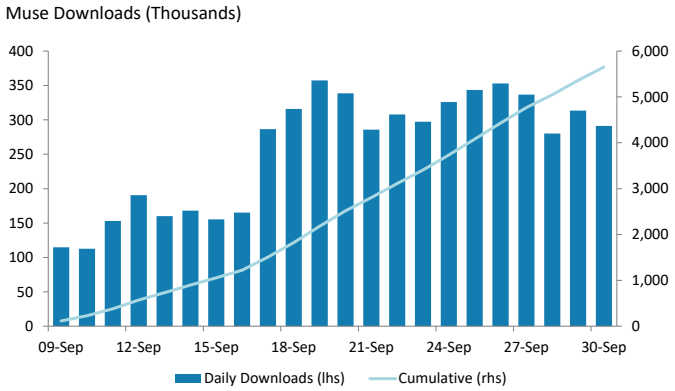
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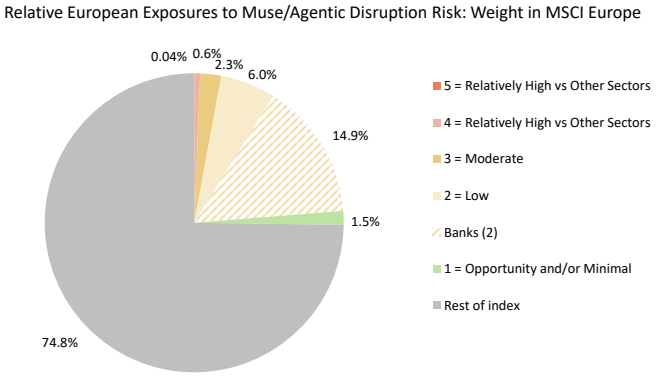
Strategy - Key Charts

Exhibit 2: From Muse's launch in September, downloads have reached c. 6 million (currently available in US & Canada)



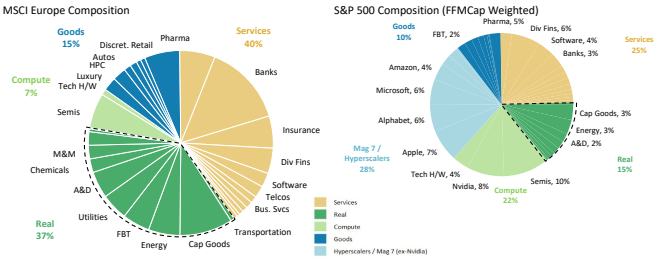
Source: Sensor Tower, Morgan Stanley Research

Exhibit 3: According to our mapping, c. 24% of the MSCI Europe index weight has at least some exposure to Muse/ Agentic AI disruption; c. 9% excluding Banks where we assess the risk as low



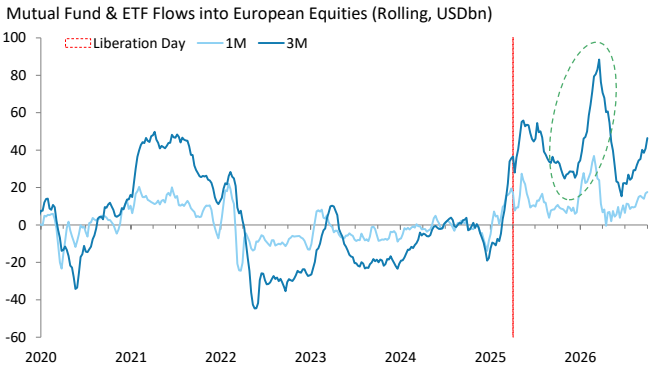
Source: LSEG Data & Analytics, Morgan Stanley Research

Exhibit 4: And although not the focus of this report, we also flag Europe's relatively high share of 'Real Asset' (HALO) exposure, well above levels in the US



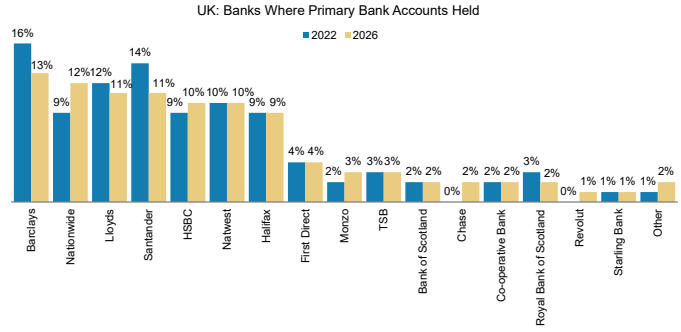
Source: LSEG, Factset, Morgan Stanley Research

Exhibit 5: Should market disruption focus accelerate, we remind of Europe's relative 'safe haven' real asset diversification flows earlier this year when disruption focus was last elevated



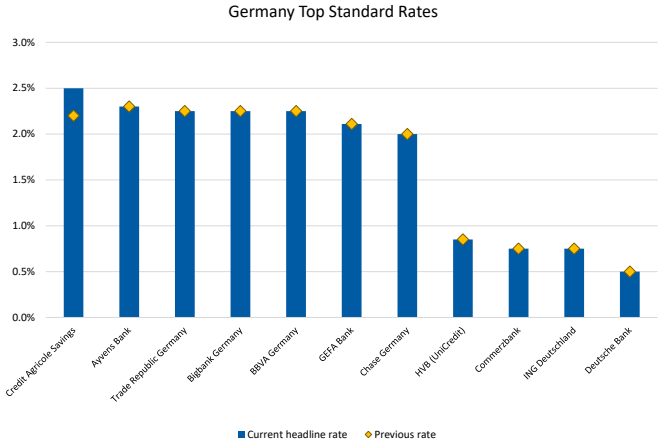
Note: The EPFR data and charts displayed here must not be extracted and republished (whether internally or externally). Such use will violate the terms of Morgan Stanley's contract with EPFR which only covers named users; Source: EPFR, Morgan Stanley Research

Exhibit 6: For the Muse debate in heavyweight sector Banks, we note Neobanks have been offering higher deposit yields than incumbent banks for a decade yet the market share shifts are minimal (UK example where deposit sweeping is already feasible)...



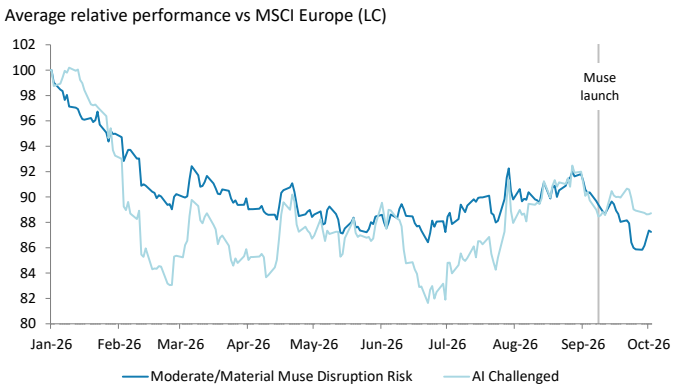
Source: AlphaWise, Morgan Stanley Research. For more data on our proprietary Alphawise survey please see: Neobanks: Leaders breaking away from the pack

Exhibit 7: ...And incumbent Banks tend not to compete with challengers (Germany top standard rate offers below) suggesting drivers beyond simply rate levels (e.g. trust element)



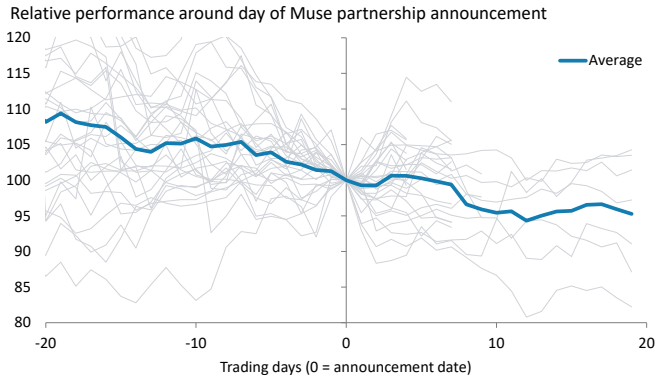
Source: Company data, Morgan Stanley research. These rates are subject to conditions. As of 7th September.

Exhibit 8: European stocks which our analysts assessed as having moderate to high relative exposure to disruption risk (3-5) have seen a marked decline into & following Muse's launch...



Source: Factset, LSEG Data & Analytics, Morgan Stanley Research

Exhibit 9: ...And although eventual European partnership announcement opportunities are plausible, we note mixed performance thus far in the case of companies announcing partnerships in the US



Source: Factset, LSEG Data & Analytics, Morgan Stanley Research

Regulatory Considerations

Rachel Fletcher, Arushi Agarwal

Existing EU regulation may influence how pre-built personal agents such as Muse are designed and deployed, particularly around data access, cross-service integration and user permissions. These requirements could affect product functionality, user experience and the pace of roll-out in the EU. We see the Digital Markets Act (DMA) and General Data Protection Regulation (GDPR) as the most relevant existing EU frameworks. Based on precedent, our base case is that Muse launches in the EU, but likely later than in other markets and with region-specific adjustments.

Europe remains open to AI Agents...

Muse is currently only available in the US and Canada. Europe is not closed to agentic AI; multiple general-purpose AI assistants are available in European markets and increasingly support agentic capabilities. However, their availability is not a direct precedent for the roll-out of pre-built personal assistant agents such as Muse.

Muse has a different product architecture and proposition from conventional prompt-response assistants and earlier general-purpose agents. Its proposition depends on persistent context and the ability to act across connected services on a user's behalf. Muse can operate through its own browser, work across apps that users connect, interact through WhatsApp, retain context over time and draw on services such as email, calendar and Instagram. Meta says users choose which services Muse can access, can review its activity, and must approve certain sensitive actions (Meta).

... but EU rules could shape how autonomous and personalised pre-built agents can be

Muse's deeper integration with personal data, third-party services and real-world actions creates different regulatory and product-design challenges than general purpose AI assistants. European regulation may therefore be a constraint on how highly integrated personal agents are designed, permissioned and ultimately rolled out. This could require a European version of Muse to operate differently from the US product, particularly in areas such as data use, cross-service integration, transparency and user control.

The **General Data Protection Regulation (GDPR)** and **Digital Markets Act (DMA)** are likely to be the most relevant existing EU rules. GDPR governs how personal data is collected, processed and explained to users, while the DMA places specific restrictions on how designated "gatekeepers" can combine or cross-use personal data across services without user consent.

We note that Meta has not publicly attributed Muse's current absence from the EU to European regulation, nor has it announced an EU launch date. Meta says more generally that it is taking a measured approach to expansion into additional markets.

We also note, however, that Meta previously delayed the European launch of Meta AI following regulatory concerns about the use of European users' data to train its models.

When Meta AI subsequently launched in Europe in March 2025, Meta said the process had taken longer than intended as it navigated Europe's regulatory environment (Meta). This does not establish that Muse is being delayed for the same reason, but it demonstrates that European data and regulatory requirements have previously affected the timing and initial scope of Meta's AI products.

The Digital Markets Act and the GDPR are the key regulations to watch

The **DMA** regulates large digital platforms designated as "gatekeepers", with the aim of making digital markets more open and contestable (DMA). At the time of writing, there are seven gatekeepers: Alphabet, Amazon, Apple, Booking, ByteDance, Meta and Microsoft. Gatekeepers are broadly defined as large platforms with significant EU scale that operate an important and durable gateway between businesses and consumers, with quantitative thresholds covering company size, consumer reach and business-user activity.

Among other obligations, the DMA introduces specific rules around combining data across services. Under Article 5(2), designated gatekeepers generally cannot combine or cross-use personal data between their core platform services and other services unless users are given a specific choice and provide valid consent. Where users do not consent, the framework envisages access to a less personalised but otherwise equivalent alternative.

This is particularly relevant to Meta because Facebook, Instagram, WhatsApp, Messenger and Meta Ads are currently designated as core platform services under the DMA. Facebook Marketplace was also originally designated, but the European Commission removed that designation in April 2025 after concluding that it no longer met the relevant thresholds.

For a personal agent such as Muse, the implications could be significant because part of its value derives from drawing context across multiple services. In practice, European users may therefore need to make more explicit choices about which Meta services and datasets are connected, rather than cross-service data use being assumed by default. The DMA does not prohibit this combination outright, but generally requires Meta to obtain valid user consent before combining or cross-using personal data across designated services and other services.

We note that Meta has already adapted its European products in response to the DMA. From 2024, European users were given choices over whether to keep Facebook and Instagram connected or manage them separately, affecting how information is used across those accounts (Meta). Similar principles could become relevant to Muse if its European proposition relies on combining context across Meta's ecosystem.

Penalties for non-compliance with the DMA include fines of up to 10% of annual global turnover, rising to 20% for repeat infringements.

The **GDPR** is the EU's core data protection framework, governing how organisations collect, use, store and share personal data (GDPR-info). An agent with ongoing access to email, calendars, conversations and connected apps potentially processes a much broader and more persistent set of personal data. This could increase scrutiny around what information an agent remembers, which accounts it can access, what inferences it derives and how that information is subsequently reused. Meta currently says Muse data held in its secure VM is not shared with its advertising systems and that users can opt out of their interactions being used to train Meta's AI models. European regulators could nevertheless

scrutinise the scope, retention and reuse of that information.

Put simply, a user asking an agent to "help manage my life" would not necessarily provide an unrestricted basis to retain every email indefinitely, infer new information for unrelated purposes or reuse personal data beyond the purposes initially communicated. AI agents would still need to satisfy core GDPR requirements around:

- a legal basis for processing personal data;
- a defined purpose for which it is processing it;
- only processing the data necessary for that purpose;
- appropriate retention periods; and
- transparency about what it is doing with the data.

Penalties for non-compliance with GDPR include fines of up to 4% of global turnover for the most serious infringements.

We note that the UK has its own version of GDPR which was adopted into UK law post-Brexit. The EU DMA does not apply in the UK.

Finally, the **EU AI Act** also creates additional disclosure requirements, with the Article 50 transparency requirements in place since 2 August 2026. Under these requirements, providers must ensure that people are informed when they are interacting directly with an AI system, unless this is already obvious in context. The Act also introduces transparency requirements for certain AI-generated or manipulated content *(see our recent note on the introduction of these requirements)*.

There is precedent for EU regulation delaying and changing tech product roll-outs

As discussed above, Meta has already adapted its European products in response to the DMA.

Apple provides a more recent example of how the regulation could affect the European roll-out of pre-built personal assistants. Siri AI began rolling out in beta in supported markets on 14 September 2026. It is not initially available on iOS, iPadOS or watchOS for EU users, although it is available to eligible EU users on macOS and visionOS (Apple).

Apple attributes the delay to the DMA's interoperability requirements. Under Article 6(7), designated gatekeepers must provide third parties with effective interoperability with hardware and software features accessed or controlled through their operating systems or virtual assistants.

Apple says that extending comparable system-level capabilities to third-party virtual assistants creates additional privacy and security risks. It proposed a "Trusted System Agent" architecture to mediate third-party access, alongside an 18-month phased implementation. Apple says the European Commission did not accept this proposal. Separately, the European Commission has said that the DMA does not prevent Apple from launching Siri AI in the EU or require it to lower its security standards (Reuters).

What about other pre-built personal agents?

One example is Grok Bot, which xAI launched in August 2026. Grok Bot is an always-on agent with its own cloud computer, persistent memory and the ability to work across apps and websites. xAI describes the product as available broadly to eligible subscribers and

provides Europe-specific consumer terms, although it does not publish a detailed country-by-country Grok Bot availability list. Unlike Meta, neither xAI nor X is currently designated as a DMA gatekeeper: the European Commission concluded in 2024 that X was not sufficiently important as a gateway between businesses and consumers. Grok Bot therefore remains subject to applicable EU regulation, including GDPR and relevant AI Act requirements, but does not face the additional gatekeeper-specific DMA obligations that apply to designated Meta services.

Banks

Alvaro Serrano, Giulia Aurora Miotto, Noemi Peruch, Ned Tidmarsh, Almario Sulaj

Banks earn ~50% of their revenues from Net Interest Income, and roughly half of this is the so-called "deposit margin", i.e. income that banks earn thanks to their ability to raise deposit cheaply. One of the rare few bear arguments that we hear on the sector (where we have an Attractive Industry View) is that removing this customer inertia would significantly impact banks' earnings.

We think this is quite unlikely in the short term, first of all because the ability for AI-powered agents to autonomously sweep deposits between providers remains constrained by existing regulatory and payments frameworks in most markets, with the UK and Brazil among the more advanced. and secondly because of the trust that customers have towards their bank. We detail our thinking below.

First of all, what can Muse actually do today? Meta launched Muse in the US on 8 September 2026. Its finance functionality connects users' bank, loan and investment accounts through Plaid. Meta currently advertises Muse as being able to analyse statements and spending, build budgets, track savings goals and find/cancel unnecessary subscriptions, but it cannot, for now at least, automatically sweep deposits.

Exhibit 10: Global overview: can AI-enabled deposit sweeping happen today? Yes, in the UK & Brazil

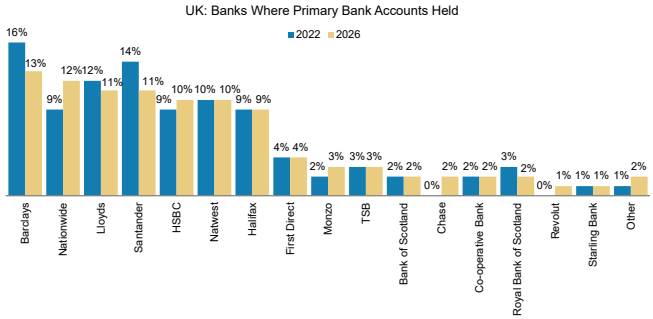
Region / country	Can AI-enabled deposit sweeping happen today?	Key reason	Deposit-franchise risk
UK	Yes	Open banking and Variable Recurring Payments allow customer-consented, unattended sweeping between accounts owned by the same customer. This is the clearest live market for AI savings agents.	High
Brazil	Yes	Brazil's Open Finance and salary portability framework support deposit mobility by lowering the switching costs consumers face when moving their primary banking relationship, enabling secure data sharing, authorizing payment-transaction initiators, and allowing recurring salary flows to be automatically redirected to customer selected accounts.	High
Eurozone / EU	Partly	PSD2 supports account access and payment initiation, but there is no fully harmonised UK-style sweeping framework across major eurozone markets. Capability varies by bank and country.	Medium
US	Partly	Credential-based aggregation and ACH transfers exist, but there is no nationwide regulated open-banking sweeping regime equivalent to UK VRP.	Medium
Canada	Not yet	Open banking / consumer-driven banking is still being implemented. Secure data sharing is the near-term focus; payment initiation and automated sweeping are expected later.	Low today, rising
Australia	Emerging	Banking data sharing is live under the Consumer Data Right, but broad "action initiation" / payment initiation is not yet equivalent to live automated sweeping at scale.	Low today, rising
LatAm ex-Brazil	Emerging	Mexico and Chile have made the most progress on the regulatory front (salary portability, open finance rules), but implementation remains uneven and has yet to translate into deposit mobility at scale. Colombia is moving toward mandatory open finance, but key rules (particularly portability) have not yet been enacted. Peru continues to lag, with limited regulatory progress to date.	Low today, rising

Source: Different regulators' websites, Morgan Stanley Research

Would regulators permit this? We believe regulators are likely to take a cautious approach. On one hand, deposit sweeping supports competition and better consumer outcomes, hence a regulator may not want to prohibit it altogether. We note that customer-consented automated sweeping is already permitted in the UK within defined parameters. Yet, agent-controlled or rate-optimised balances are less stable than traditional retail deposits for liquidity modelling and stress testing, hence they can not be treated as stable deposits, which increases liquidity requirements on banks. Higher funding costs also makes lending more expensive, which can impact the growth of the economy, or alternatively it makes banks less profitable, which is risky as it lowers the break-even point

and leaves fewer buffers to absorb potential credit losses in a crisis. A possible response could be guardrails: customer-set limits, minimum benefit thresholds, frequency caps, clear consent and revocation, resilience requirements, liability rules, and potentially restrictions on fully automated sweeping during stress events. We believe the UK is at the forefront of these developments globally and is therefore an important market to watch.

