



GLOBAL SUBSCRIPTION- AS-A-SERVICE (SAAS) MARKET REPORT

Market research – June 2026

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Scope & Definition

Scope & Definition

This report informs a mergers-and-acquisitions and growth-equity thesis on the global Software-as-a-Service (SaaS) industry, combining a quantified read of market size, segmentation and end-user demand (Sections 2 to 4) with an analysis of the industry's ecosystem, competition, value chain and deal flow (Sections 5 to 10). It is written as of June 2026, uses the most recent fiscal-year data available, and flags figures predating Q4 2024 inline. This opening section fixes the boundaries of the analysis: what counts as SaaS, the geographies in view, the strategic questions the report answers, and the methodology and sourcing that underpin every figure that follows.

Industry Definition

SaaS, for the purposes of this report, means cloud-delivered, subscription-based software businesses. The definition spans three layers of the market. Horizontal B2B SaaS covers cross-industry functions: CRM, ERP, HR, finance and billing, marketing, collaboration and developer tooling, anchored by names such as [Salesforce](#), [SAP](#), [Workday](#) and HubSpot.

Vertical B2B SaaS covers industry-specific platforms for hospitality, travel, real estate, healthcare, legal, logistics, insurance, construction and agritech, anchored by [Veeva](#), [Toast](#), [ServiceTitan](#) and Procore. B2C and prosumer subscription software covers consumer apps, edtech, fintech apps, wellness and creator tools.

The definition is deliberately ownership-agnostic. It includes bootstrapped and venture-backed scale-ups, private-equity-owned platforms, public pure-play SaaS vendors, and the SaaS arms of larger software and platform groups such as [Microsoft](#), [Oracle](#) and Adobe. What unifies them is the commercial model: recurring revenue, multi-tenant cloud delivery, and monetization through subscriptions, usage, or outcomes rather than perpetual licenses.

Several adjacent categories are excluded to keep the analysis clean. Pure IT-services firms and consultancies, bespoke custom-software development shops, on-premise legacy licensing, hardware-led businesses, and non-software digital marketplaces or e-commerce pure-plays all fall outside scope. The distinction matters for diligence: a business that reports gross merchandise volume or transaction take rates (a marketplace) is economically different from one that reports annual recurring revenue and net revenue retention (SaaS), and the two are not valued on the same basis.

A platform whose revenue is principally marketplace commission rather than subscription is treated as ecosystem context, not as in-scope SaaS.

Geographic Scope

The report is global, with explicit attention to the growth differentials between regions. North America, led by the United States, is the dominant market, holding roughly 47% to 48% of worldwide SaaS revenue. Western Europe (the UK and Ireland, the DACH countries, France and Benelux, the Nordics, Iberia and Italy) is the second pole, structurally under-consolidated relative to the US and therefore a focus for buy-and-build.

Asia-Pacific (India, China, Japan, Australia and Southeast Asia) is the fastest-scaling region, with India alone hosting roughly 250 companies above \$10m of ARR. Latin America, the Middle East and Africa are treated as emerging SaaS markets where sovereign and growth capital is beginning to enter.

The report keeps that global frame throughout. Sections 2 to 4 size the worldwide market and break it down by region and subsegment: the United States anchors North America's roughly 45 to 48 percent revenue share, Western Europe forms the second pole, Asia-Pacific (India above all, on a path toward USD

50 billion of SaaS ARR by 2030) scales fastest, and Latin America, the Middle East and Africa form the emerging tier where regulatory digitization is pulling demand forward.

Where a single country or company is named, it serves as an illustration of a global pattern, not as the unit of analysis. Sections 5 to 10 then widen the lens to the supply chain, complements, substitutes, competition, value chain and M&A that shape the industry worldwide. Regional sizing, adoption, pricing and deal-flow differentials are called out wherever they are material to the thesis.

Strategic Framing and Key Questions

The report is built to answer four questions that an acquirer or growth investor must resolve before committing capital. First, where is the global SaaS market growing fastest, by subsegment (horizontal B2B, vertical B2B, B2C) and by region. Second, how fragmented or concentrated is the landscape by subsegment, and where is consolidation most active. Third, who are the buyers (strategic acquirers, private-equity platforms and roll-ups, growth and crossover funds) and what is driving global deal flow and take-privates.

