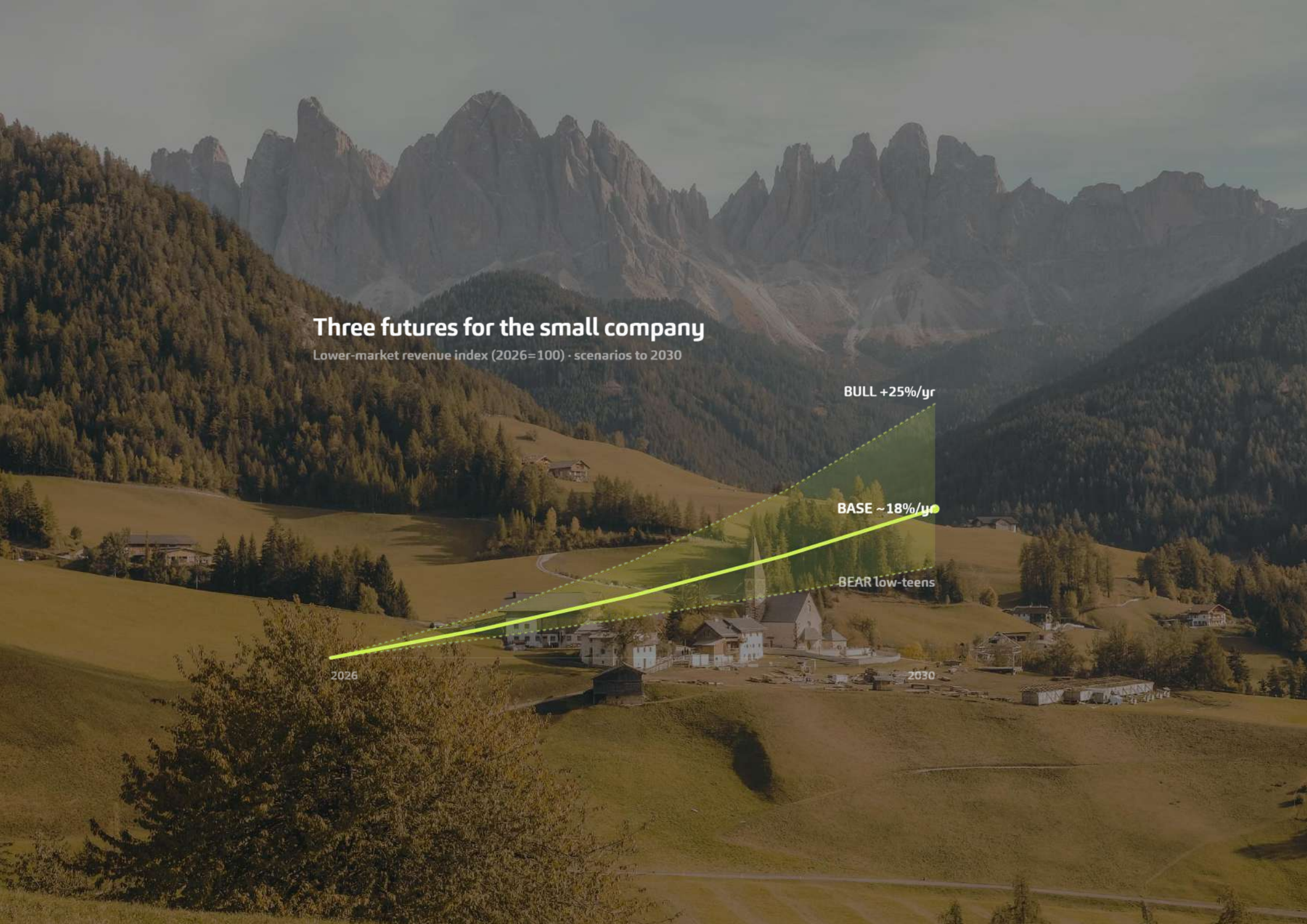
GLOBAL ARTIFICIAL INTELLIGENCE SECTOR LOWER-MARKET M&A

Lower-Market M&A Research · Sections 2–10 · June 2026

Now, for tomorrow

bakertilly


Three futures for the small company
Lower-market revenue index (2026=100) · scenarios to 2030
BULL +25%/yr
BASE ~18%/yr
BEAR low-teens
2026
2030

Final User Profiles and Criticality

Profile A: Regulated vertical buyers (law firms, clinics, regional banks, accounting practices).

These users require AI products to manage compliance, risk, and cost-to-serve in document-heavy, rule-bound workflows. Criticality is high and non-discretionary: a personal-injury firm using EvenUp to draft demand letters, or a clinic using an AI scribe, buys because the tool compresses billable hours and reduces error/fine exposure, not for novelty [1]. Specific challenges shaping purchasing: regulatory complexity (HIPAA, privilege, court-filing rules), audit-trail requirements, and the cost of a single compliance failure. These buyers tolerate higher price and longer onboarding in exchange for certification and reliability, which is why the products serving them retain best.