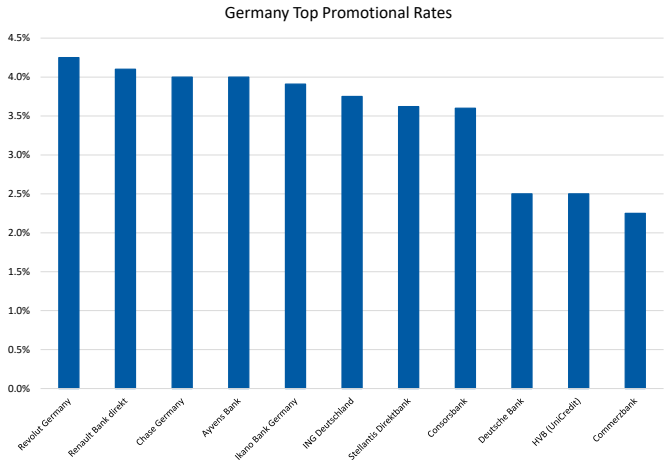
Exhibit 11: NeoBanks market share over time UK: Primary accounts: Barclays remains the leader, although with a lower market share vs 2022. Amongst neobanks, Chase has shown the largest gains, but only gained 2pp in 4 years. Crucially, Nationwide gained most share over the past 4 years, showing how incumbents can successfully defend themselves against competition.



Source: AlphaWise, Morgan Stanley Research. For more data on our proprietary Alphawise survey please see: Neobanks: Leaders breaking away from the pack

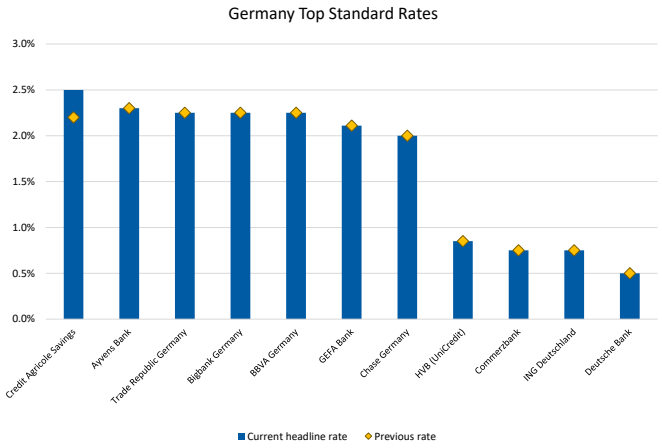
Does anything similar already exist in the market? An agent that continuously and autonomously optimises deposits across banks doesn't exist in Europe to our knowledge. The closest example we have found is Riff (https://riffagent.ai/), a UK fintech which is developing such a product but is yet to launch. Neobanks have however been offering higher deposit yields than incumbent banks now for a decade and the market share in non-remunerated accounts has barely changed. We track deposit competition very closely thanks to our deposit tracker (as we discussed here), and despite promotional rates as high as 4%, the main incumbent banks, for example in Germany, all pay <1% for savings accounts, and are not moving even as ECB rates went up, which shows that there is limited pressure from customer demand to increase rates. Fintechs like Raisin, which allows customers to seamlessly move deposits across different banks also already exist, and have had limited success (~€80bn in deposits after 10 years in existence across most European markets, as we wrote here). Additionally, while deposit sweeping technology is already technically available, we believe regulators are unlikely to allow unrestricted, fully autonomous sweeping.

Exhibit 12: German Promotional Rates - Revolut is the current leader at 4.25% aligned to its offer in France



Source: Company data, Morgan Stanley research. T&Cs applied by each bank vary with some requiring certain deposit or payment requirements, or offering rates only up to a threshold. Full detail can be found in our deposit tracker which can be requested directly. For the promotional rates, we only include genuine promotional rates that offer uplift vs the basic redeemable rate - hence some incumbent banks screen as offering 0% as we keep them in for reference. As of 7th September.

Exhibit 13: Germany top standard rate offers - the incumbents tend not to compete directly with challengers

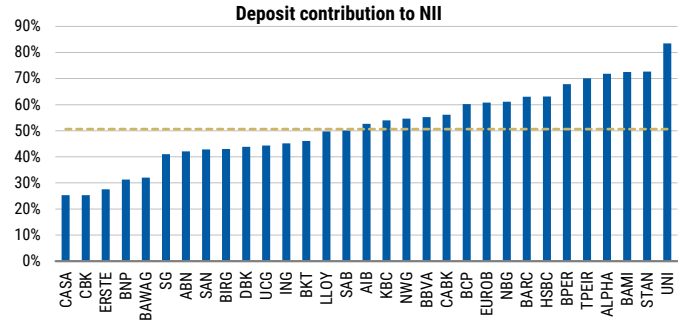


Source: Company data, Morgan Stanley research. These rates are subject to conditions. As of 7th September.

What could be a plausible bear case? Assuming that as a result of less inertia in the market (within appropriate regulation guardrails), the deposit mix of banks deteriorates by 5-10% from current accounts and instant access to term deposits, we estimate there is a 2-4% NII at risk over time, equivalent to 2-5% of Ppop. Within the sector, we would see the

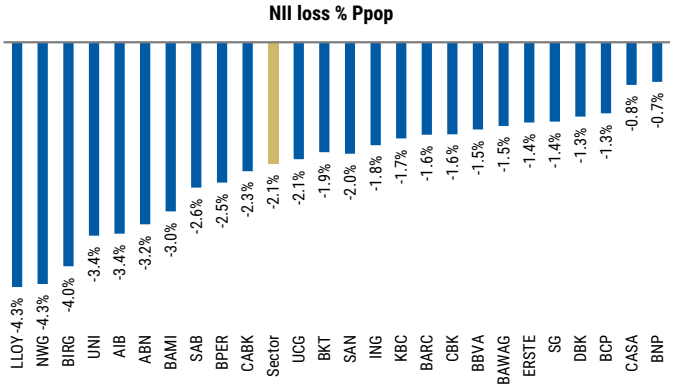
UK as more at risk due to the higher rates, and Ireland as well, given its higher deposit margins.

Exhibit 14: Deposit margin contribution to NII



Source: Company data, Morgan Stanley Research estimates (e)

Exhibit 15: Ppop impact from 5% shift to term deposits



Source: Company data, Morgan Stanley Research estimates

However, we see this scenario as extreme. For context, the 10% deterioration in mix we see at the high end of the range compares to the 8% mix shift we saw in the UK in 2H23, for example, or to the 11% mix shift in the US when rates were over 5%. We don't question that AI tools will make it easier to manage money more effectively, but there is a trust element to overcome, as well as regulatory hurdles.

We believe the breadth and quality of the product offering, together with operational efficiency, will be key to absorb the margin pressure agentic AI will most likely bring. We see more pricing risk in unbundled markets, where clients consume financial products from different providers, or for players that have limited product offerings, whereas we think bancassurance models should be more protected, as typically clients have several products with the bank (all the way from deposits, mortgages to investments and life .

Previous notes on the topic

Revolut leads as the gap widens (Sept 2026)

European Banks: AI: More Friend Than Foe (May 2026)

Neobanks: Leaders breaking away from the pack (March 2026)

Neobanks Thrive: Can They Keep up the Momentum? (July 2025)

Insurance

Hadley Cohen, Daniel Wilson-Omordia, Alexa Psillos

Recently, the launch of consumer-focused AI agents, such as Meta Muse and Instinct, has brought renewed attention to the potential disruption from AI-based insurance distribution. We briefly discussed this risk in our Nordic Insurers initiation (Nordic Insurers – Northern Lights are Fading (14 Jul 2026)), but at the time it was largely theoretical, or at least agents did not feel particularly accessible to the average user. The emergence of user-friendly agents that can increasingly act on a user's behalf, including comparing insurance policies, makes the concept much more tangible, with some already being used to compare insurance and save money. We have already briefly discussed this topic with focus on Nordic insurance in AI distribution – the next test for the Nordics? (25 Sep 2026), and below we generalise and iterate on our views for the sector.

AI could automate shopping around for insurance. The disruption mechanism is essentially that customers could use AI agents to compare insurance quotes and even shop automatically for them. Because insurance is renewed at predictable times, on a customer's renewal date an AI agent could compare the customer's existing policy against competing policies without requiring the customer to initiate the process – this could eliminate "inertia" for an individual and potentially bring about more competition to insurance renewals. Ultimately this could lead to lower overall retention, greater price competition and therefore weaker top-line growth and margins, depending on how insurers respond.

AI agents should in theory be capable of comparing more than price. Traditional price comparison websites (like Confused.com in the UK) compare policies across a relatively limited set of dimensions (mainly price). An AI agent may be able to incorporate customer satisfaction scores, coverage, and other service features alongside price. Where customers receive bonuses or dividends from their insurers (e.g. those offered by Gjensidige and Tryg in their domestic markets), AI should also be able to compare this. This could favour insurers with stronger overall propositions, as agents may optimise across price, coverage, claims service etc. rather than simply selecting the cheapest policy.

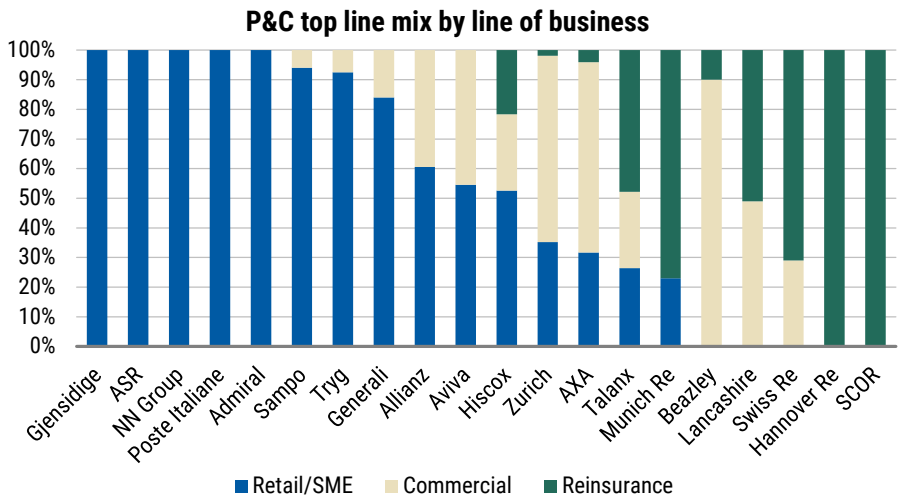
Exposure to disruption is likely less prominent as products become more complex. In our view, these AI agents are likely to work best where the insurance product is relatively standardised, customer data is easily inputted/readily available, and underwriting is relatively automated. Given this framework, we view personal lines P&C, but especially personal motor insurance and other "simple" insurance products (travel, renters insurance), as the most obvious near-term area of exposure, given policies are relatively standardised and easier to compare across providers. Something like home insurance though can involve greater variation in cover and service propositions, which may make fully automated comparison more difficult.

We consider large commercial, specialty insurance (e.g. marine, cyber, professional liability) relatively more insulated with reinsurance most insulated within P&C. These lines are more complex and underwritten on a case-by-case basis. As such, we'd expect reinsurers (e.g. Munich Re, Hannover Re, SCOR, Swiss Re, Lancashire) could be seen as especially defensive against this theme.

Life insurance should be relatively insulated. Policies are bought infrequently, often run for long durations and can involve friction to surrender or replace, depending on the country. Workplace/group products are likely to be much less vulnerable than retail products due to brokered distribution. AI could still affect new business distribution, particularly for simpler products, but the significant advisory and trust element in selling life insurance is still likely to be a barrier to disruption. In fee-based retirement/savings products, AI agents could increase pricing transparency and increase competition.

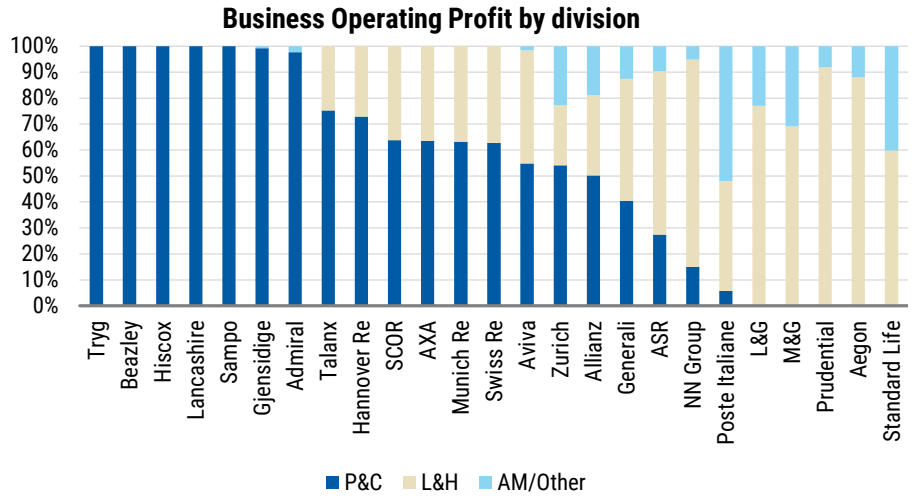
The charts below shows how this exposure varies across our coverage, based on P&C top line mix and overall operating profit mix.

Exhibit 16: P&C top line sorted by Retail/Commercial/Reinsurance exposure



Source: Company data, Morgan Stanley Research

Exhibit 17: Our coverage's operating profit business mix



Source: Company data, Morgan Stanley Research. Note: P&C = Property & Casualty, L&H = Life & Health, AM = Asset Management.

Regulation, trust, and bundling could slow the path to autonomous switching

Regulation is likely to be one of the first hurdles to AI-led insurance distribution in Europe. Consumer AI agents such as Muse are not yet available in Europe, but even if they

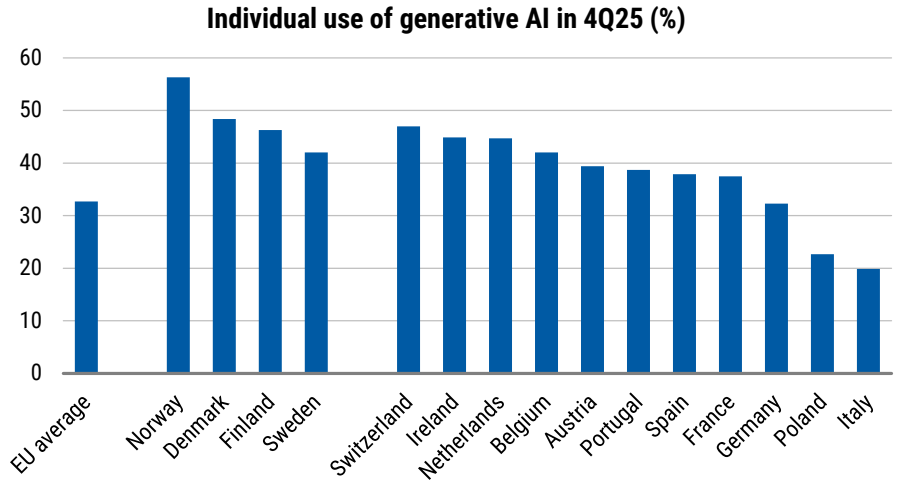
launch, moving from comparing policies to recommending or switching cover would bring them into regulated insurance distribution. The EU/EEA Insurance Distribution Directive, which governs how insurance products are sold, recommended and distributed, with a similar framework in the UK, means agents would likely need to meet regulatory requirements before they could become a true end-to-end distribution channel.

Bundling probably remains a barrier, but could be weakened in an agentic world. Today, bundling (i.e. holding multiple policies with one insurer) acts as a barrier to switching and helps improve retention. It is probably not a coincidence that the Nordics, where bundling is extremely common, have leading retention rates. In our view, part (but definitely not all) of this stickiness comes from the administrative and mental burden of considering changing multiple policies at once. AI could reduce this complexity by assessing the total economics of moving one or several policies automatically i.e. highly bundled customers may have more reason to use an AI agent, given this is exactly the type of complex comparison AI may handle more easily than humans. That said, there are likely to still be economic and practical limits, particularly where competing insurers offer completely different service propositions that are harder to compare directly, where bundles receive discounts or contain less standardized lines like home insurance.

Existing dynamics are also important. We think existing market and distribution dynamics will matter for both the pace and ultimate impact of AI-led distribution. A few examples:

- **UK personal lines, a PCW-led market:** Insurers in this market (e.g. Aviva, Admiral) already operate in a market where customers are used to shopping frequently and price transparency is high due to PCWs. Customers may still find value in using AI agents over PCWs if they can have their shopping around automated, but the incremental disruption to insurers from AI agents may therefore be smaller, i.e. there should be less vulnerability here.
- **Agency- or broker-led markets:** The impact is more two-sided. Distribution costs via commissions are more significant in these markets and since distribution via AI agents as it stands would be fairly cheap, AI agents could actually benefit expense ratios. However, stronger customer relationships and greater reliance on human advice could slow adoption, particularly in markets with lower digital or AI usage. Italy is one example where AI usage is relatively low (Exhibit 18) and human agents are common, which may delay the pace of disruption.
- **Direct, high-retention markets:** The main risk here is a change in shopping behaviour. Customers may currently shop relatively infrequently, while insurers already have relatively cheap, direct distribution, leaving less distribution cost for AI to remove. If AI agents automate shopping around then a greater share of the renewal book could become contestable, with less cost benefit to offset an increase in competition. The Nordics are an example here (although higher efficiency/scale could leave listed incumbents e.g. Sampo, Tryg, Gjensidige relatively better placed than less profitable mutuals).