Fourth, what structural forces (AI-native disruption and the AI repricing of seats, platform bundling by hyperscalers and suites, the funding and rate climate, and net revenue retention and churn pressure) shape defensibility and valuation multiples.

These questions thread through every section. The sizing and segmentation chapters establish where growth and fragmentation sit; the ecosystem, complements and substitutes chapters establish the structural forces acting on margins and defensibility; and the competitive, value-chain and M&A chapters resolve who is buying, what they are paying for, and which assets offer the most compelling risk-adjusted returns. Section 10 (M&A Landscape) is the most strategically important deliverable, translating the analysis into named, ranked acquisition targets and deal-structure recommendations.

Report Structure, Methodology and Sourcing

The report runs in ten sections: Scope and Definition (this section); Size, Growth, Trends and Drivers; Segmentation; End-Users; Supplier Ecosystem; Complementary Products and Solutions; Substitute Products and Solutions; Competitive Landscape; Value Chain; and M&A Landscape and Transactions. All ten sections take the global market as their unit of analysis, with regional and subsegment differentials called out throughout. Each numbered section opens with an executive summary and closes with its own bracketed [n] citations, which are consolidated into a single Sources and References section at the end of the document.

Figures are triangulated across multiple sources rather than taken from any single provider, and discrepancies are flagged rather than smoothed over. Company, funding and transaction data draw on PitchBook, Crunchbase, CB Insights, Dealroom and Mergermarket; deal and public-market data on S&P Capital IQ and Refinitiv; sizing and growth forecasts on Gartner, IDC, Statista, Grand View Research and Mordor Intelligence; multiples, retention and unit-economics benchmarks on public SaaS filings, the [Bessemer](#) Cloud Index, Meritech and SaaS Capital; and structural and private-equity commentary on Bain, McKinsey, BCG, a16z and [Battery Ventures](#), supplemented by trade press from TechCrunch, The Information, Sifted and SaaStr.

Where market-sizing estimates diverge by definition (for example, a tight pure-play SaaS figure versus a broad cloud-application figure), both are cited with their definitional basis rather than reconciled to a single number. Private AI-native valuations and ARR figures derive substantially from venture trackers and trade press rather than audited filings, and are treated as directional throughout.



Size, Growth, Trends & Drivers

Size & Growth

Executive Summary

The global SaaS market in 2025 sits between **USD 299bn and USD 408bn** depending on definitional scope, a roughly USD 109bn spread that itself tells the story: AI, embedded fintech and consumption pricing are blurring what counts as SaaS. The reconciled base case is approximately USD 400bn of pure-play plus broad cloud-application revenue in 2025, the single largest slice of public cloud, growing 12 to 20 percent depending on scope and now splitting into a bifurcated regime where AI-native entrants compound at triple digits while mature horizontal incumbents grow at single digits to low teens. Three load-bearing drivers carry the trajectory: AI monetization (the repricing of software around inference, agents and outcomes), cloud migration of remaining on-premise workloads, and regulatory digitization (e-invoicing and reporting mandates that force adoption). North America holds the dominant 44 to 47 percent revenue share, Western Europe is the second pole, and Asia-Pacific, led by India on a path toward USD 50bn of ARR by 2030, scales fastest. The base case is a 13 to 15 percent CAGR on the core, with explicit upside from AI repricing and downside from seat compression.