Profile B: Growth-oriented SMBs (10 to 100 employees).

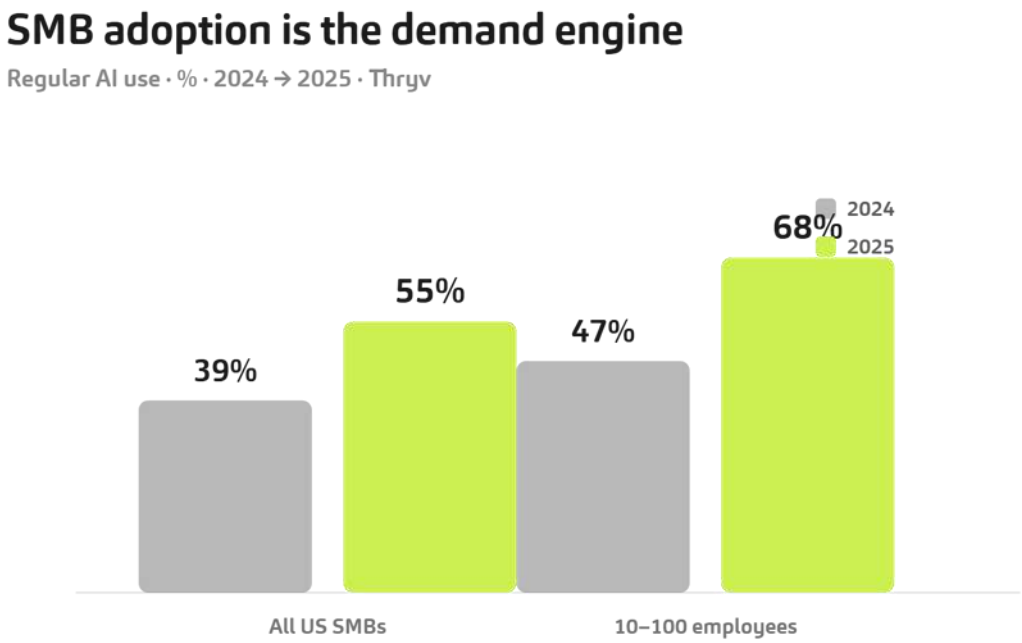
The demand engine of the lower market. US adoption among 10-to-100-employee firms hit 68% in 2025 [2]. Criticality is competitive rather than regulatory: 82% of small businesses think adopting AI is essential to stay competitive [3]. They buy marketing, sales, and customer-support tools (the top three SMB use cases at 53%, 49%, 46%) [4]. Challenges: lack of in-house skills (40%), budget (40%), integration complexity (38%), and data-privacy worry (38%) [5]. Purchasing behavior is fast, self-serve, and ROI-sensitive; these buyers abandon tools that do not show measurable impact within a quarter.

Profile C: Prosumers and solo operators (creators, freelancers, indie developers).

They buy horizontal tools (image, writing, code) at $20 to $30/month consumer tickets. Criticality is productivity, not compliance; switching costs are near zero. Midjourney's roughly 1.4m paying subscribers served by ~11 people exemplifies the volume economics [6]. These users are the most substitutable and price-elastic, which is exactly why standalone products serving them are weak acquisition targets unless brand or community creates lock-in.

Profile D: Single departments inside mid-market and enterprise.

A marketing team, a RevOps function, or a support desk buys a point AI tool on a department budget below the procurement threshold that would trigger heavy IT and legal review. Criticality is operational efficiency; the buyer is a line manager, not a CISO. This "land at the department" motion is the wedge for vertical agents (1mind's sales agent, AirOps for AI-search optimization) [7] and is attractive because it shortens sales cycles, though it caps initial deal size.



Strategic M&A and Vertical Integration Opportunities

For a small AI company or a small-cap acquirer, the strategic question is which supplier dependency to internalize to protect margin and defensibility. The white spaces are clearest in three areas.