Exhibit 18: AI adoption differs significantly across Europe and may change the pace at which AI agents are adopted



Source: Eurostat, Morgan Stanley Research

More broadly, AI could strengthen scale advantages. While the purpose of this note is to focus on AI distribution, this is only one side of the AI debate. AI distribution has potential to be disruptive, however the use of AI internally has potential to be beneficial for insurers. Using AI requires investment in technology, data and talent, and larger insurers can spread these fixed costs across a much larger premium base, while investing earlier and iterating faster. E.g. Allianz spends c.€6bn p.a. on technology, which illustrates the scale of investment that subscale competitors would struggle to match.

Benefits include and extend beyond cost efficiencies. AI can clearly help insurers reduce costs via areas like claims handling, fraud detection, and customer service but it can also help insurers improve retention (by anticipating points of churn), cross-selling (by identifying customer needs), pricing sophistication and risk selection. Generali's insurbanking initiative (read our note here) is one example of using AI and data analytics to personalise customer offerings and potentially improve loyalty. Quantification of these benefits is sparse for now but becoming more common e.g. AXA is targeting €500-700m of recurring pre-tax annual value from AI by 2029 and Admiral says predictive AI has already delivered >£100m of incremental loss-ratio value, with GenAI and automation contributing to a targeted >£100m annual efficiency benefit by 2028.

We expect AI to increase the value of scale, potentially widening the gap between well-invested incumbents and sub-scale competitors. Ultimately AI accelerates the broader scale theme we have discussed elsewhere, with market share potentially consolidating towards scaled incumbents and strong local specialists.

Diversified Financials

Russell Quelch, Marina Massuti, Gregoire Hermann, Ishaan Gupta

Within our EU Diversified Financials coverage, we believe the debate around AI agent disruption risk is most prevalent around wealth management and payment processing. In wealth management we take a cautious stance around the potential disruption risk concerning a client's primary financial interface, while for payment service providers (PSPs), we are constructive on the opportunity stemming from agentic commerce.

Wealth Management

The debate: If a third-party personal agent becomes the wealth platform through which customers interact, the traditional wealth advisor may no longer automatically own the relationship, and the economics could shift toward the interface agent.

Stocks exposed in our EU Div Fins coverage = St James's Place (Equal-weight), Mediolanum (Equal-weight), Fineco (Overweight)

Our view: We believe META's Muse strengthens our existing AI-and-customisation thesis in wealth management (see our report Diversified Financials: Shifting Economics in EU Asset and Wealth Management) but also adds a new strategic question concerning a client's primary financial interface.

Rationale for our view: Plaid states that Muse's finance experience can securely connect financial accounts so users can receive personalised guidance, set financial goals and take action through everyday conversations. We note that this is strategically different from an adviser copilot that lives inside a wealth manager.

A personal agent can potentially sit above the regulated wealth stack while becoming the first place a consumer asks financial questions, organises information and initiates actions. That creates a possible "interface layer" above brokers and wealth managers. Without necessarily replacing regulated wealth providers, a personal agent could become the first place a consumer asks financial questions, organises information and initiates actions, creating a potential "interface layer" above brokers and wealth managers.

While this carries disintermediation risk, we would suggest that financial services presents greater challenges for general-purpose agents than shopping or travel. Suitability, fiduciary and advisory obligations, product governance, KYC/AML, record keeping, data permissions, supervision and accountability all become more consequential as an agent moves from information to recommendation and execution.

Meta's architecture addresses part of the technical problem. Muse uses a dedicated secure VM, separates credentials from the model, keeps an audit trail and asks for approval before sensitive actions. Yet we note that this is not addressing who is responsible for investment suitability or execution.

We believe the near-term impact is therefore more likely to be financial aggregation, guidance, comparison and workflow orchestration than autonomous portfolio management.

We do, however, believe this is a fluid debate that may weigh on terminal value for wealth managers, particularly closed architecture wealth platforms (e.g. St James's Place) where AI already structurally challenges the model by enabling customised solutions to be offered at scale.

What we are watching next: We are closely watching whether Muse or other agents expand from account aggregation and financial guidance into regulated investment workflows, and which licensed partners provide those capabilities. How regulators allocate responsibility between personal agents, advice providers, product manufacturers and execution venues when a recommendation or transaction spans multiple systems will be key to this evolution, in our view. We are also watching whether large wealth platforms expose portfolio, research, execution and service capabilities through agent APIs rather than requiring clients to remain inside proprietary apps.

Payments processing

The debate: If an AI platform owns discovery, intent and the consumer wallet, or if networks provide agent credentials directly, PSPs could lose portions of the checkout stack and face more pricing pressure.

Stocks exposed in our EU Div Fins coverage = Adyen (Overweight)

Our view: We believe the likely outcome is not the removal of PSPs, but a redistribution of value toward providers that can abstract protocol fragmentation, prove agent legitimacy, preserve merchant control and route transactions across cards, wallets, account-to-account and stablecoin rails. In our view, this favours modern PSP's such as Adyen (Overweight) over legacy providers.

Rationale for our view: We see META's Muse as an early proof point for a broader shift from human-initiated e-commerce to agent-mediated commerce. As detailed in our report, Diversified Financials: Re-plumbing the Pipes: Technology's Reshaping of Capital Markets, for PSPs, we see this as an opportunity to expand the addressable role beyond payment acceptance into agent verification, credential abstraction, checkout orchestration, fraud, routing and merchant connectivity.

We believe the PSP is well placed to become the translation and control layer between agents, merchants, wallets, networks and alternative payment rails. This resembles the role PSPs already play across fragmented methods, but agentic commerce adds identity, consent and machine-to-machine orchestration. We see three primary revenue opportunities:

1. higher transaction volumes from lower-friction commerce
2. new software/orchestration services for agent-ready checkout
3. greater monetisation of fraud, tokenisation, authentication and payment optimisation.

One point of note is the differing approach PSPs are taking. A PSP could be embedded in Muse on the consumer/agent side, while Adyen is primarily building infrastructure on the merchant side. The embedded PSP has a direct integration with Meta, so a US user can

connect their wallet account to Muse, and Muse can then spend on that user's behalf. At the 1m+ merchants that support the wallet, Muse uses the consumer's saved payment method. At merchants that don't support it, the PSP can issue Muse a single-use virtual card scoped to the approved purchase. The user approves the transaction total in Muse, while Muse itself never sees the underlying payment credentials.

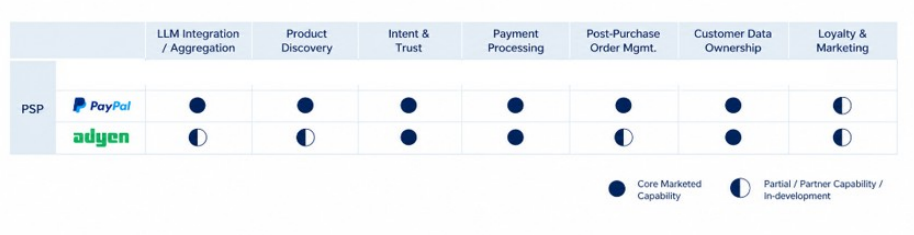
We find this implementation very interesting because it shows how a PSP can bridge closed and open environments: native wallet acceptance where available, and a scoped virtual card where it is not. We think this eases the chicken-and-egg problem of needing every merchant to support a new agent protocol before an agent can transact. Over time, however, more merchants are likely to expose direct agent APIs, which could shift the economics away from virtual-card bridging and toward protocol-based checkout and tokenised credentials.

Adyen's announced strategy is different. Adyen Agentic is designed primarily to make merchants accessible to multiple AI agents. Its three modules, Agentic Feed, Agentic Cart and Agentic Payments, provide an abstraction layer across different agent platforms allowing an enterprise merchant to integrate once and participate across different agentic channels. Adyen explicitly describes itself as a "universal translator" between merchants and AI platforms.

As laid out in our above-mentioned report, we see Adyen as well positioned across the main control points in agentic commerce.

- Discovery – Adyen has agentic feed and merchant catalogue data, which an agent requires for accurate product, price, availability, and catalogue data.
- Order creation – through agentic cart and existing merchant systems, Adyen can ensure tax, fulfilment, inventory, and promotions stay under merchant control.
- Identity and trust – Adyen's Dynamic Identification and Uplift products help the merchant to identify intent and manage fraud without direct human interaction.
- Payment – Adyen's global acquiring, local methods, and agentic payments solutions offer agents with reliable acceptance across markets and payment methods.
- Commercial action – Talon.One's loyalty and promotion engine means merchants can personalise offers while retaining the customer relationship.
- Monetisation – Orb billing plus Adyen accounts and capital offer usage, billing, collection, and liquidity within one platform.

Exhibit 19: Modern PSPs are well positioned to offer the whole suite of agentic services



Source: Morgan Stanley Research, PaymentGenes

That said, we do not assume material agentic revenue before 2028. Standards are still developing and merchant adoption should be gradual.

Regulation will also play a key role in adoption. In Europe and the UK, strong customer authentication, consumer protection and payment-services rules were designed around explicit human authorisation. Full autonomous purchasing without a human check remains some way off in these markets. This should favour models in which the agent prepares and orchestrates the transaction while the user confirms sensitive actions, at least initially. We think this can be constructive for PSPs because it preserves a clear permission event that can be captured, authenticated and evidenced.

What we are watching next: First, we are watching how the ownership evolves and whether consumer payment credentials sit with an AI platform, independent wallet, issuer, network or PSP as we think this will shape bargaining power. Also, who owns the merchant integration is key because if merchants rely on PSPs to become agent-ready, PSPs retain strategic relevance. If AI platforms integrate directly with the largest merchants, we think PSP leverage weakens. We are also watching closely where the use case matures first. Consumer retail may remain card/wallet-led, while API, B2B and microtransaction use cases could migrate faster to A2A or stablecoin rails.

Utilities

Rob Pulleyn, Arthur Sitbon, Marina Fuentes Juan and Arthur Descazeaud

HALO Resilience

We consider Utilities primarily a HALO (Hard Asset Low Obsolescence) sector, one of 3 key fundamental themes alongside PoweringAI and Energy Security. In this light, Utilities is a 'double winner' of enabling AI through power solutions but also a defensive resilient sector where disintermediation is less likely than elsewhere. The power, gas and water systems rely on hard assets to provide critical physical products without which economies cannot function and populations cannot live in comfort. All three subsectors are unlikely to see major direct disruption by AI given natural monopolies, capital intense investments and physical infrastructure. We therefore consider Utilities an attractive sector to balance AI risks elsewhere, and as a winner from a potential rebalancing of market preferences towards higher asset / capital intense businesses. Within Utilities our preferred HALO growth stocks are **National Grid, SSE, E.ON, Orsted, RWE & Elia.**

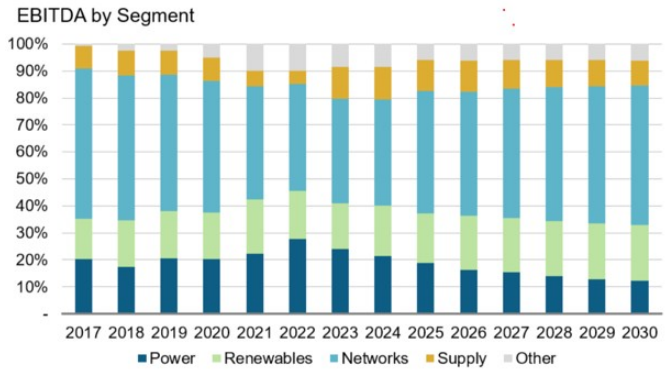
What About Supply?

We recognize growing market concerns that Utility businesses exposed to the final end of the value chain could be at risk from AI disruption in the supply business. The extent of risk to margins is yet unclear given the Utilities supply sector has already seen disruption from price comparison websites and other software led innovative disruptors, such as Octopus. We recognize that AI usage through Muse or similar apps may erode margins by efficiently repricing retail customers rather than leaving them on unattractive tariffs. At the same time, Utilities will also use AI tools to improve efficiency and reduce costs, which are usually passed to customers and preserve market share. Furthermore, concerns regarding personal data may limit willingness to embrace such AI tools for bills in Europe, therefore limiting the potential disruptive impact.

However, Supply EBITDA is ~10% of sector aggregate EBITDA (see Exhibit 20), reinforcing our view that the sector remains predominantly HALO. In addition, Supply businesses trade on lower valuation multiples than other HALO parts of the Utility value chain, given existing competitive forces and lower underlying growth. Furthermore, this supply exposure is concentrated in a handful of names, notably ***Centrica, E.ON, Enel, Endesa, & A2A*** (see Exhibit 21). We recognize that integrated supply businesses, such as **Enel, Endesa, Iberdrola, Naturgy & A2A** have seen margin expansion since 2021 commodity uplifts, whereas ***Centrica*** and ***E.ON's*** pure retail businesses have faced challenging competitive markets for many years and therefore have lower margins and are less vertically integrated. Whereas we note, southern Europe retail businesses have historically seen less churn and more sticky customers. We also note that vertical integration of power generation and supply offers a competitive advantage as someone somewhere has to generate the power for MUSE to arbitrage tariff offers on. Consequently, we see potential risk to excess margins but note it is uncertain how significant this may be across supply businesses, and may not be evident in the near-term. We currently rate ***Enel & Endesa*** Underweight for reasons other than potential AI/ MUSE disruption.

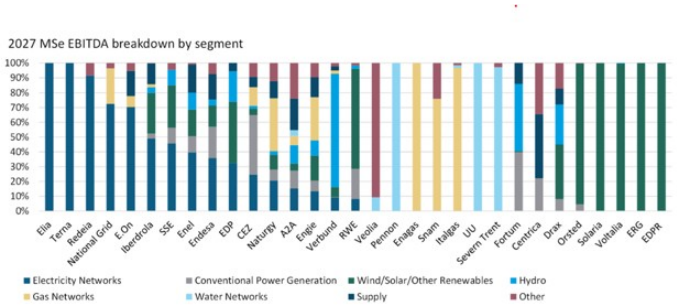
While utilities companies have not provided much information on the risks associated with a hypothetical MUSE-related disruption to their supply activities at this stage (partly given MUSE is not present in Europe yet), our discussions with some of the key players in our coverage suggest that it would be premature to assume MUSE will be a game changer for how European supply businesses are operated, given already existing competition in European markets, the fact that price is not the sole determinant of customer outcomes, and the importance of procurement and hedging strategies in shaping supplier margins. Utilities in Iberia and Italy in particular have highlighted the relatively low churn ratios in their markets compared to more competitive markets such as the UK, suggesting that customer inertia reflects behavioural factors rather than simply a lack of technology.

Exhibit 20: Supply business is only ~10% of Sector EBITDA with rest being HALO...



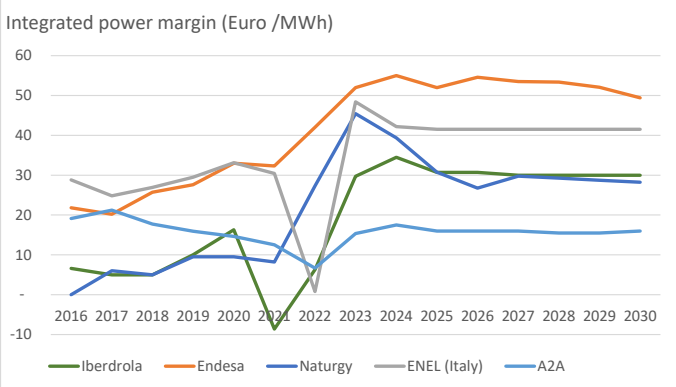
Source: Morgan Stanley Research estimates

Exhibit 21: ...and concentrated in a handful of names with higher than average exposure to supply businesses



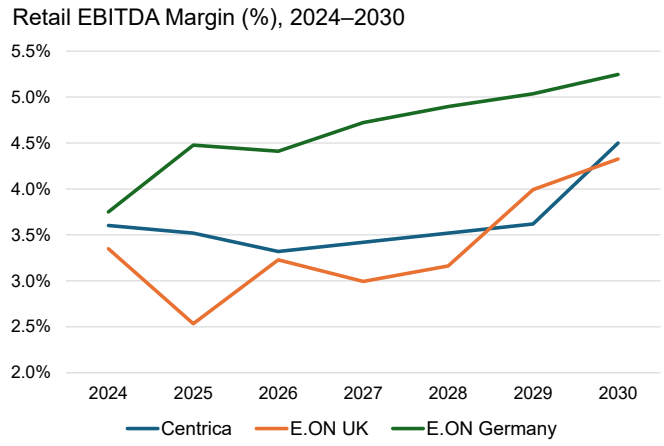
Source: Morgan Stanley Research estimates

Exhibit 22: Integrated Supply margins have expanded with higher commodity prices since 2021



Source: Morgan Stanley Research, Company Data

Exhibit 23: German retail margins stay above UK peers, but the gap narrows by 2030



Source: Morgan Stanley Research, Company data

Telecoms

Emmet Kelly, Terence Tsui, Harrison Williams, Lindsey Zastawny

Basic Instinct. Recent European telco sector weakness has been triggered by concerns new personal AI-agents (such as Muse / Instinct) could help reduce consumer telecoms spend, we believe. One particular use case was shared on X where a US based user reduced their monthly Comcast bill from $100/month to $60/month (link). However, we believe recent share price weakness amongst European names is overdone, with high competition and low ARPU across most countries limiting the potential downside risk.

A top-line headwind. Overall, this poses an additional potential headwind for the sector, which justifies some share price weakness. The ease of use could increase the activity and engagement of consumers in lowering their out-of-contract costs, reducing front book - back book pricing gaps, thereby pressuring ARPU and overall top-line growth amongst telco operators. European consumers have already been hit by inflation for fuel, food and rent in recent months, categories where consumers generally have little discretion / control over prices. As a largely discretionary spend, telecoms is potentially more vulnerable. Telecoms is largely commoditised with multiple suppliers offering similar products at very different prices. This creates opportunity for AI-tools to help consumers eke out cost savings. However, these cost savings have been evident pre-AI agents, as seen in France, Italy, Spain where spin-down has already been a 15-year theme, which to some degree limits the further downside from here. Nevertheless, the sector is already walking a top-line tightrope, with European mobile service revenue growth currently trending at zero (YoY, all countries, all operators). Any incremental price pressure could therefore tilt this into negative territory, and operating leverage could further trigger outsized impact at EBITDA, thereby significantly weakening the sector's overall growth proposition.

Low ARPUs across Europe offer some protection. The Comcast example above is striking in delivering a 40% / $40 per month saving to the consumer. We believe European telcos are broadly lower risk relative to US peers owing to lower ARPUs in Europe. US mobile ARPUs are ~$50 compared with €10-20 across most of Europe - see Exhibit 26 . Lower price points in Europe result in lower savings and therefore lower impetus to move. By extension, we see higher risk in markets with relatively higher ARPU (e.g. Switzerland) and lower risk in already competitive, lower ARPU markets (e.g. Italy / Germany)

'The middle' becomes even more dangerous ground. We've previously written about the struggles of those telco operators who find their customer proposition 'stuck in the middle' - i.e. neither offering the best network quality nor the cheapest proposition. We believe these AI developments could deepen the struggles for these operators, with agents most likely to pursue improvements along either the value or quality verticals, with less sway relating to good marketing. Notably we see this a challenge for Vodafone in Germany and the UK or Orange and Zegona in Spain.