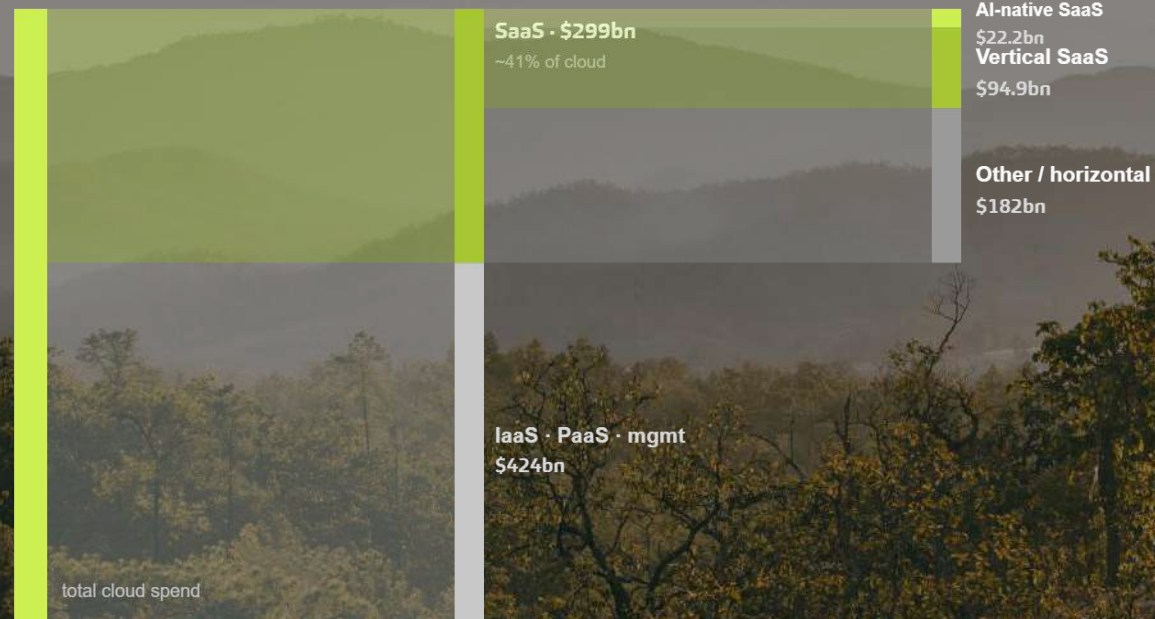
- **Market size:** estimates run from Gartner's tight USD 299bn cloud-application segment to Precedence's broad USD 408bn; the gap is definitional (pure-play vs broad cloud, service inclusion), not directional, and anything above USD 500bn conflates SaaS with total public cloud.
- **Central growth rate:** a 13 to 15 percent base-case CAGR is the defensible read; Grand View's USD 819bn-by-2030 anchors the middle, with broad SaaS-plus-services forecasts (Fortune, Statista) pointing toward USD 1tn-plus by the early 2030s.
- **AI repricing:** Gartner projects 40 percent of enterprise SaaS spend shifts to usage, agent or outcome pricing by 2030; [Salesforce](#) Agentforce already cleared USD 800m ARR up 169 percent, repricing software away from the named-user seat.
- **Margin compression:** inference COGS pull AI-product gross margins toward 52 percent (ICONIQ) from the classic 80 percent-plus band, mechanically compressing Rule of 40 and resetting how buyers underwrite quality.
- **Regional differential:** North America leads at 44 to 47 percent of revenue (US ~USD 132bn, ~17,000 of ~30,800 global vendors); APAC grows fastest at ~14 percent, with Indian SaaS on a ~4x run to USD 50bn ARR by 2030.
- **Vertical premium:** vertical SaaS grew ~31 percent versus ~28 percent horizontal, and embedded fintech lifts revenue-per-customer 2x-5x against a USD 185bn opportunity less than 20 percent captured.
- **Consolidation:** a record 2,698 SaaS deals closed in 2025 (up 28 percent), PE-led, with USD 3.7tn of dry powder funding take-privates ([Dayforce](#) USD 12.3bn, [OneStream](#) USD 6.4bn) and AI tuck-ins.
- **The de-rating:** public SaaS multiples fell to a ~3.4x median EV/Revenue from a 2021 peak above 15x; quality assets with 120 percent-plus NRR command 7-12x while undifferentiated point tools trade at 3-4x.