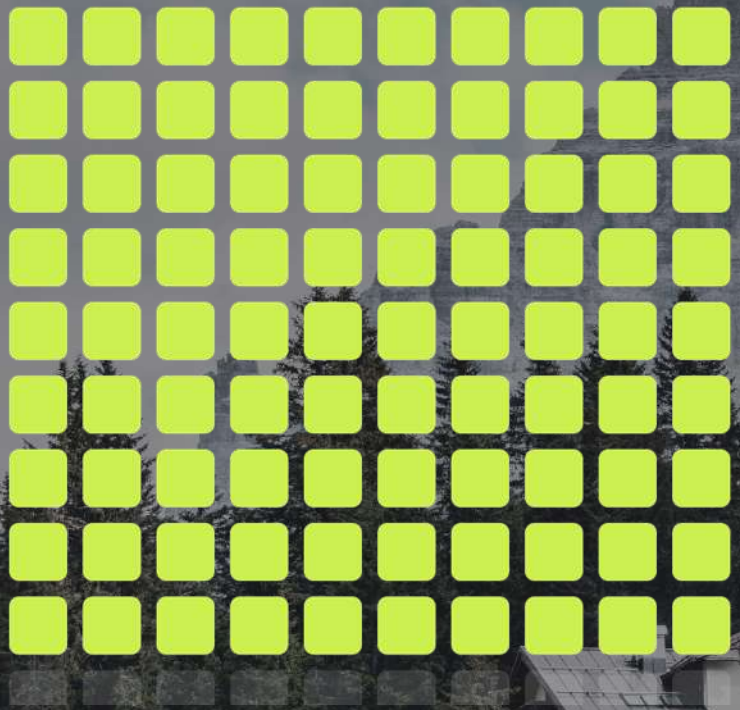
First, inference and model optimization. Nvidia's buying spree validated the category: it absorbed OctoAI (reportedly ~$165m, September 2024), Deci (reportedly ~$300m), CentML (reportedly up to $400m, mid-2025) and Lepton AI (reportedly several hundred million). These specific deals mostly exceed the $100m band, but they signal that small teams (Lepton had ~20 employees and had raised an $11m seed; CentML's ~15-18 engineers) which make models cheaper to run are acquisition gold. A small-cap acquirer or a well-funded application company can buy a sub-$100m inference-optimization boutique to cut its own COGS and reduce GPU-supplier dependency. AMD's June 2025 acquisition of Brium, a model-compilation startup attacking Nvidia's CUDA moat, is the same logic at the silicon layer.

Second, data-labeling and curation boutiques. Acquiring a vertical-specialized labeling shop secures proprietary training data, the asset that converts a wrapper into a defensible vertical-AI business. Uber's October 2025 acquisition of the Belgian labeling startup Segments.ai (undisclosed, bolt-on) shows a non-lab buyer internalizing data supply. Micro1 grew from $7m to $50m ARR in 2025 on expert-vetting plus workforce management; smaller still-private labeling boutiques sit in clear sub-$100m range.

Third, fine-tuning and MLOps tooling. A small platform company can bolt on a fine-tuning toolmaker or an MLOps control-plane to own more of the stack: TrueFoundry's 2025 acquisition of Seldon (startup-buys-startup MLOps consolidation) is the template. Vector-database and eval tooling are adjacent targets, though their low switching costs make them weaker moats than data or inference.

~90% of thin wrappers gone by end-2026

One builder estimate · ■ = projected dead



90%

OF THIN WRAPPERS

Strategic Recommendations for M&A Advisory

Source native, structure for the team, price the wrapper discount. Ranked priorities for a lower-market adviser: (1) proprietary-data and infrastructure assets in the data/tooling layer (embeddings, eval, MLOps, vector/retrieval, serverless inference), the Voyage/Langfuse/Seldon/Koyeb profile, where the multiple is defensible; (2) compliance-native vertical applications in healthcare, legal, finance and construction with proprietary datasets; (3) regional champions with jurisdictional data moats (the Legora/Doctrine profile) as roll-up platforms or add-ons.

Deal-structure suggestions for the band: for native specialists with intact teams, a share deal with 60-70% cash at close, 30% founder equity roll-over, and 2-3 year retention/earnout tied to capability milestones and team retention (not just revenue). For wrapper or sub-scale teams, an asset deal plus acqui-hire at roughly $1m-3m per engineer with signing/RSU retention and a founder carve-out ($500k-2m) negotiated ahead of the liquidation waterfall. Earnouts of 20-30% of consideration, gated on retention and integration milestones, hedge model-churn and key-man risk. Best risk-adjusted returns: US data/tooling specialists and EU compliance-native vertical AI, where the AI Act forcing function and the multiple reset combine to create mispriced, defensible assets.

Geographic and regulatory dependencies: EU targets carry AI Act conformity obligations (transparency from August 2026, high-risk from December 2027 under the Digital Omnibus, not yet fully adopted); China and export-controlled compute alter the calculus for infrastructure targets; Israel, Canada and India offer talent-dense, capital-efficient targets (Indian AI startups raised about $643m across 100 deals in 2025, application-led, per Tracxn), often at lower entry multiples than the Bay Area.

Concrete named target archetypes credible as sub-$100m candidates: the data-annotation specialists Tracxn classifies (Encord, iMerit, Sama, Superb AI, Sapien; Tracxn counts 371 such companies, only 152 funded) for an acquirer wanting data-labeling capability and clients; MLOps and eval specialists in the Seldon mold; embeddings/retrieval specialists in the Voyage mold; and European jurisdictional legal-AI players in the Qura/Walter mold for a roll-up. Partnerships beat acquisitions when the target is a wrapper (license the capability, do not buy the fragile multiple) or when key-man risk is unmanageable.