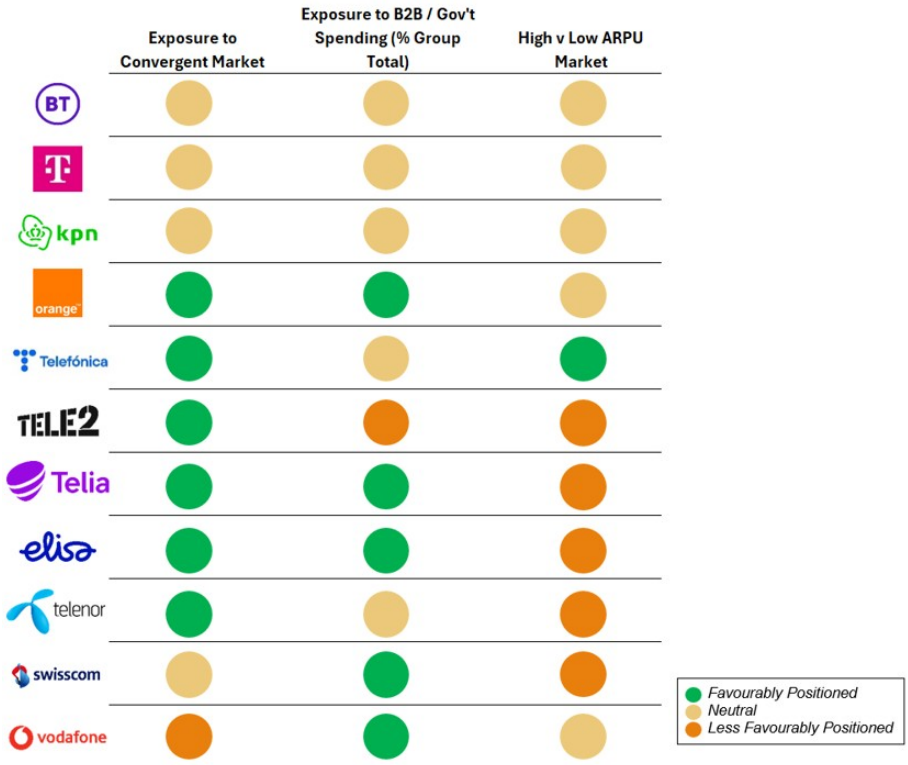
Challengers as potential winners? With a likely focus on cost saving, we see challenger brands as the most likely potential beneficiaries. This includes operators such as Digi Spain (see our recent initiation) or Iliad (France / Italy), or 1&1 (Germany). These operators typically price aggressively to win market share, with AI agents therefore likely to push more potential consumers towards their proposition.

Higher spin down risk. Beyond the prospect of losing customers to another operator, we also see risk of customers 'spinning-down' to cheaper brands offered by the same operator. In these instances consumers would retain the same level of mobile quality (as it is the same network) whilst benefiting from a lower price point. For the operator, this would mean the loss of margin and therefore lower EBITDA. We recently wrote about increasing incidents of spin down in Switzerland (see here) and believe these AI-agents could further exacerbate these trends. Operators could resist this trend by offering 'more for more' in the higher priced brands or increased bundling - see below.

Bundling as a means of protection? We believe markets with a higher prevalence of bundling are more protected. We see greatest risk for AI to find price differentials between two broadly similar deals (e.g. a mobile only deal or a fixed-line only deal). Conversely, bundled packages obfuscate the explicit price paid for individual services, making comparisons more difficult. Furthermore, bundling often includes a more differentiated product, for example exclusive sports, for which an AI agent may not be able to find a substitute. Exhibit 25 outlines the prevalence of bundling across different European markets. Consequently we see Portuguese and Spanish markets as more protected from this perspective.

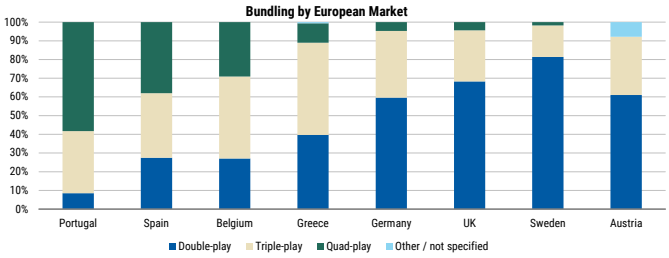
B2B less exposed. We believe these AI agents will have less impact on B2B income streams, where customers typically put greater emphasis on quality (as opposed to purely value). Furthermore, unlike B2C where consumers typically observe clear and fixed monthly price tags and promotions, B2B is heavily negotiated, with pricing typically more opaque and complex. All else equal, this reduces the exposure of Orange, Swisscom and Vodafone.

Exhibit 24: Relative exposure by company



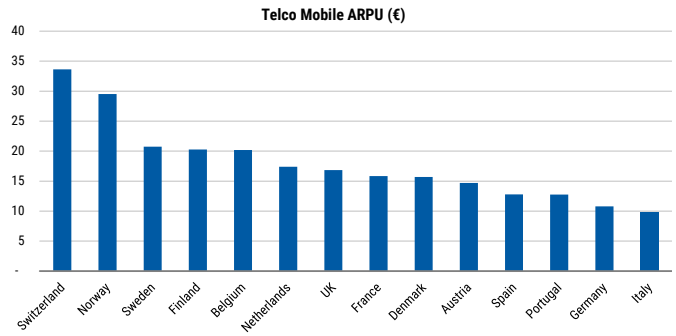
Source: Morgan Stanley Research estimates

Exhibit 25: We see more complex bundling in Portugal and Spain



Source: S&P, Morgan Stanley Research. *Data as of 2024

Exhibit 26: We see Switzerland and Norway as two markets relatively more exposed via higher ARPUs



Source: Company data, Morgan Stanley Research estimates

Business Services

Annelies Vermeulen, Zach Al Qaryooti

The majority of companies in our coverage are B2B service businesses, which therefore should be largely insulated from any business model disruption caused by increasing adoption of a consumer AI agent, such as Meta's Muse. We do, however, consider consumer exposed names across our sector, which include Verisure, Rentokil, Experian and TP, as outlined in our recent note. Agentic commerce has generated more attention than tangible impact to date. However, Muse appears to be a more credible potential disruptor, given that the product capability is paired with Meta's consumer data advantage. Consumer service providers where there has historically been switching fiction and low price transparency, have been perceived as most "disruptable", particularly consumer subscription models. Broadly however, we see **Verisure** (home security) and **Experian** (credit bureau) as well insulated given their business models and consistent strategic execution, and view the negative share price reactions here as overdone, while **Rentokil** could see some increased pricing/retention pressure in an already increasingly competitive market. For **TP**, consumer agents such as Muse potentially create a demand-side opportunity, but it is too early to tell if TP can fully monetize this to offset core services volume declines.

Verisure

While Verisure has seen AI-disruption driven valuation pressure for some time (the debate here being the potential threat of AI-enabled new entrants making self-monitoring options more accurate/cheaper for consumers), the stock is down another c. 11% since the launch of Muse in early September. This is driven by concerns that a consumer AI agent such as Muse could drive higher customer attrition.

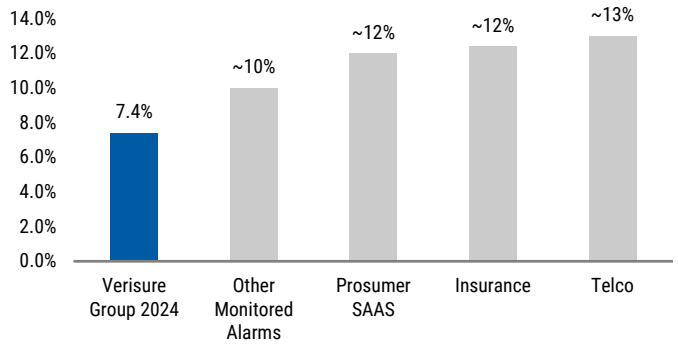
The debate here is whether Muse could make it easier for customers to negotiate discounts with Verisure or cancel their contracts altogether. As we have written previously regarding European regulation potentially making it easier for customers to cancel their contracts, Verisure has a robust process in place whereby cancellation conversations are always handled by experienced, human staff. Their role is to understand the customer's situation and identify the best solution; discounts are never granted automatically, rather customers are retained through the value proposition, products or services, maintenance team visits, and in some cases, through making an offer. Crucially, there is always a person behind it who manages everything: both to make an offer if required and to complete the cancellation. For both steps, additional documentation/ information is required to verify that there is a real customer behind the request and not an agent. Because Verisure's process is based on human-based management, it makes cancelling by agent very difficult, in our view.

Verisure has a differentiated proposition in the professionally monitored security market with regards to verification and intervention in particular. Therefore we don't

see this as a "switchers market" where customers will consistently look for a better deal. Price transparency is relatively low, and this is very different from Telcos or Insurance for example, where price can often be the main differentiator. Verisure only loses 1pp of its customer base each year to competition (of a total 7.4% attrition), indicating a lack of switching activity. Verisure also does not have a Telco-like "back book / front book" dynamic.

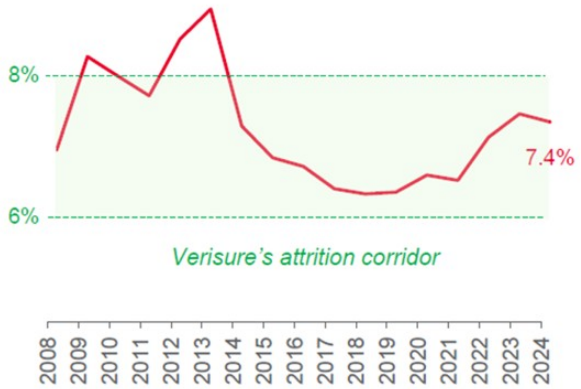
We also note that Muse has just launched last month and is so far only US-focused (where Verisure doesn't operate). Users must approve sensitive actions such as purchases, and consumers may be reluctant to let it autonomously manage home-service relationships, given some examples of AI agent errors. We also highlight that home security isn't car insurance or broadband; consumers buy monitored home security because they want to feel safe and protected.

Exhibit 27: Verisure: High quality customer intake model drives best-in-class industry attrition



Source: Company data, Morgan Stanley Research

Exhibit 28: Verisure: Customer attrition over time, # of cancellations



Source: Company data

We also highlight Verisure's multiple levers to support retention. (1) Verisure actively investigates "invisible detraction " - i.e. getting ahead of a potential retention call through behavioural analytics. If Verisure sees customer usage dropping for example, the group would proactively contact the customer to support them in increasing usage of the alarm. **(2)** AI supports Verisure here through "sentiment analysis" - analysing customer care calls for specific words such as "I'm not happy " / "this isn't working " etc to ensure Verisure can reach out and case manage any issues to avoid a cancellation call. **(3)** Verisure's annual price increase is also limited to c.70% of the portfolio, which is again based on deep data analysis. If Verisure believes a price increase would cause attrition from a customer, that customer is then excluded from the price rise that year.

Rentokil

Around two-thirds of Rentokil's business is pest control in North America, of which ~75% is contracted. While Rentokil's shares have already been under pressure both YTD (-33%) and more recently (-13% over the last month) on slower US organic growth and concerns around LLM search disruption (more on this here), the stock has also been caught up in the Muse disruption discussion. The debate here is whether an agent like Muse could disrupt Rentokil by removing the friction that currently protects both price and retention in residential pest control in particular.

On pricing, Muse could potentially change the consumer bargaining dynamic. When Rentokil pushes through price increases to customers, a larger proportion of customers could receive discounts, threaten to switch, or actually switch. We also note Muse could make small local pest-control firms more competitive, as we recently outlined through increasing use of LLM search as well. An agent can search reviews, licensing, availability, guarantees and prices in seconds, potentially allowing fragmented local competitors to compete more efficiently.

Exhibit 29: How an AI agent could disrupt Rentokil's contracted pest control model

Today	With a capable consumer AI agent
Customer gets a price increase on renewal and often accepts it	The agent spots the increase automatically
Customer has to find competitors and request several quotes	The agent can obtain/compare quotes
Negotiating with Rentokil can be time consuming	The agent can negotiate on the customer's behalf
New-customer promotions aren't always visible to existing customers	The agent can identify promotional/alternative pricing
Personalised pricing takes advantage of differing willingness to pay	The customer's agent actively pushes back against any pricing discrimination

Source: Morgan Stanley Research

On retention, Rentokil reported at 1H that residential retention has improved in the US, driven by increased AutoPay and a customer-saves team. Muse could weaken this mechanism, however. An AutoPay customer today can remain a customer simply through inertia, but an agent such as Muse that knows the household's recurring bills can periodically ask: "*Rentokil has gone from $X to $Y; I found three equivalent services for less. Shall I negotiate or switch*?", lowering the retention moat that AutoPay creates. And when a consumer does attempt to cancel, Rentokil's save team could increasingly be negotiating with an algorithm, which can keep asking for a better offer, compare it against competitors and execute the switch. Rentokil could still save the customer, but the clearing price for that save could become lower. That becomes a potentially challenging economic combination:

Lower retention → more replacement customers required → higher acquisition spending → more discounting → lower lifetime value.

And this matters because recurring contracts are fundamental to Rentokil's model.

Timing of Muse launch is less than ideal for Rentokil... Rentokil has spent the last 18 months strengthening precisely the things that Muse could partially arbitrage: digital acquisition, sophisticated pricing, AutoPay and retention/save capabilities. Muse therefore has the potential to change the elasticity of the existing book, where Rentokil has to either discount or accept volume loss. This could dampen the relationship between retention and price increases which is one of the attractive characteristics of the pest-control subscription model, and comes at a time where we already see increasing competition in the US pest control market.

...however we see less of an immediate threat, rather a potential value erosion over the coming years. As we outlined above for Verisure, Muse only launched this month and users must still approve sensitive actions such as purchases. Consumers may be reluctant to let it autonomously manage home-service relationships, given there have been some examples of AI agent errors. As a result we see Muse as less of an immediate revenue threat and more as a **potential erosion of the economics of pest control subscriptions** over the next few years.

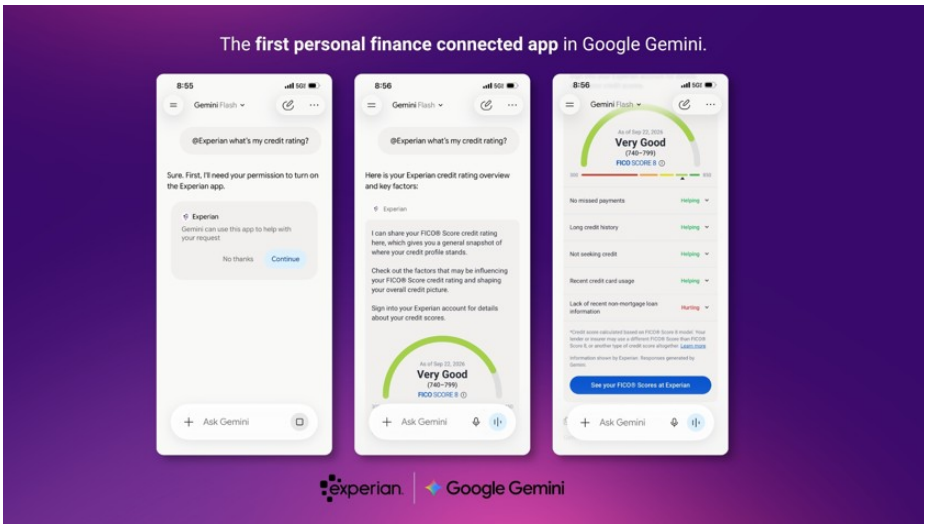
Experian

Experian's Consumer Services business is ~27% of group revenue, serving >215m free members, and monetizes through premium subscriptions, marketplace/referral fees, product origination partnerships and protection services. Experian's own strategic goal here is becoming the consumer's "financial co-pilot". While Experian has seen AI-disruption debate driven valuation pressure for some time, the stock is down another c. 13% since the launch of Muse in early September.

The debate here is whether Muse could disrupt Experian's consumer business by taking ownership of the customer relationship. Rather than consumers visiting Experian to understand their credit, compare financial products, or receive guidance, they could potentially use Muse as a broader personal financial agent. This would put pressure on Experian's marketplace, referral revenues and subscriptions, and effectively replace Experian as the consumer's "financial co-pilot." If Muse can understand a consumer's finances, identify better loans or cards, compare providers, and eventually complete applications, it could capture the discovery and conversion layer that Experian currently monetizes. An AI assistant like Muse may also have richer context across other aspects of a consumer's life, potentially making it more engaging than a credit-focused app.

Our view: Muse unlikely to replace Experian's underlying strengths in credit bureau data, lender relationships, identity, fraud prevention, and eligibility infrastructure. The key debate (and risk) here is that even if Experian remains essential infrastructure, it could lose the higher-value consumer distribution economics to platforms such as Muse. Experian's response so far appears to be positioning themselves as the trusted data and decisioning layer inside the AI agents, and making themselves indispensable for credit data, eligibility, fraud/identity and execution. On 23rd September, Experian announced it would become the first personal-finance app integrated into Google Gemini, allowing consumers to access Experian credit insights conversationally through the agent.

Exhibit 30: Experian's personal finance app is now integrated with Google Gemini



Source: Experian, Google, BusinessWire

TP

The AI disruption debate for TP (formerly Teleperformance) has been long running and extensive, essentially being whether or not AI shrinks the group's addressable market faster than TP can reinvent itself around AI. The bear case is that agentic/genAI automates customer-service, moderation and back-office interactions, reducing volumes as businesses handle existing enquiries with fewer employees and therefore fewer human seats on which traditional BPO economics depend. The counterargument is that AI changes rather than eliminates outsourcing: enterprises still need implementation, data, governance and human escalation, while TP can use AI to lower its own delivery costs and sell higher-value AI-enabled services. Therefore, the key debate is whether AI-driven revenue + productivity gains > cannibalisation of traditional human-led BPO revenue; TP's strategy is built around making that equation positive.