SIZE & GROWTH · 2025, \$BN

SaaS is the largest slice of a \$723bn cloud market

Gartner public-cloud spend flows into SaaS; SaaS in turn splits AI-native, vertical & the rest

Public cloud · \$723bn



Industry Size

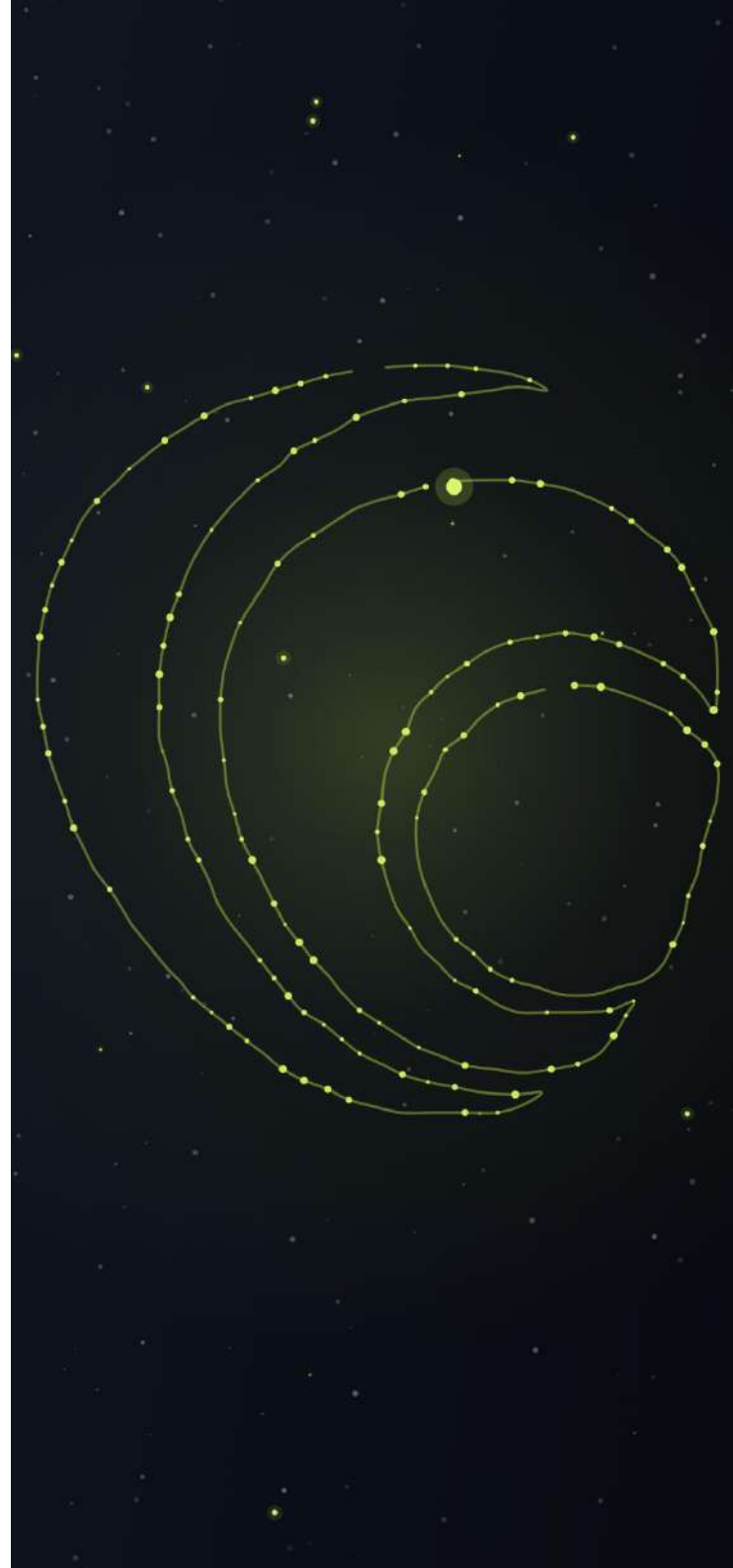
The global Software-as-a-Service (SaaS) market in 2025 sits between USD 299 billion and USD 408 billion depending on definitional scope, a roughly USD 109 billion spread that itself tells the strategic story: this is a category whose boundaries are contested because AI, embedded fintech, and consumption pricing are blurring what counts as "SaaS." For an M&A thesis, the reconciled base case is approximately USD 390-410 billion of pure-play plus broad cloud-application SaaS revenue in 2025, expanding in the mid-teens percent annually [1][2][4].

The sources diverge by methodology, not direction. Gartner, the tightest and most conservative primary source, isolates a discrete "SaaS / Cloud Application Services" segment within worldwide public cloud end-user spending at USD 250.8 billion in 2024 rising to USD 299.1 billion in 2025, growth of roughly 19-20% [3]. Fortune Business Insights, using a narrow SaaS-specific definition, places 2025 at USD 315.68 billion (up from USD 266.23 billion in 2024) and projects USD 375.57 billion in 2026 on an 18.7% CAGR to USD 1,482.44 billion by 2034 [1]. Statista sits in the middle at USD 390.50 billion for 2025, forecasting USD 793.10 billion by 2029 at a 19.38% rate [1]. Grand View Research's databook puts global SaaS at USD 399.10 billion in 2024 and USD 464.76 billion in 2025, reaching USD 819.23 billion by 2030 at 12.0%

CAGR [11]. Precedence Research, with the broadest cloud-application-services lens, estimates USD 408.21 billion in 2025, USD 465.03 billion in 2026, and USD 1,367.68 billion by 2035 at 12.85% CAGR [2]. The Business Research Company is an outlier low at USD 254.84 billion (2025) on a 5.1% CAGR, reflecting a stricter exclusion of bundled services [9].

The discrepancies decompose into four definitional axes. 4 billion total public-cloud envelope (which also includes IaaS, PaaS, and management services), whereas Precedence's USD 408 billion folds in a wider set of cloud-delivered application services [3][2]. Second, service inclusion: Fortune and Precedence count professional services, implementation, and managed-service attach revenue that Gartner's segment view strips out.

The main takeaway on current scale: SaaS is a roughly USD 400 billion global industry in 2025, the single largest slice of public cloud (about 54% of cloud revenue per Gartner-aligned reads), growing 12-20% depending on scope, and now decelerating from its 2020-2022 pandemic surge into a bifurcated regime where AI-native entrants compound at triple digits while mature horizontal incumbents grow at single digits to low teens [2][4]



The three load-bearing growth drivers are (1) AI monetization (the repricing of software around inference, agents, and outcomes), (2) cloud migration of remaining on-premise and legacy workloads, and (3) regulatory digitization (e-invoicing, data-protection, and reporting mandates that force adoption). 7% for 2026 shows how sensitive the top line is to a single quarter's budget dynamics [3]. If cloud migration stalls (sovereignty friction, repatriation), the steady base of net-new SaaS conversion erodes.

If regulatory digitization accelerates (ViDA, India GST phases, LatAm clearance models), it provides a counter-cyclical floor under compliance-led SaaS regardless of the macro.

Sensitivity Spectrum (global SaaS market size, 2025 base)

Scenario	2025 base	Blended CAGR to 2030	Implied 2030 size	Key assumptions
Bear	~USD 390bn	10-11%	~USD 640bn	AI monetization stalls, seat compression outruns usage uplift, prolonged rate pressure, take-private overhang
Base	~USD 400bn	13-15%	~USD 800bn	AI repricing offsets seat erosion, steady migration, regulatory tailwinds; aligns with Grand View USD 819bn by 2030 [11]
Bull	~USD 410bn	18-20%	~USD 1.0-1.1tn	AI agents drive net-new spend, outcome pricing expands TAM, crosses USD 1tn before 2030; aligns with Fortune/Statista trajectories [1]