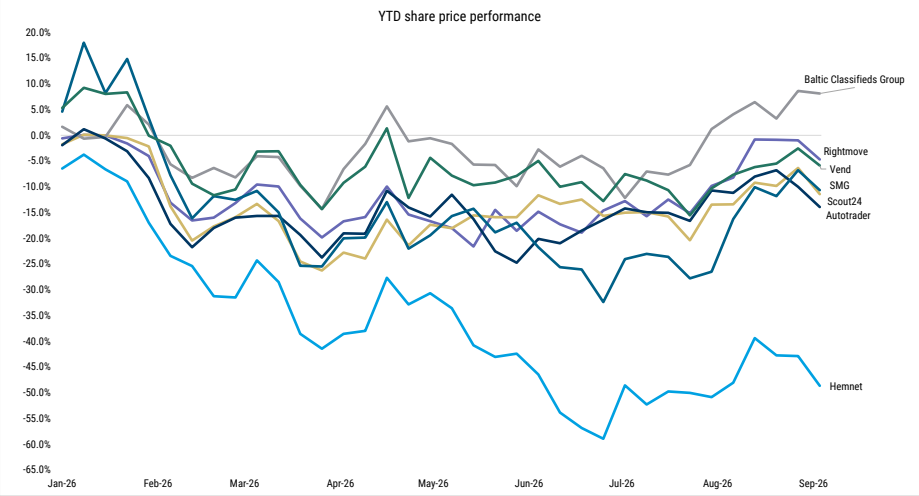
Consumer agents such as Muse potentially create a demand-side opportunity: consumers can initiate enquiries and pursue tasks they previously lacked the time or inclination to complete. Higher AI-generated volumes could cushion this CX BPO seat pressure, while accelerating demand for automation priced by time, interaction, or outcome. For TP, this could mean that the bear case becomes more muted as increasing volumes potentially slow the risk of seat reductions, while AI automation workloads priced on an interaction basis expand. However, the extent to which TP can win the AI layer and drive monetization of agent-to-agent infrastructure to offset human-seat pressure in Core services remains an unknown, limiting re-rating potential at this stage. TP shares have shown relative resilience since Muse was announced, however we would look for evidence of a faster mix shift to AI-powered/outcome-based revenue, to offset call centre volume decline and support an acceleration in the topline.

Internet & Media (Classifieds)

Ed Young, David Nolan

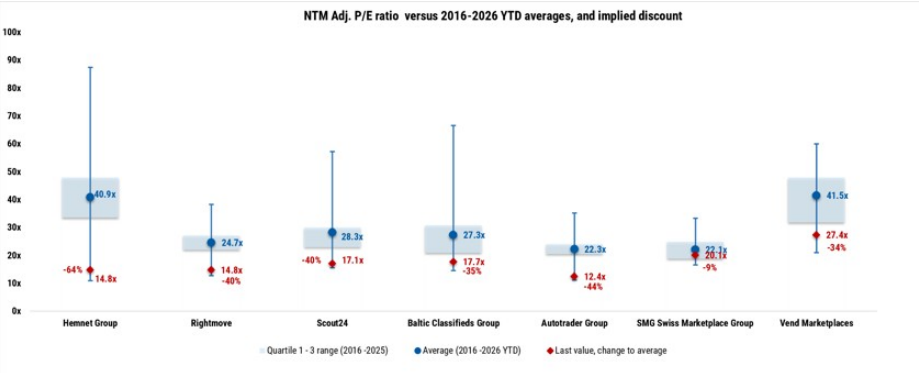
AI remains the main sector debate, but recent earnings pressure has been largely stock specific. The average Classifieds stock in our coverage is down ~25% YTD versus ~+7% for the STOXX Europe 600, leaving much of the sector close to trough multiples. However, recent earnings issues have largely been company specific rather than evidence of broad AI disintermediation. However, the release of Muse has brought the longer-term debate back into focus: whether Agentic AI simply changes how users find listings, or ultimately changes where traffic, customer ownership and monetisation sit.

Exhibit 31: Average classified company in our coverage share price has declined ~25% YTD versus STOXX Europe 600 of ~+7%....



Source: Factset Morgan Stanley Research

Exhibit 32: ...with our coverage trading close to trough multiples



Source: Factset, Morgan Stanley Research

Key Agentic AI Risks. Approximately 80% of traffic across our classifieds coverage is direct or organic, reflecting the entrenched position of the leading platforms. The bear case is that Agentic AI tools such as Muse become the default starting point for discovery and sit between the user and the marketplace. This does not necessarily remove the classifieds platform from the transaction, but it could weaken some of the key economics that come from owning the consumer relationship.

- **Monetisation.** Prominence is an important monetisation lever across classifieds, with agents, dealers and sellers paying to move listings higher up the platform. If an AI agent creates the shortlist and decides which listings a user sees first, some of that value may move from the classifieds platform to the agent. This could make prominence products less valuable over time.
- **Margins.** A lower share of direct and organic traffic could also increase distribution costs if classified platforms need to pay Agentic AI platforms for traffic or visibility. This is particularly relevant given the strong financial profile of the sector, with adj. EBITDA margins across our coverage ranging from ~50% to ~80%. Even a relatively small increase in traffic acquisition costs could therefore weigh on margins.
- **Investment.** Classifieds will also need to keep investing in their own AI products for consumers and professional customers. This includes better search and matching as well as tools for agents, dealers and employers. Higher product and technology spend could create another headwind to margins, particularly if investment rises before there is a clear monetisation benefit.

MS View. We retain a positive skew on classifieds. We do not dismiss the longer term AI risk, but we expect the impact to vary materially by vertical and platform, as we have written on previously (see here). Our proprietary AI scorecard ranks classifieds on the factors we think matter most in an AI driven environment: vertical exposure, listing advantage, dealer and agent integration, AI adoption, proprietary data and margin headroom with Scout24 screening as the most defensive platform in our coverage across these metrics.

Exhibit 33: MS AI Scorecard (1 = least attractive; 5 = most attractive)

Company	Defensiveness of vertical mix	Listing Advantage versus #2 player	Dealer/agent integration	AI tool adoption	Proprietary data	Margin Headroom	Total
Scout24	5	4	5	4	5	3	26
AutoTrader	4	4	5	4	5	3	25
smg	4	3	4	3	5	5	24
Vend	3	4	3	2	4	5	21
BCG	3	5	4	3	4	2	21
rightmove	5	3	4	2	4	2	20
Hemnet	5	2	3	2	4	3	19

Source: Morgan Stanley Research estimates

Real Estate and Auto verticals look better protected. Both benefit from proprietary supply, high direct traffic, deep relationships with agents and dealers, and unique data such as valuations and other market signals that users and partners rely on. Leading platforms can control how much of this data they make available to third party LLMs, while their own AI tools can access the full dataset. We therefore see scope for a more verticalised model where a user's personal AI agent connects with the portal's own agent, rather than replacing the platform.

Exhibit 34: We believe the AI risk varies significantly by vertical with real estate and autos being better protected than Jobs and Recommerce

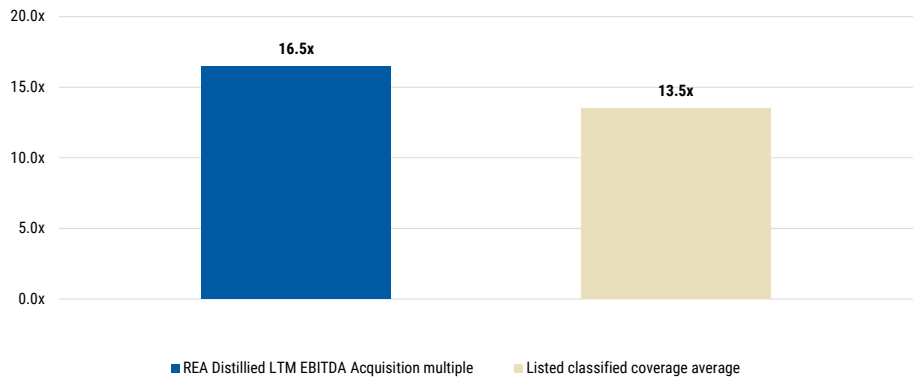
Vertical	Our view on AI disruption
Real Estate	**Lowest risk:** AI can narrow the search, but buying a home remains a large, infrequent and personal decision. Users still need to review photos, locations, floorplans and individual listings, while the wider process involves agents, viewings, financing and negotiation. We therefore see AI as more likely to improve discovery than replace direct engagement with leading property platforms.
Autos	**Low risk:** Autos are more standardised, allowing an agent to narrow the market quickly by price, model, mileage and specification. However, condition and history still matter for a high ticket purchase, so consumers are likely to continue comparing individual vehicles on the platform. Dealer relationships and proprietary pricing data provide further protection.
Jobs	**Highest risk, but with monetisation upside:** Much of the journey is a matching process between candidates and roles, making it easier for AI to sit between the user and the platform. However, incumbents are moving further into sourcing, screening and employer workflows. Indeed, for example, has increased revenue per job by 35% despite lower job volumes. We therefore see AI monetisation emerging fastest in Jobs, although the longer term competitive structure remains less certain.
Recommerce	**Mixed:** Supply is fragmented across various, while lower ticket sizes make AI agents more useful for cross platform search and increase top of funnel risk. However, individual items remain relatively unique, with condition and seller history all important to the purchase decision. We therefore expect users to continue engaging directly with the platform once a relevant item has been found.

Source: Morgan Stanley Research

We also think competition between Muse, Gemini and other agentic products should favour access to the strongest platforms. Where the #1 platform has materially more supply and better data than #2, an agent that consistently directs users elsewhere risks giving a worse answer. We therefore expect agentic platforms to have an incentive to partner with market leaders, as we saw with early AI Apps, where the early classifieds integrations centred on category leaders. This does not remove the risk that AI takes more control of discovery, but it should leave the leading classifieds platforms with an important role in the ecosystem.

Catalysts. The clearest positive catalyst would be further evidence that AI products can accelerate revenue or lower costs without weakening traffic or pricing power. Scout24 is already beginning to provide that evidence, although its valuation has yet to respond. Continued AI monetisation alongside earnings delivery would therefore provide the clearest proof that AI is reinforcing, rather than disrupting, the economics of leading Classifieds platforms. M&A could also provide valuation support. REA's proposed acquisition of a 35% stake in Distilled at ~16.5x LTM EBITDA, ~20% above our Classifieds coverage average, suggests strategic buyers continue to place a high value on quality classifieds assets and could help establish a valuation floor for the sector.

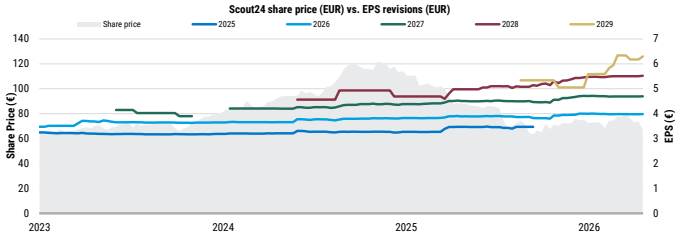
Exhibit 35: REA's ~16.5x LTM EBITDA multiple for its proposed acquisition of a ~35% minority stake in Distilled is 20% above our listed classified coverage average



Source: Company information, Listed classified coverage includes; Scout24, Rightmove, AutoTrader,SMG,Vend, Hemnet and BAltic Classified Group

Stock idea: Scout24 is our Top Pick and the clearest test of the positive AI case. Scout24 combines exposure to Real Estate, the vertical we view as most insulated, with proprietary data, an entrenched market position and tangible evidence that AI is already supporting monetisation. Propstack AI customers doubled in H1 and ImmoPunkte monthly revenue increased 53% y/y, yet Scout24 shares are down ~20% YTD and ~35% over 12 months while FY27/28 consensus EPS has risen 4%/10%. We forecast ~12% revenue CAGR, ~14% ooEBITDA CAGR and ~20% EPS CAGR over FY26 to FY28, with the shares trading at 0.9x PEG and ~10x FY27 EV/EBITDA. Our €114 PT implies ~70% upside potential.

Exhibit 36: FY27/28 EPS consensus revised 4%/10% higher YTD



Source: Factset, Morgan Stanley Research

Exhibit 37: MS versus CMD Guidance Framework

Metric	26-28 Guidance	MS Estimates
26-28 Revenue Growth	10-11%	~12%
FY28 ooEBITDA Margin	About 64%	63.6%
26-28 Professional Subscription Revenue Growth %	10-11%	~13%
Private Subs	~700k by 2028	~640k by 2028

Source: Company information, Morgan Stanley Research Estimates

Travel & Leisure

Jamie Rollo

Consumer agents such as Muse could change who influences the booking, who completes the booking and who retains the customer: Across hotels, tour operators and cruise, we see the greatest potential pressure where businesses monetise comparison, paid traffic and undifferentiated inventory, while proprietary products, loyalty, transaction infrastructure and fulfilment should remain valuable. However, neither physical assets nor a high direct-booking mix guarantees protection, as agents could improve customer acquisition for some businesses while introducing an additional distribution cost or greater price competition for others.

Travel planning is not simply an administrative task consumers want to eliminate: At Skift's recent travel conference where the launch of Muse was discussed, industry participants emphasised that consumers typically research across multiple sessions and channels, enjoy browsing and anticipating their holiday, and sometimes continue comparing alternatives after booking. Booking and Airbnb are also prioritising their own AI experiences rather than signalling imminent replication of Expedia's Muse partnership (all covered by Matt Cost). So the initial outcome may be a combination of consumer-controlled agents, on-platform AI and continued direct engagement. In this scenario, travellers could delegate price checks and administration while retaining ultimate control over destination, accommodation and experience selection.

A different interface does not necessarily mean a different transaction provider: Expedia's announced Muse partnership illustrates this distinction. Expedia will remain merchant of record for bookings through Muse, preserving a role in the transaction even where another platform provides the consumer interface. Management describes its approach as "test and learn", with precise unit economics, data ownership, inventory access and loyalty connectivity still unresolved. Our US team believes acquisition costs could initially be low. Equally, Booking's emphasis on its own agent and Airbnb's plans for a differentiated, more visual experience show that incumbent platforms are adapting rather than simply waiting to be bypassed.

The starting channel is crucial to the earnings impact: Replacing expensive paid-search traffic with cheaper agent-generated demand could benefit an OTA or travel supplier. On the other hand, moving a previously direct customer behind a new paid intermediary could have the opposite effect, even if the same company still completes the booking. Similarly, an agent-originated reservation could flow through a hotel's own booking system without being free of third-party acquisition costs. We therefore need to look at contribution per completed booking, including marketing, commissions, discounts, technology costs, cancellations and servicing, rather than simply the proportion labelled "direct" or "AI-generated". The ability to convert a first booking into a repeat customer relationship may prove equally important: retaining the transaction is valuable, but less so if each subsequent purchase requires paying the agent again.

For hotel brand companies such as Accor and IHG, loyalty and detailed property information could support differentiation, but neither guarantees that demand bypasses OTAs: An agent could recognise member rates, points, status and relevant room attributes

more consistently than a consumer undertaking a manual search. This creates an opportunity for hotel groups to make their existing customer relationship more valuable even when the journey begins outside their own website. However, a consumer-controlled agent could also compare those benefits against competing hotel and OTA offers, challenging loyalty based primarily on habit rather than demonstrable value. Meanwhile, OTAs retain their own customer relationships and can combine broad inventory with comparison, payments and servicing. The contest is therefore not simply between hotel brands and AI platforms, but between alternative ways of matching customer needs to bookable, serviceable inventory.

This creates different sensitivities for IHG, Accor and Whitbread: For IHG and Accor, the opportunity is to connect customer and property data to both their own AI tools and external distribution channels while protecting loyalty and the guest relationship. Their approaches already position AI alongside, rather than instead of, existing direct booking capabilities. If AI creates lower distribution costs we think some of this will flow through to the brands as they negotiate terms with owners, and brands should also benefit through a stronger owner proposition, relative RevPAR performance and net unit growth. Whitbread has a different exposure though. Given Premier Inn's highly direct distribution model, there is less third-party expense to remove and more low-cost customer access to defend. An agent could improve discovery and conversion, but a new acquisition fee could raise its distribution costs even without a loss of room bookings.

For tour operators like TUI, the distinction is between assembling the holiday and delivering it: Agents could make destination research, flight/hotel comparison and itinerary construction easier, putting pressure on businesses differentiated principally by presenting readily available third-party components. However, a useful itinerary is not equivalent to reliable fulfilment. Access to contracted inventory, payments, package protection, handling disruption and supporting customers during the holiday remain relevant to the consumer's choice. We would therefore assess TUI by activity rather than apply a single disruption label: its distribution and third-party packaging operations face different risks from its hotel, airline, cruise and destination-experience capabilities.

We think Cruise could be the biggest travel beneficiary of personal AI agents: The clearest potential winners in travel are businesses that own differentiated content or inventory, underindex on awareness / natural share, and incur high costs distributing it. Cruise seems to tick all three boxes: operators own the "content" (the ships, itineraries, onboard experiences), underindex versus a large vacation market (2-4% market share) with a wide value proposition, and over half of bookings come through third-party agents. By recommending cruises to consumers who would otherwise choose land-based holidays, agents could broaden the industry's addressable market, and by performing more of the education and comparison that intermediaries currently provide that could reduce distribution costs. Cruise could therefore benefit from both higher revenues and lower costs, and we look at these in a little more detail.

1. The first potential prize: land-based holidaymakers. Cruise is a small slice of a large market. RCL sizes the global vacation market at ~$2tn, and we estimate global cruise revenue of $77bn this year, a 4% market share. In supply terms, there are 0.4m global cruise cabins (i.e. 750k lower berths, 2 per cabin) and 24m global hotel rooms, a 2% capacity share (though half of hotel demand is corporate travel suggesting a 4% leisure share). In demand terms, CLIA counted 37m cruise passengers in 2025, and UN Tourism

recorded 1.52bn international tourist arrivals last year, a 2% demand share. The cruise industry's argument has long been that even a small market shift from hotels to cruise could have a disproportionate impact on cruise, but it has never been clear what could trigger this.

Personal agents could recommend cruise based on the value argument: A cruise fare bundles accommodation, meals, entertainment and transport between destinations, which a land-based holiday prices separately. Apples-to-apples comparisons are hard, but cruise executives cite cruise's discount at anywhere from at least 15% (RCL) to 25-40% (CCL). BLS data shows a gap of 35%. CCL's CEO has argued that the obstacle is awareness, because people who have never cruised do not know what the fare includes. An agent that prices a week away for a family can put that comparison in front of them without being asked, even when the customer has never cruised or considered doing so. Meta says Muse learns what matters to a user and makes suggestions unprompted. This could bring previously unreached land-based holidaymakers into the category, widening cruise's effective total addressable market without requiring an increase in overall vacation spending.

Price becomes more important when consumer budgets are being squeezed: All-inclusive vacations tend to become more popular when household budgets are under pressure, when certainty over the final bill becomes more important. We also found during the high inflation period of 2022-2023 that cruise ticket prices tracked hotel room rates, with a lag, even though cruise lines did not face as much cost pressure given their EM-sourced staffing, tax advantages, and high margins. Rising airfares can further strengthen the proposition for cruises departing from accessible home ports, where customers can drive to embarkation avoiding the need for buying flights. Personal agents could make this advantage more visible by comparing the full door-to-door cost of cruising with a land-based alternative, including the extras each customer actually needs.

The scale is potentially material: an illustrative 0.5%-pt gain in a $2tn vacation market represents $10bn of annual spending, equivalent to 13% of the global cruise revenue base. This is a sensitivity, not a forecast, but shows why attracting non-cruisers could matter more than moving existing customers between booking channels. Where sailings are already full, additional demand would initially support pricing and passenger mix rather than volumes. Over time, a broader customer base could underpin capacity growth, which itself is slowing compared to historical levels as CCL (and to a lesser degree others) has become more disciplined post-pandemic.

2. The second potential prize is distribution costs: A cruise can be a complex vacation, particularly for the one in three cruise passengers who are new to the industry each year. Booking involves choosing the ship, itinerary, sailing date, embarkation/disembarkation ports, transfers, pre/post accommodation, cabin category (25+ in a large ship), dining, onboard credits, excursions, and all the usual travel factors such as insurance, visas, etc. This complex product means major operators rely heavily on travel advisors, tour operators, cruise specialists and OTAs. In CLIA's 2026 survey, 63% of people who cruised in the past year used a travel advisor, and Phocuswright projected advisors' share of gross US cruise bookings will be 71% this year. Mass-market lines typically pay a 10% base commission, rising to 15-16% for high-volume agencies.

This is a potentially material saving if agentic AI directs consumers to booking direct:

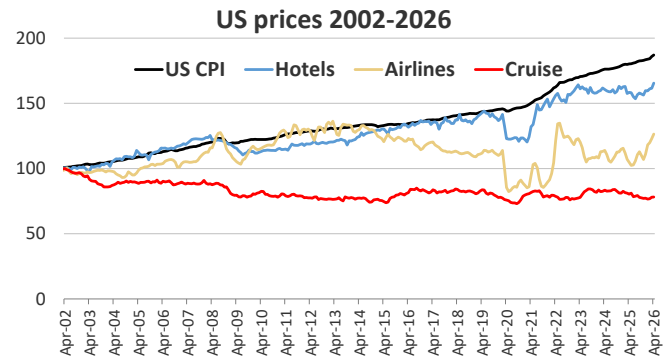
Agentic AI can fulfill much of the educational aspect that traditional agents currently do, and could then direct the traveller to booking direct, particularly where there are benefits from the cruise loyalty schemes or even a cheaper rate (as hotels tend to have). Quantifying the potential saving is hard, as commissions sit in "commissions, transportation and other", alongside air, head-count port charges and card fees. This line was 12-13% of total revenue at RCL/CCL in 2025 and 18% for NCLH, and we estimate advisor commissions are 50-75% of this, or 8-9% of gross revenue. Given operating margins of ~15% at CCL/NCLH and 30% at RCL, commissions are therefore 30-50% of operating income, representing a material potential saving. Every 100bps reduction in indirect distribution is a ~10bps saving which would come through as 10bps to net revenue yield, the industry's main KPI. Every 1% on yield is 5-7% to EPS at CCL/NCLH and 3% at RCL.

3. We see two principal risks with agentic AI on cruise:

(a) A new booking channel: Muse is built to act on a user's behalf, and so far its travel runs through intermediaries. Flights are booked through an integration with Duffel, and Expedia will offer hotels as merchant of record. Muse can also work through a supplier's own website in its browser, with the traveller stepping in for logins or payment, so a direct route exists at the cost of more friction. We are not aware of a cruise operator with a connection to any of the major agents. For cruise, whoever builds the connection keeps the economics. An agent that hands a booking to an OTA leaves the commission in place; one that hands off to the operator's booking engine lets most of it be saved. Muse's fee decides how much operators keep: An agent booking can replace a trade booking, replace an existing direct booking or add demand. In the first case the operator saves the commission less the agent fee. In the second it pays the fee on revenue it already had. With no added demand, the operator breaks even when the share of agent bookings that comes out of the trade equals the fee divided by the effective commission. That fee is unknown. A low fee would clearly make the channel attractive, but a fee that drifts toward the commission rate turns the agent into another intermediary.

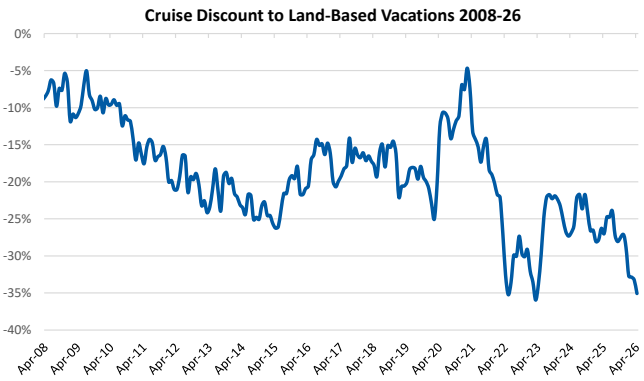
(2) Pricing visibility: Cruise may not be as all-inclusive as it appears once service charges and other bundles are added in, making the headline fare a poor guide to cost, and an agent will compute the total across lines and against land-based holidays. If cruise's discount to comparable land-based holidays holds up in an all-in comparison, agents could widen consideration among first-time cruisers. In addition, Muse offers price-drop tracking, and an agent that watches fares and re-prices or rebooks before final payment would erode some of the price discrimination that revenue management depends on. This could also impact onboard revenues sold before sailing. The defences are differentiated inventory that resists like-for-like comparison (e.g. calling at private islands) and pricing that leaves less to arbitrage (e.g. NCLH moving to a "base-loading" approach).

Exhibit 38: Cruise pricing has lagged hotels and air travel for many years …



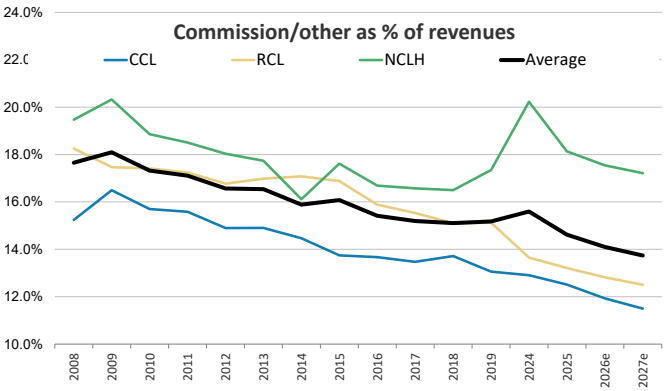
Source: US Bureau of Labor Statistics

Exhibit 39: … and now we see a ~35% value gap vs land-based vacations



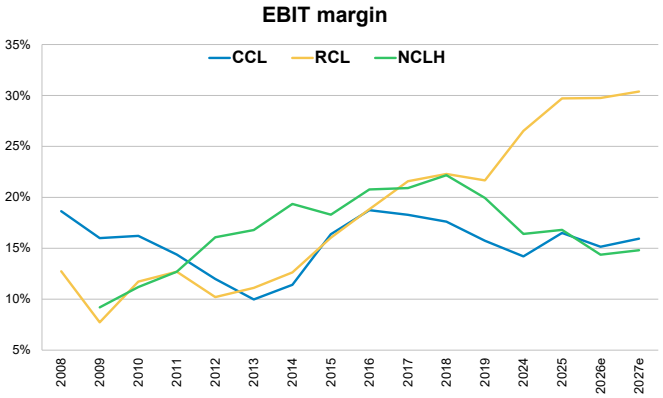
Source: US Bureau of Labor Statistics, Company data, Morgan Stanley Research. Note: Assumes a 33/67 weighting of Airlines/Hotels and a 20% discount between cruise/ land based vacations in 2019.

Exhibit 40: Cruise commission/other costs have been drifting lower for years as more guests book direct …



Source: Morgan Stanley Research Estimates. Note: 2020-2023 omitted due to Covid distortions

Exhibit 41: … but a 8-9% average commission/other ratio is still large vs 15-30% EBIT margins



Source: Morgan Stanley Research Estimates. Note: 2020-2023 omitted due to Covid distortions

Software

George Webb, Mark Hyatt, William Richards

Consumer agents are less directly disruptive to European software, but there may be implications for travel distribution and webhosting: Our coverage is predominantly B2B, making it less directly exposed to changes in how consumers discover and purchase products. However, services such as Muse could affect demand for the technology and distribution services supporting those transactions. For **Amadeus** and **HBX Group International** in our coverage, agents could become new customers for existing travel inventory and booking infrastructure, while also changing channel mix, bypassing some intermediaries and putting pressure on commercial terms. For **IONOS Group**, the question is whether agent-led discovery and purchasing change businesses' need for standalone websites, domains and hosting, particularly if online commerce becomes more concentrated. We explore these opportunities and risks across the three companies below.

Amadeus (Overweight)

A changing consumer interface, but we see a durable role for the infrastructure. Amadeus is a global travel technology provider spanning Air Distribution (connecting airlines with travel sellers, c. 48% of FY25 revenue), Air IT (airline reservation and airport systems, c. 36%) and Hospitality & Other Solutions (hotel technology and payment services, c. 16%). We see Meta's Muse, which can undertake tasks such as booking travel, as bringing the Distribution disintermediation debate back into focus. However, our view is that Amadeus' role extends well beyond search and comparison. Its Distribution business connects airlines with travel sellers, combining access to airline content with the booking and servicing capabilities needed to execute transactions. An agent replacing the human at the front end does not, in our view, remove the need for reliable access to live availability, fares and airline rules, or the ability to service bookings when travel plans change. We therefore think there is a strong rationale for AI companies to connect to established infrastructure, directly or through existing travel sellers, rather than replicate the relationships, integrations and operational capabilities behind it. This is consistent with management's positioning of Amadeus as a neutral execution layer, serving multiple consumer interfaces rather than depending on a single winning AI assistant. Importantly, we think its aggregation of contracted airline content, including non-public fares, and its network of tens of thousands of travel sellers should help defend its bargaining position. We would therefore not assume that agents controlling the front end necessarily squeeze Amadeus' economics on bookings that remain on its platform.

Distribution economics remain a debate, but the equity story is increasingly broader. Air IT and Hospitality & Other Solutions together represented c. 57% of FY25 total group contribution, versus c. 43% for Distribution. Importantly, a booking can bypass Distribution without necessarily bypassing Amadeus entirely. For instance, an agent booking directly with an airline could remove the Distribution fee while still relying on Amadeus' airline IT, where installed. While this may not be economically neutral, we think it is a slightly different framing than a narrative of outright displacement. In Air IT, Amadeus' reservation, inventory, ticketing and departure-control systems are deeply embedded in airline operations, creating, in our view, materially higher switching barriers

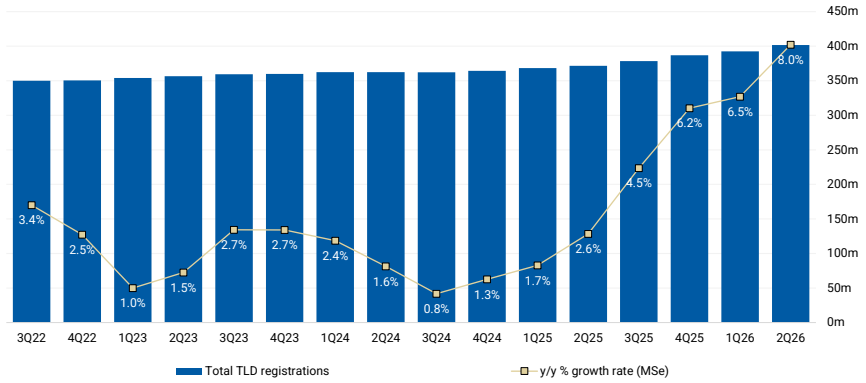
than replacing the consumer-facing interface. Taking a step back, the investment case for Amadeus is therefore not simply about defending the existing booking channel, but continuing airline IT adoption and scaling of the Hospitality business, reducing the group's relative exposure to Distribution economics. Ultimately, we think the equity debate should increasingly focus on Amadeus' ability to grow Air IT and Hospitality, rather than viewing the group primarily through the lens of who controls the travel booking front end.

IONOS Group (Overweight)

Creating the website infrastructure for agentic AI? IONOS is a leading European web-presence provider, offering domains, website-building, hosting and adjacent services (c. 83% of FY25 revenue), alongside a smaller cloud business (c. 17%). We see Meta's Muse as potentially reinforcing SMBs' need for a digital presence while changing what it must deliver. This ties into the broader IONOS bull case where AI could stimulate incremental domain and hosting demand by lowering barriers to website creation, rather than simply redistributing traffic. Verisign, the wholesale registry operator behind .com and .net domains, has highlighted AI as one contributor to stronger domain demand, making it easier to find a domain, build a website and get online, including through tools supplied to registrar partners (Exhibit 42). We also think that Agentic AI could be a complementary demand driver as Muse's ability to navigate websites and make purchases could increase the incentive to maintain a discoverable, transaction-ready site. As US Software analyst Elizabeth Porter highlights for Wix and GoDaddy, declining human traffic need not imply declining infrastructure demand, as agent-led interactions could encourage adoption of online booking, checkout and AI-discovery tools. For IONOS, easier website creation and greater transactional utility could broaden the customer-acquisition funnel, with low introductory domain pricing offering an accessible entry point. We would also expect SMBs - with less bargaining power and a greater need for incremental customers - to favour discoverability across agents, rather than the access restrictions reportedly adopted by some larger e-commerce platforms. The potential upside is not just more websites, but more businesses requiring hosting and services that make those sites useful to agents and people.

Lastly, we note that Muse for Small Business could intensify competition for SMBs' AI spend, making it harder for IONOS to upsell additional agentic AI features (e.g., the AI Phone Receptionist), raising questions around its competitive positioning against platforms such as Meta in this agentic market. However, we see limited direct implications for its core website creation and hosting business from Muse for Small Business.

Exhibit 42: Historical total top-level domain (TLD) registrations over time



Note: "Total TLD registrations" refers to the total number of registered domain names across every top-level domain (TLD). Source: VeriSign, Morgan Stanley Research estimates (y/y % growth rate)

But this volume upside is balanced against retention and e-commerce concentration risks: On the other hand, agents could eventually make comparing providers and migrating websites easier, increasing price sensitivity and registrar or hosting churn even where businesses retain their underlying domains. Competition from AI-native website builders (e.g., Lovable) could reinforce that pressure. There is also a risk that agent-led commerce concentrates transactions within large marketplaces or preferred commerce platforms, weakening the incentive to maintain independent storefronts – that is to say, greater overall infrastructure demand would not necessarily accrue to IONOS.

HBX Group (Equal-weight)

AI could change how travel is booked while preserving demand for existing booking infrastructure: HBX is a B2B hotel distributor connecting hotels with travel agents, tour operators and online platforms. It aggregates fragmented hotel supply, negotiates rates and provides booking and servicing capabilities, earning a margin on the volume it connects between hotels and distributors (e.g. OTAs). AI use in travel currently centres on discovery and planning, but services such as Meta's Muse (and similar) could increasingly manage the process more end-to-end, from initial ideas through to booking, with the broader implications discussed in the Travel & Leisure section below. Crucially, agents still need access to live inventory and systems capable of completing transactions. Expedia's announced Muse integration illustrates this: customers will book within Muse, while Expedia remains the merchant of record. We expect technology providers to favour established partners rather than assume the customer service, refunds, disruption management and associated responsibilities and liabilities of becoming a travel provider themselves.

HBX could provide the supply and services that agents need, making AI another distribution channel in which to gain share: Its global contracting network, cloud-native platform (handling c. 7-10bn searches per day), and differentiated commercial relationships (including preferential rates and exclusive inventory agreements) could give agents access to a broad, bookable offering through a single connection – vastly simplifying what would otherwise be thousands of individual connections. As HBX is fully B2B it is "interface agnostic", meaning that it doesn't face the same loss of consumer traffic that some B2C providers may face and can pivot to focus more on distribution methods of growing relevance. This could allow HBX to supply new AI distributors while

continuing to serve existing travel sellers adopting their own agents. Management reported discussions with major AI providers at a recent sellside event hosted at its headquarters (see our thoughts from that event here), although no agentic booking volumes had yet been recorded. These capabilities support the potential for its relevance in this emerging channel, but do not establish that HBX will win ahead of competing platforms.

Continued relevance would not necessarily protect HBX's economics, with three risks to monitor:

1. **Distributor bargaining power:** Large agentic channels could concentrate significant booking volumes and demand better terms, reducing HBX's take rate – the share of booking value retained as revenue. Management already envisages different commercial terms for AI-led demand.
2. **Channel mix:** Agents could displace traditional travel-agent business, reducing HBX's exposure to longer-lead, packaged bookings that support attractive economics; even where it retains the underlying booking, the terms could be less favourable.
3. **Direct connections:** As agent-led volumes grow, hotels (particularly large chains) could have greater incentive to expose inventory and booking functions directly through standardised connections such as Model Context Protocol (MCP), bypassing wholesalers. However, connections to individual hotel groups do not by themselves provide broad market coverage. Aggregating fragmented rates, availability and servicing could therefore remain valuable, although neither an exclusive role for HBX nor protection of its margins is guaranteed.

Overall, we see opportunities for potential market share gains, but the bigger risk is how incremental volume in this channel would translate into revenue for HBX, potentially putting further downwards pressure on take rates – which today remains the greatest debate on the stock.

Food and General Retail

Izabel Dobreva

***For full details, see* European Food Retail: Thoughts on Agentic and Muse**

Muse looks more like a moderate risk to retail-media economics than a direct threat to retailers' core merchandise economics. The key debate shifts toward who controls product discovery and customer acquisition, but we think retailers with the most advanced customer ecosystems and flywheels should be better placed to navigate the agentic era. Retailers ultimately sell physical goods and remain the system of record for inventory, checkout and fulfilment, allowing them to retain much of the underlying transaction value. Physical supply chains, distribution centres and store infrastructure are also difficult to disintermediate.

On the flipside, increasingly powerful consumer agents could become a new gateway (and potentially a referral fee collector) between retailers and their customers. The magnitude of that shift will ultimately depend on consumer adoption, retailer participation and the commercial terms that emerge between agents and retailers. We see two main areas of risk:

1. The sponsored-search component of retail-media income, which monetises advertising placements across retailers' digital properties, could face greater competition as product discovery migrates toward agents. Retailers could also incur incremental customer-acquisition costs if agents charge referral fees. According to IAB Europe, over 90% of buyers allocate at least 41% of their digital retail media spend to on-site retail media. 46% of retailers get more than 50% of their revenues from on-site ads. That said, we would not assume retailers stand still: we expect strategies to evolve, with leading retailers becoming adopters of AI and potentially partnering with agentic platforms where this generates incremental demand.
2. A number of retailers in our coverage are building marketplaces to monetise existing customer traffic through third-party supplier onboarding and cross-selling. If agents increasingly control product discovery, listing fees could face some competitive pressure. However, we see retailers' fulfilment capabilities and physical store networks, including click & collect and returns, as important differentiators that agents themselves cannot readily replicate and which could provide suppliers with a compelling reason to remain on a particular retailer's marketplace.