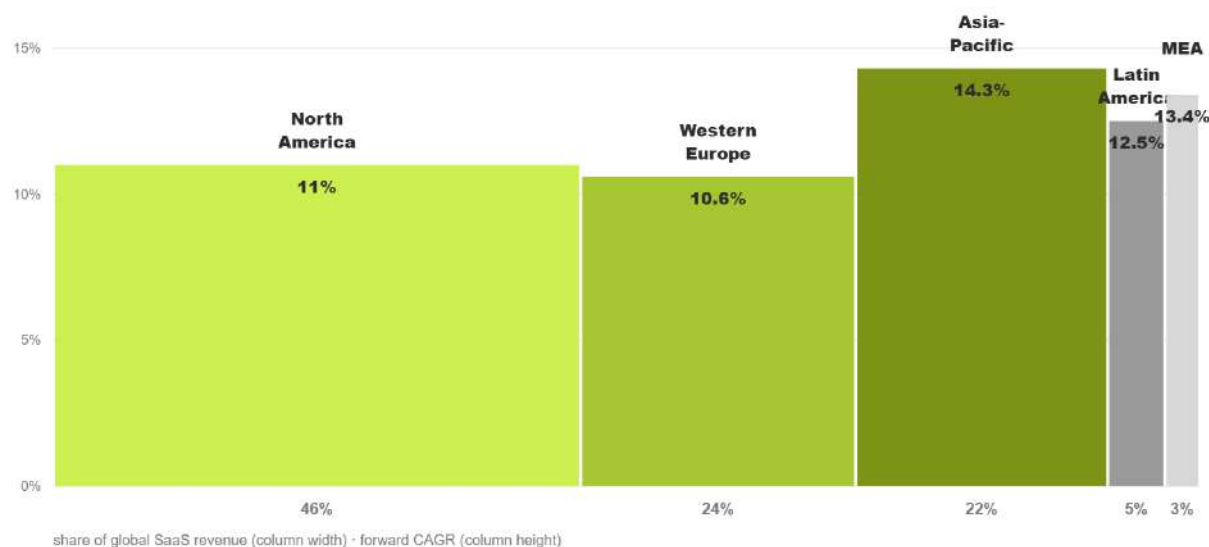
Industry Future Growth Estimation

The medium-to-long-term consensus places global SaaS on a path to roughly USD 800 billion to USD 1.5 trillion by the early-to-mid 2030s, with the spread again driven by definition. Conservative segment-based forecasts (Grand View USD 819 billion by 2030 at 12.0%; Precedence USD 1,367.68 billion by 2035 at 12.85%) bracket the lower-middle band, while broad SaaS-plus-services definitions (Fortune USD 1,482.44 billion by 2034 at 18.7%; SkyQuest USD 1,578.53 billion by 2033 at 19.3%) anchor the upper band [2][1][9][11]. The honest synthesis for a deal thesis: model a 13-15% base-case CAGR on the core, with explicit upside optionality from AI repricing and downside from seat compression.