More broadly, we see five mitigating factors:

1. A substantial proportion of retail-media income for some co
coverage is still generated in-store, while grocery e-commer
relatively low compared with other retail verticals. Online p
the UK and 6-7% across Western Europe, limiting the near-te
economics directly exposed to agent-led online discovery as
much of Continental Europe, customers still prefer to shop i
the Fresh category.



2. The data and analytics piece of retail-media income should be more insulated than online advertising, while agents could make retailer data more valuable for measurement. Loyalty schemes are often the gateway to the most attractive personalised offers, meaning valuable first-party customer and transaction data remain behind retailer log-ins and are ultimately controlled by the retailer. If product discovery fragments across LLM tools, retailer websites, social media and other interfaces, suppliers still need to know whether advertising ultimately resulted in a transaction. The retailer owns the purchase data, so closed-loop attribution and measurement remain valuable even when the retailer no longer owns discovery. Retailers with strong in-house data analytics propositions are better placed.
3. A systematic agent may end up more responsive to promotional offers than a human, once customer preferences are set. Over time this could mean sales conversions on promo may end up increasing, benefiting those retailers who are best at targeting promotions to match customer needs and have stronger strategic relationships with suppliers.
4. A number of grocers already partner with third-party platforms such as Deliveroo, Uber Eats, and Instacart, providing alternative routes to customers should Agent adoption increasingly shift product discovery and transactions outside retailers' owned ecosystems.
5. Private-label credentials provide retailers with some insulation from Agent-led price transparency. Differentiated premium, organic and specialist ranges are less directly substitutable and can support customer loyalty even if discovery shifts toward Agents. At the value/standard end, private label may actually benefit: Agents optimising for price/value could increasingly select own-label products over branded alternatives where they offer comparable functionality at a lower price.

Overall, we think the best-placed grocers in an agentic world will be those with attractive price gaps versus competitors, scaled supply chains, superior availability and fulfilment, differentiated private-label propositions, and clean, real-time digital catalogues that agents can readily interrogate. These are attributes we would expect agents to value when optimising baskets on behalf of consumers. We therefore expect leading AI adopters to partner selectively with agentic platforms to capture incremental customers, while simultaneously evolving their retail-media and marketplace strategies. Over time, this could shift monetisation away from fees primarily linked to controlling product discoverability - such as sponsored-search placements and listing fees - and toward proprietary data and analytics, closed-loop measurement and a broader strategic-advisory role with supplier partners. **In this scenario, agents change where value is captured within the grocery ecosystem, but do not necessarily undermine the fundamental economics of scaled grocery retail.**

By company across our coverage we note the following:

Tesco: We see Tesco as relatively well positioned given best-in-class price, availability and fulfilment, high private-label penetration, and a strong Clubcard ecosystem. The main exposure is retail media (~7% of FY26 EBIT on our estimate, expected to grow to ~10% by FY29e), although ~⅔ is generated in-store, limiting direct agentic risk. Marketplace could face some take-rate pressure but equally benefit as an inventory source for agents. Tesco

is also an early AI adopter through its own shopping assistant and through W23 Global, the retailer-backed venture fund, which has invested in Skyfire (which gives agents verified identity and payment credentials that work across the open internet), among other initiatives.

Sainsbury's: Differentiated private label, particularly Taste the Difference (8% grocery sales), and the 24mn-member Nectar ecosystem provide meaningful customer stickiness in an agentic environment. Nectar360 is the key area of potential disruption, but its exposure extends well beyond sponsored search into in-store media, targeting, data and measurement (the company targets >£100mn incremental profit over 3 years). Continued investment in physical media and Sainsbury's strategic AI partnership with Microsoft should help the business evolve as shopping journeys become increasingly agent-led.

Marks & Spencer: M&S's predominantly own-label, premium proposition provides insulation from Agent-led price comparison, while Food's convenience-led missions may be less exposed to automation. The key Food risk is reduced control over online distribution through Ocado. In Fashion, agents could support discovery of M&S's growing third-party brand offer, while its own-label strength in value/quality remains an advantage; weaker availability and fulfilment versus online peers and potentially faster growth in resale platforms represent the main risks.

Ahold Delhaize: AD's high private-label penetration, strong local brands and scaled fulfilment provide protection, while it is among the more advanced retailers in preparing explicitly for agentic commerce, with 100+ AI use cases and investment in enabling infrastructure. Retail media/data represents ~4.5% of EBIT on our estimates, although only a subset is directly discovery-linked. bol carries greater exposure, particularly across sponsored search and marketplace take rates, but its scale and early integration of Sponsored Products into its own AI shopping assistant raise the question of how existing economics could migrate into an agentic interface rather than disappear.

Carrefour: Scale, omnichannel capabilities and ~38% private-label penetration provide some protection, while Carrefour is notably proactive on agentic commerce as the first European food retailer to join Google's Universal Commerce Protocol. Retail media through Unlimitail represents the main potential exposure, although its diversification across retailers, channels and data/measurement provides mitigation. Carrefour's target to double Unlimitail revenue by 2028 while investing €100m p.a. in AI suggests management sees agentic commerce and retail-media growth as complementary rather than necessarily cannibalistic.

Kingfisher: DIY's in-store, project-led and relatively infrequent shopping missions may limit exposure to automated purchasing vs. other retail categories, although Marketplace and retail media could face some pressure on take rates and sponsored search. These businesses could reach ~14% of PBT by FY29e on our estimates, making the exposure increasingly relevant. However, Kingfisher is actively preparing for agentic commerce through its own AI assistants, AI-driven recommendations and Google Cloud partnership, while opening its catalogue to external Agents.

Exhibit 43: What determines who is exposed?



Source: Morgan Stanley Research

Consumer Staples

Sarah Simon, Richard Li

While the beverages market remains competitive, we see limited private label competition in the US, and strong brand positioning / flavour profile loyalty. Hence, we consider beverages to be least impacted by the advent of Muse and other agentic platforms. ABI, Campari and Haleon all look relatively well positioned in this context, taking into account the scale of their US exposure and market concentration (ABI), the strong differentiation of product (Campari), and the scientific credentials of product (Haleon). Conversely we consider homecare and low end personal care to be potentially more impacted: private label/cheaper price points are much more prevalent in this category. Hence we consider Henkel, Reckitt and Beiersdorf to be more at risk here. Within food, we expect the impact to be more idiosyncratic, given substantial differences across categories in online penetration, product differentiation, and the importance of scientific credentials.

The impact of MUSE and agentic AI shopping on Consumer Staples is likely to vary materially by category. We believe AI could shift purchasing decisions away from brand familiarity and more toward comparable attributes instead: price, ingredients, efficacy, scientific claims, clinical support, etc. Brands would not become irrelevant, but recognition alone may be less effective in defending premiums. Companies will need differentiated products and accessible, high-quality data that allow agents to recognise their value. Overall, we see less differentiated categories such as grocery and household products as more exposed, while science-led categories such as beauty and consumer health have a stronger basis for defending premiums and improving discovery. Beverages also appear relatively less exposed, given lower private-label penetration in key markets and the importance of brand and flavour preferences, while the outlook for food is more mixed and category-specific.

Routine grocery and household shopping are particularly well suited to automation. As highlighted in our previous report, the weekly CPG shop combines repetitive replenishment, limited enjoyment, and opportunities to save time and money. High purchase frequency also gives agents more data to learn preferences and acceptable substitutions. Agents could make comparisons across brands and retailers significantly easier and faster, identifying cheaper alternatives that meet consumers' requirements. We see greater pricing and margin risks in commoditised categories, such as groceries and home care, where limited differentiation could accelerate substitution toward cheaper alternatives and private label. Here, fully autonomous shopping is not required, as AI-assisted research alone can increase price and quality transparency.

That said, with our food coverage, the implications are likely to vary substantially by category. Magnum looks relatively less exposed, given the lower online penetration of ice cream. Glanbia could face greater pressure: although its brands benefit from a substantial base of online reviews, protein powder is a category where scientific differentiation between competing offerings may be harder to establish. Lindt's premium positioning and exposure to gifting and other occasions should make demand less price-sensitive than in more commoditised food categories, although recent pricing pressure raises the question of how far consumers will continue to tolerate premiumisation. Danone, by contrast,

could be relatively well placed where products are supported by scientific or health-related evidence that agents can incorporate into recommendations.

Greater price competition could coincide with a higher cost of remaining visible. Manufacturers may need to invest in structured product information, metadata integration, and tagging to improve agent readability. A shift from unpaid/direct traffic toward paid referrals or commission-based transactions could also raise trade and marketing spend. Shelf space may therefore be insufficient, as brands must also be discoverable and selected by the agent. Some spending could replace existing activity, such as brand spend, but the combination of reduced organic discovery and additional data requirements still creates a risk of higher costs to compete.

Conversely, stronger scientific and clinical support could become a competitive advantage. An agent need not select the cheapest product when the consumer is prioritising superior efficacy or suitability. L'Oréal has previously emphasised data quality, product science, and professional endorsement driving AI agent selection, suggesting opportunities for evidence-backed beauty products through personalised recommendations. Similarly, Haleon has highlighted its efficacy and clinical data, and linked scientific publications to improved LLM discoverability (see below). The opportunity depends on making this evidence accessible and interpretable to AI. Larger incumbents may be better placed to absorb the costs of metadata integration and AI visibility, while many already have extensive product, scientific and clinical datasets that are visible to agents. Scale may therefore retain value through evidence and execution rather than recognition alone. This could create an additional barrier for smaller brands, particularly where competing effectively requires both substantial evidence and investment behind discoverability. However, the beauty market remains highly fragmented, with a large number of new entrants and digitally native brands, which could limit the extent to which incumbents capture this advantage if agents make discovery of credible smaller brands easier. Several companies across our coverage have already expressed broadly constructive views on AI-enabled shopping, as highlighted in the commentary below.

Exhibit 44: L'Oreal: Management commentary on AI shopping

Company	Date	Event	Comments
L'Oreal	30/07/2026	1H26 Earnings	"The younger generation are shifting massively to using LLMs for their product queries and beauty is probably one of the biggest categories where they have conversations and they're asking and it's longer interactions. Actually, it takes more time. Search is not over. And by the way, we also have Google added an AI layer to their search bar. So the two are actually emerging...what we see is clearly that there is aside from the size of the brands, which, of course, famous brands may pop up more, but it's really more about the quality of the data and particularly the science behind the products, the endorsement of products by professionals."
	20/02/2026	CAGNY 2026	"We have this Beauty Genius in the U.S. where you can have tailor-made recommendations powered by AI on L'Oreal Paris, and it's got already 1 million interactions."
	03/12/2025	Investor Day	"Just Cyber Monday alone, and this isn't a beauty statistic, but it's a broad statistic. $9 billion of sales were done on Cyber Monday with agentic AI. 6 months ago or 9 months ago, there was no such thing. And already, the consumer is adopting these new tools to help them shop and to help them find the products they want, which plays enormously in our favor because our category is, of course, high interest to consumers." "I mean the reason why I wasn't at all surprised by the amount of sales done on Cyber Monday with the genetic AI is because how helpful and useful it is to personalize recommendations and how amazingly powerful it is when the shopping experience can be done with someone that knows you and knows what your needs are, what your history is, what your skin type is, what your hair texture is. So Beauty Genius from L'Oréal Paris is a great example of that. But it's also all of the AI tools that are sitting even on our retailer platforms. Amazon, Walmart, they're using agentic AI to help you find the products that you want. And of course, if you are L'Oréal, you have the ability to make sure that you're usually in the recommended stream of products and brands that are served to you."

Source: Morgan Stanley Research, Alphasense

Exhibit 45: Haleon: Management commentary on AI shopping

Company	Date	Event	Comments
Haleon	25/06/2026	Special Call	"I don't have clear evidence to tell you I'm seeing an uptick in the growth. But I do think there is -- this is an inflection point in terms of LLMs and discoverability of the things we do. I think what we are realizing is the more scientific publications you have, the better discoverable you are with some of these LLM models. There are forums like Reddit, which we would never have thought about, right, which if you're not there and you're not being talked about, then you are less discoverable."
	03/06/2026	DB Conference	"I'll start with the product discovery side. We're doing a lot of work because, obviously, large language models, Agentic AI pulls from different sources than like a regular search. The other thing is that the logic by which decisions are made by the large language models are different than the way it would be for consumers. So how you present data, how you put data in there and how that works is something that you need to be very conscious of. So we're on that, and we're working that. We don't think that's something that's had a significant impact on the business yet, but we're prepared for the fact that, that will become a bigger, bigger part of Agentic shopping potentially in the future." ""We believe that in this future world, having great data on your products is an advantage versus not being advantage in a world of agentic shopping, just the way the large mega model works, because we have data that show the efficacy of the products, data that shows superiority and things like that. So it's a work in progress. I think everyone's figuring it out. We're on it. We believe it's something that could be much bigger and we believe that given our portfolio and given all the data we have and all the clinicals, this should be something that shouldn't be a headwind for us."

Source: Morgan Stanley Research, Alphasense

Exhibit 46: Reckitt: Management commentary on AI shopping

Company	Date	Event	Comments
Reckitt	31/07/2026	Consumer CEO Series	"I remember the first time I punched into [a major AI LLM], what's the best disinfection products that I should buy? And it said Dettol and Lysol are by far the best disinfection products in the world. Very happy with that because that didn't have to necessarily happen that way. But on the flip side, I asked some other questions about some other categories where we compete, and I didn't get the answer I like. So it highlights that there's work to do." "I think for companies like us that have #1 brand positions in our categories, we have brands that are very active in social commerce. There's a lot of content, right people like our brands. They like to engage and sometimes post about them. So that's actually very helpful because that's the information that the LLM is looking for. So if an LLM is trying to figure out what to recommend, it would typically look for what's the most popular products, where is the high engagement, where are people saying positive things about their user experience. Also, is there science behind the product?"

Source: Morgan Stanley Research, Alphasense

Exhibit 47: Unilever: Management commentary on AI shopping

Company	Date	Event	Comments
Unilever	02/06/2026	DB Conference	"Agentic is all about search, proof and persuption. Market leadership doesn't give necessarily an advantage when it comes to discovery in LLMs. You have to be intentional about what you to do there to ensure that your content is discovered in AI. AI plays in favor of scientific proof, patents, claims, publishing, clinical proof, ratings. This plays in favor of big brands." "This is part of our program when it comes to LLM proof and persuasion how to convert from discovery and proof into buying is fundamentally linked to your relationship with retailers. We have now 26 brands in the U.S. using Amazon sponsored programs. They fundamentally are integral to the path to purchase of the consumers in Amazon. We have now more than 50 brands in 20 geographies in which we are tracking our presence in LLM versus competition. That can only be done by big companies with big clinical support and with big budgets."
	17/02/2026	CAGNY 2026	"We are really convinced that concentration of retail will accelerate in the context of AI and LLMs. And we believe that the profit pool for the staple sector is shifting upwards."

Source: Morgan Stanley Research, Alphasense

Exhibit 48: Nestle: Management commentary on AI shopping

Company	Date	Event	Comments
Nestle	02/06/2026	DB Conference	"The advantage that I see for large companies like ours is we have tons of scientific literature and scientific information on our products. We have all of the information, how it's sourced, where it's sourced from how it's produced, where does it come from? So all of that information, you can actually use to have LLM consume that and then playing it back to consumers that ask LLM, can you buy me what's the best chocolate and buy that for me or a sustainable chocolate or whatever. You have to make sure you're in the right space there. But I think the information we can put out there is definitely there." "It's going to be it's going to be a big impact. It's a big change. And if you think about two aspects to it, so retailers are using it obviously to make a better consumer experience for their for their shoppers."

Source: Morgan Stanley Research, Alphasense

Exhibit 49: Magnum: Management commentary on AI shopping

Company	Date	Event	Comments
Magnum	08/09/2026	Barclays Conference	On presentation slide: AI is the next digital shelf: Algorithm visibility: • Authority & trusted content • Reviews, relevance, and context • Optimise for prompts, not keywords Consumer intent → AI → 1–3 recommendations → Purchase.

Source: Morgan Stanley Research, Alphasense

Exhibit 50: Glanbia: Management commentary on AI shopping

Company	Date	Event	Comments
Glanbia	06/08/2026	1H26 Earnings	"And lastly, in a digital world, you know, we're benefiting from it's always been a key focus for us. We are the most viewed, most awarded, most recommended brand. And as the world increasingly moves, digital and AI in search, we're benefiting from that. You know, we do regular audits and we continue to see nutrition as the number one recommended brand. And that's a key focus for us."
	19/11/2025	CMD	"We're also the most awarded and the most reviewed brand in the category. Now this is even more important in the world of AI search, where the algorithms actually search for trusted and relevant sources rather than the old pay-to-play model."

Source: Morgan Stanley Research, Alphasense

Consumer Discretionary / Brands

Grace Smalley. Edouard Aubin

In case you missed it - in our recently published foundation notes **European Apparel Retail: Agentic Commerce Musings** and **Muse: Rewriting the Retail/Consumer Playbook** - we outline some initial "musings" on the impact of increased Agentic Commerce on our broader European Consumer Discretionary coverage (across luxury, sporting goods and apparel retail), leveraging Morgan Stanley's proprietary global "5 I's" framework. As detailed in the report and in the context of broader market and sector disruption risks - **we overall see the top-down near-term direct disruption impact on European Consumer Discretionary as relatively modest, given (i) very minimal exposure to services, retail media and advertising revenues that are most at risk, with infrastructure instead providing an important barrier to entry, and (ii) strong brand equity with more "emotionally" driven purchases than transaction-driven / needs-based brands or retailers.**

We continue to expect that consumer fundamental purchasing decisions will still be won by the companies that exhibit the best brand equity or brand heat, emotional connection, unique product assortment, value equation, reliability and fulfillment speed/convenience (including seamless returns process). We hence see the best-in-class brands and retailers as well positioned - with the rise of agentic commerce presenting a potentially material opportunity as an incremental customer acquisition tool if leveraged well - and potentially further exacerbating the ongoing polarisation in performance across the industry (i.e., the market share winners and losers may remain the same). However, it also raises several risks - which vary somewhat by sub-sector, as we outline below.

Luxury Goods: Overall, we see luxury brands as relatively well insulated from the rise in agentic commerce (just as they have been from a rise in e-commerce over time) given well established barriers to entry from brand desirability, heritage, provenance, craftsmanship, "emotional" purchases, flagship stores - that ought to insulate them from brand fragmentation risk to alternative players or smaller and niche brands over time. That said, amid current structural/cyclical question marks for the sector, some investors have questioned the implications for the luxury's industry's pricing power from the increased pricing transparency that agentic commerce provides. We acknowledge that while luxury brands notably do not compete primarily on price, there is risk amid a time of pricing concerns in the sector, that agentic AI could lead to consumers further questioning the value of luxury goods. There is also a a risk of lower control over how a brand and product is presented to the consumer, reducing the ability of brand/product storytelling, which is critical in luxury. Further, a potential consequence for luxury brands could be increased visibility and discoverability of the resale market, which could harm primary market purchases. It will therefore be of increasing importance for luxury brands in our view to effectively connect with consumers and articulate the value of their brands (see more here: The Ferrari Flywheel: Community, Loyalty and the Next Leg of Demand); as well as to keep strict control of inventories, distribution and global price-gaps.

Sporting Goods: For sporting goods, we see an opportunity for incremental customer acquisition - but also note risks from: (i) increased brand fragmentation, and (ii) increased price transparency. On the former, there is a risk that improved search and discoverability

from agentic commerce leads to consumers discovering alternative, small and niche brands/products, diluting the scale advantages and barriers to entry that brands built over several years (similar to the risk often discussed in relation to increased social media and social commerce). For an industry such as sporting goods, which is already suffering from increasing brand fragmentation, there is a potential risk that improved agentic commerce could provide a further accelerator to this fragmentation trend. Further on pricing transparency, there is a risk that Muse and agentic commerce is deflationary and further exacerbates a currently heightened promotional backdrop in sporting goods, leading to a "race to the bottom" given multi-channel distribution.

Apparel Retail: For a more detailed overview of the specific considerations for European Apparel Retail, including stock-specific puts and takes for Inditex, H&M, Next, ABF and JD Sports - see our foundation deep-dive here: **European Apparel Retail: Agentic Commerce Musings**. As outlined in the note, opportunities for the sector include increased and lower-friction customer acquisition, improved product discovery, higher conversion, improved/increased personalisation and overall enhanced operational efficiencies. However there are question marks for the sector on implications from the below risks:

- **Price/Value Transparency:** The rise of Muse and increased effective agentic commerce will lead to increased price and value-equation transparency for consumers, enabling consumers to more effectively compare brands and products (=deflationary). Said differently, apparel pricing gaps will be under an increased telescope, in what is already a highly competitive, fragmented and promotional industry. Retailers that differentiate on factors other than price may be more insulated *(e.g. Inditex on fashion appeal)*, while increased price transparency represents both a risk and opportunity for value-focussed retailers. On the one hand, this could benefit value-fashion retailers as their superior pricing offering becomes more visible to consumers; on the other, it could negatively impact them given significant competition within the value-fashion sub-sector, further exacerbating promotional activity and leading to an even more heightened "race to the bottom" on price.
- **Brand/Product Fragmentation:** There is a risk that improved search and discoverability from Agentic AI leads to consumers discovering alternative brands/products that differ from our coverage companies. Specifically, increased effective agentic commerce may enhance consumer discovery of smaller, niche brands and dilute the scale advantages and barriers to entry that brands and retailers have built over several years (similar to the risk often discussed in relation to increased social media and social commerce). That said, just as best-in-class tech-enabled companies in our coverage evolved with the shift to e-commerce and SEO, we would expect the same to be true with agentic commerce, with larger tech-enabled companies better able to make the necessary tech-investments to thrive in an agentic world. Indeed, apparel retailers are well accustomed to already competing in a highly fragmented market – see more here: The Global Apparel Retail Industry in Charts.
- **Increased Visibility of Apparel Resale Market:** A potential consequence of agentic commerce could be increased visibility and discoverability of compelling product offerings within the resale market, potentially further accelerating the rise of Vinted in Europe, for example, which could harm primary apparel sales.
- **3P Business Models Risk:** There is a risk that the value-add to the consumer of

business models that rely on product aggregation/curation of non-exclusive third-party product is increasingly diminished by advanced agentic commerce. This is a debate commonly associated with the likes of Zalando, JD Sports and LuxExperience, as well as Next's 3P "Label" business. This could lead to consumers of non-exclusive products being driven to other platforms, reduced dwell time (and cross-selling opportunity) on aggregator websites, and worsening e-commerce unit economics as a result of decreased basket sizes due to increased single-purchases/ split baskets.

- **Rise of Apparel E-Commerce Penetration:** Following a period of disruption from significantly increasing apparel e-commerce penetration through 2015-20 (having increased from c.12% in 2015 to c.31% in 2020 globally, per Euromonitor), apparel e-commerce penetration has stabilised somewhat in recent years at around c.30% (NXT: 42%, HMB: 31%, ITX: 27%, JD: 21%). There is a risk that the rise of effective agentic commerce could lead to a further step-up in the advantages of apparel e-commerce, and a further acceleration in apparel e-commerce penetration and lead to a further wave of required store closures (bucking the trend of recent moderation in net store closures across the sector). This is a risk for retailers with a substantially high store base relative to sales (e.g. H&M) or limited e-commerce presence in particular (e.g. Primark), and has potential negative incremental margin implications for some. For more on store exposure / e-commerce penetration, see: The Global Apparel Retail Industry in Charts.
- **Decreased Customer Connectivity:** There is a risk that agentic commerce increases the distance between apparel retailers and their end-consumers, with agents increasingly owning more of the customer journey, attention/time and data. This could also lead to lower control over how a brand and product is presented to the consumer, reducing the ability of brand/product storytelling. In addition, there is a possibility it could lead to less dwell time in stores and on websites, and negatively impact cross-selling and "impulse" purchases, which often add to average basket sizes. We note the "handshake model" (*whereby retailers are deploying their own agents that "handshake" with the LLM agent to complete the purchase - rather than allowing external agents to operate freely within their domains - see more here)* that seems to be emerging around agentic commerce somewhat (albeit not fully) reduces some of the aforementioned risks, by enabling the retailer to retain customer data, transaction data and preserves the opportunity to deepen the customer relationship and drive incremental sales.

- **Infrastructure Investments:** Beyond a compelling product offering, successful agentic commerce will likely require best-in-class technology, operations and infrastructure. This spans logistics and fulfilment capabilities, but also the compatibility and ability to link well with agents through best-in-class machine-readable inventory catalogue and delivery/returns data. Those that have under-invested stand to lag behind – or require a material step up in investments in order to catch up. This could be weighed against potentially decreased customer acquisition costs (due in part to increased effectiveness/personalisation) as a result of Muse; but this remains up for debate.

Exhibit 51: Summary Framework: Assessing the Agentic Commerce Impact on European Apparel Retail

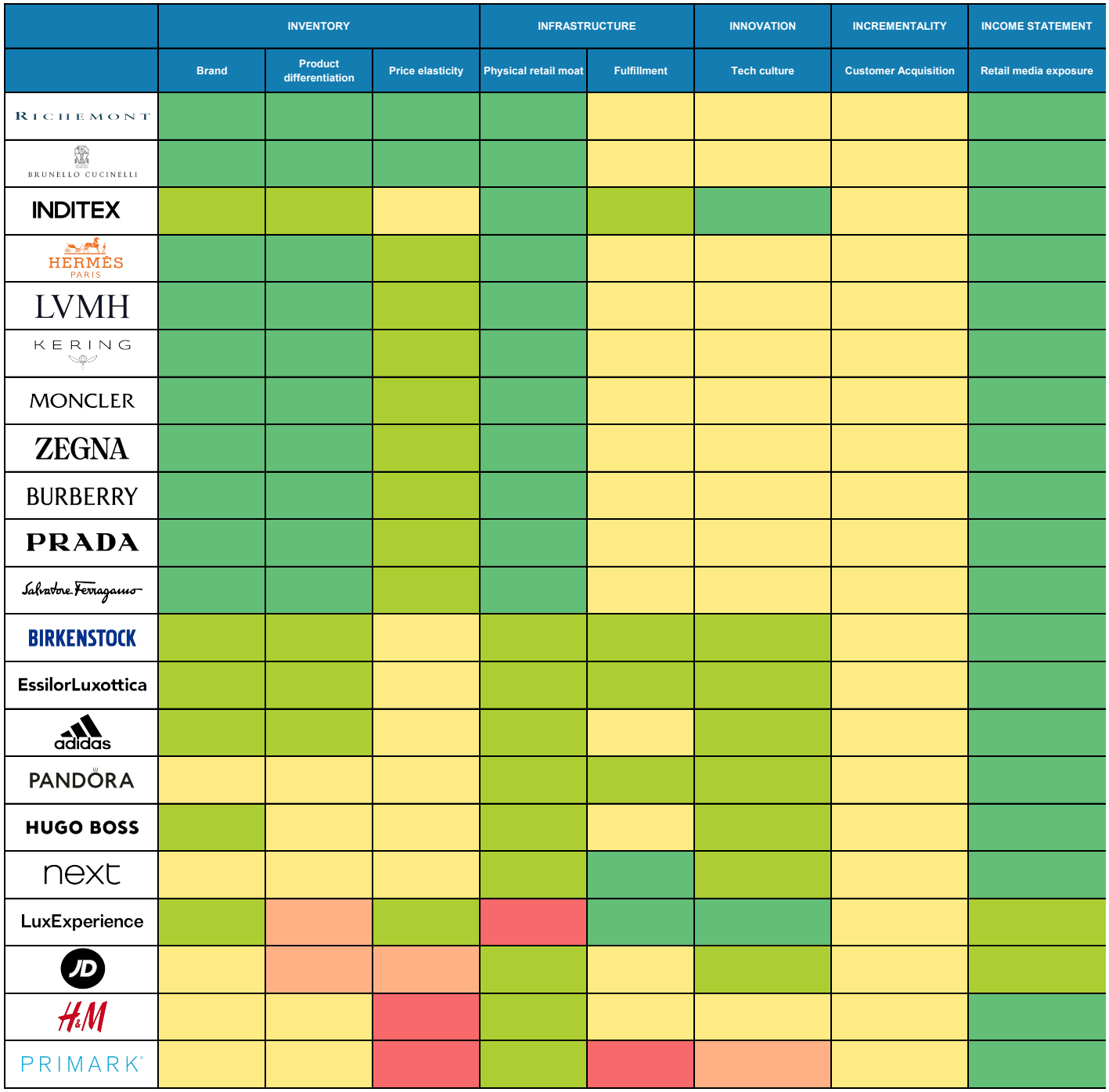
SECTOR OPPORTUNITIES	SECTOR RISKS
Increased / lower-friction customer acquisition	Price / value transparency
Improved product discovery	Brand / product fragmentation
Higher conversion	Resale substitution
Personalisation	3P retailer / aggregator disintermediation
Operational efficiencies	Increased e-commerce penetration / store deleverage
	Customer disintermediation
	Loss of control over brand / product presentation
	Infrastructure investment requirements
KEYS TO SUCCESS	**VULNERABILITIES**
1P or exclusive product	Undifferentiated / non-exclusive 3P product
Pricing power / low price elasticity	High price elasticity
Strong brand pull / customer loyalty	Commoditised brand proposition
Agent visibility / machine-readable product data	Poor visibility within AI recommendations
Best-in-class fulfilment / logistics	Sub-par fulfilment / returns
Strong data / technology infrastructure	Legacy / fragmented technology stack
Scale / investment capacity	Insufficient scale to invest
Agile, tech-enabled culture	Status-quo culture
Low reliance on retail media income	High retail media exposure

Source: Morgan Stanley Research

We apply Morgan Stanley's "5 I's" framework across our consumer discretionary coverage to assess relative exposure given the broad range of sub-sectors and business models within. We however acknowledge the largely subjective nature of this ranking and a wealth of unknowns at this stage. **Overall, on a relative basis looking at European consumer discretionary sector more broadly - our initial screening analysis points to luxury brands and Inditex as best insulated, while the framework suggests more question marks for companies with exposure to marketplace models (JD Sports, LuxExperience, Next) and more price-sensitive fashion retailers.**

See **European Apparel Retail: Agentic Commerce Musings** and **Muse: Rewriting the Retail/Consumer Playbook** and for a more thorough discussion of considerations for our coverage and drivers behind the below heatmap.

Exhibit 52: Applying the "5 I's" to European Consumer Discretionary: Marketplaces & Price-Sensitive Brands Screen Most Exposed



Source: Morgan Stanley Research

Appendix: Muse Partnerships

Exhibit 53: 1D absolute and relative share price reaction to companies announcing partnership with Muse

#	BBG ticker	Listed company	Named integration	MS Rating	Last Price (LC)	Partnership Announced On	1D abs performance	1D rel performance	Abs perf since announcement	Rel perf since announcement
1	SHOP US	Shopify	Shopify / Shop Pay	OW	210.04	08-Sep-26	-7.6%	-7.0%	12.9%	12.2%
2	BKNG US	Booking Holdings	OpenTable	OW	162.34	08-Sep-26	-6.7%	-6.2%	-11.8%	-12.4%
3	LYV US	Live Nation	Ticketmaster	OW	171.09	08-Sep-26	-1.8%	-1.2%	-1.0%	-1.6%
4	SPOT US	Spotify	Spotify	OW	493.66	08-Sep-26	-2.5%	-2.0%	-10.5%	-11.1%
5	PTON US	Peloton	Peloton	UW	5.04	08-Sep-26	-6.7%	-6.1%	-2.4%	-3.0%
6	GOOGL US	Alphabet	Google services	OW	340.92	08-Sep-26	0.0%	0.6%	1.5%	0.9%
7	MSFT US	Microsoft	Outlook	OW	508.96	08-Sep-26	-1.2%	-0.6%	4.8%	4.1%
8	PYPL US	PayPal	PayPal	UW	53.89	22-Sep-26	0.5%	0.5%	-0.2%	0.4%
9	CART US	Instacart	Instacart	EW	43.49	22-Sep-26	-2.5%	-2.5%	-0.4%	0.2%
10	EXPE US	Expedia	Expedia	UW	266.33	22-Sep-26	-0.1%	-0.1%	-5.6%	-5.1%
11	WMT US	Walmart	Walmart	OW	106.8	23-Sep-26	-2.7%	-2.6%	-3.1%	-3.3%
12	BBY US	Best Buy	Best Buy	EW	88.75	23-Sep-26	0.2%	0.2%	-3.3%	-3.6%
13	AEO US	American Eagle	American Eagle Outfitters	EW	18.14	23-Sep-26	1.0%	1.0%	10.1%	9.9%
14	DKS US	DICK'S Sporting	DICK'S Sporting Goods	OW	134.7	23-Sep-26	0.7%	0.7%	2.1%	1.9%
15	GAP US	Gap	Gap	EW	23.54	23-Sep-26	1.9%	2.0%	3.8%	3.5%
16	CPRI US	Capri Holdings	Michael Kors	-	14.66	23-Sep-26	-1.6%	-1.5%	-4.9%	-5.2%
17	LVMUY US	LVMH (US ADR)	Sephora	EW	89.68	23-Sep-26	0.6%	0.6%	-6.3%	-6.5%
18	ULTA US	Ulta Beauty	Ulta Beauty	OW	547.89	23-Sep-26	0.9%	0.9%	-0.9%	-1.2%
19	W US	Wayfair	Wayfair	OW	101.95	23-Sep-26	-1.8%	-1.8%	3.7%	3.4%
20	BOX US	Box	Box	EW	32.75	23-Sep-26	-1.3%	-1.3%	6.7%	6.5%
21	TRIP US	Tripadvisor	Viator	-	8.4	23-Sep-26	6.0%	6.0%	-0.1%	-0.4%
22	MSFT US	Microsoft	GitHub	OW	508.96	23-Sep-26	-0.5%	-0.5%	3.9%	3.7%
23	ASAN US	Asana	Asana	UW	8.23	29-Sep-26	-4.7%	-4.6%	4.7%	4.0%
24	DBX US	Dropbox	Dropbox	-	32.7	29-Sep-26	2.4%	2.6%	3.7%	3.0%
25	FIG US	Figma	Figma	EW	20.72	29-Sep-26	2.3%	2.5%	3.1%	2.4%
26	INTU US	Intuit	QuickBooks	EW	268.03	29-Sep-26	-0.5%	-0.3%	4.9%	4.2%
27	KVYO US	Klaviyo	Klaviyo	OW	15.25	29-Sep-26	-1.0%	-0.8%	3.0%	2.3%
28	CRM US	Salesforce	Slack	EW	225.31	29-Sep-26	-0.9%	-0.7%	4.2%	3.5%
29	ZM US	Zoom	Zoom	EW	88.355	29-Sep-26	1.2%	1.4%	5.1%	4.4%

Source: LSEG Data & Analytics, Morgan Stanley Research

Additional disclosures

Last close prices: A2A €2.23, Accor €44.01, Adidas €142.65, Admiral 3,586.00GBp, Adyen €855.60, Amadeus €52.10, ABI €64.56, ABF 1831GBp, Autotrader 460.40GBp, Aviva 672.40GBp, BCG €2.04, Banca Mediolanum €22.94, Beiersorf €75.76, Birkenstock 32.97 USD, Carrefour €15,65, Centrica 147.25GBp, Lindt 80,100 CHF, Danone €57.58, Campari €6.02, Digi Spain €6.33, E.ON €16.76, Elia €118.2, Endesa €41.34, ENEL €8.67, EssilorLuxxotica €144.60, Experian 2,427 GBP, Fineco €21.26, Gjensidige 253.40 NOK, Glanbia €18.66, H&M 158.35 SEK, Haleon 327.80GBp, Hannover €250.80, HBX €7.40, Hemnet 69.55 SEK, Henkel €71.92, Hugo Boss €37.98, Inditex €53.06, Intercontinental Hotels Group 159.75 USD, IONOS €32.10, J Sainsbury 326GBP, JD Sports 80.86GBp, Kingfisher 327.90GBp, Koninklijke Ahold Delhaize €31.65, L'Oreal €371.75, Lancashire Holdings 634.50GBp, Marks & Spencer Group 377.60GBp, Munich Re €498.80, National Grid 1,134p, Next 14,480p, Orange €13.81, Orsted 135DKK, Pandora 803DKK, Reckitt Benckiser 4,907GBp, Rentokil 296.10GBp, Rightmove 450.30GBp, RWE €58.40, Sampo €8.83, Scor SE €31.38, Scout 24 €67.60, SMG Swiss Marketplace 28.30 CHF, SSE 2,473GBp, St James's Place 1,041p, Swiss Re CHF139.00, Telenor 126.90 NOK, Tesco 474.80GBp, The Magnum Ice Cream Company 1300.50GBp, TP €71.06, Tryg 141.20DKK, Tui €6.80, Vend Marketplace 207.40 NOK, Verisure €8.00, Vodafone 124.10GBp, Whitbread 2,388GBP, Zalando €22.22, Zegona 1,738GBp.

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(as of September 30, 2026)
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	Coverage Universe		Investment Banking Clients (IBC)			Other Material Investment Services Clients (MISC)	
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
Overweight/Buy	1599	43%	455	48%	28%	783	44%
Equal-weight/Hold	1563	42%	394	42%	25%	763	43%
Not-Rated/Hold	2	0%	1	0%	50%	1	0%
Underweight/Sell	570	15%	96	10%	17%	227	13%
Total	3,734		946			1774	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

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