SIZE & GROWTH · REGIONAL STRUCTURE

Width = revenue share · height = forward CAGR

APAC and LatAm grow fastest; North America still holds the largest single share



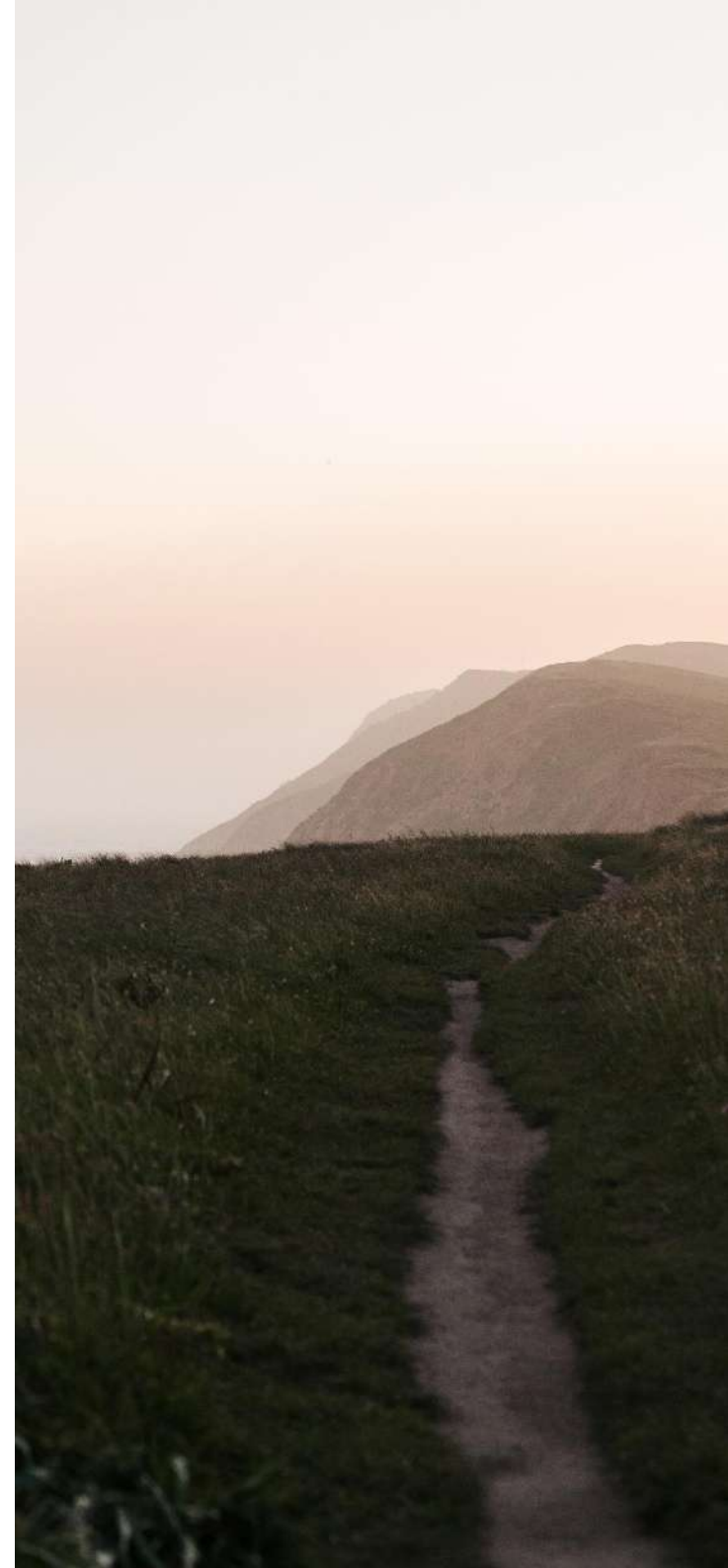
Regional growth differentials are the most investable dimension. North America remains dominant at approximately 44-47% of global revenue: Precedence puts North America at 46% in 2025, Fortune at 46.9%, and Grand View at 44.1% (USD 205.2 billion in 2025) [2][1][11]. The US alone is the single largest national market, valued at USD 132.19 billion in 2025 (Precedence) or projected at USD 141.06 billion in 2026 (Fortune), and hosting roughly 17,000 of the world's ~30,800 SaaS companies [1][2]. Western Europe is the second pole at roughly 23-25% of global revenue; Grand View sizes Europe at USD 95.15 billion in 2024 growing 10.6% to USD 181.05 billion by 2030, with Germany registering the highest national CAGR [11]. Asia-Pacific is the fastest-scaling region: Grand View projects APAC reaching USD 200.7 billion by

2030 at 14.3% CAGR (and USD 287.7 billion by 2033), while Fortune sizes APAC at USD 69.43 billion in 2025 (22% of global) [11][1]. Latin America (Grand View USD 21.4 billion in 2024, 12.5% CAGR to USD 45.06 billion by 2030, Brazil ~45% of the region) and Middle East & Africa (Grand View USD 18.93 billion in 2024 at 4.7% share rising 13.4% to USD 41.78 billion by 2030; Fortune's narrower read is USD 15.14 billion in 2025) round out the emerging tier [11][1].

India deserves singling out as the structural growth engine within APAC: Indian SaaS is projected to reach USD 50 billion in ARR by 2030 ([Bessemer](#) and SaaS-industry consensus), up roughly four-fold from a ~USD 13-14 billion base, with the ecosystem having grown at a ~24% compound rate and now hosting 250+ companies above USD 10 million ARR; PE deployment into Indian SaaS hit USD 1.38 billion in the first seven months of 2025 alone, up from USD 833 million in all of 2024 [1][10]. Inc42's read is even more aggressive at a USD 70 billion opportunity by 2030 on a 31% CAGR [10].

Segment-level differentials underpin the dominant narrative. Vertical SaaS is outgrowing horizontal: vertical companies grew ~31% versus ~28% horizontal in the tracked private universe, and on a broader market read the gap widens to 24% vs 16% [1]. 3% forward CAGR [1]. 59% CAGR [1]. Equity-backed companies grew ~30% versus ~25% for bootstrapped [1]. The dominant growth narrative across analysts is threefold: (1) AI repricing of software (seats giving way to agents and outcomes), (2) the vertical-SaaS premium (deep workflows plus embedded fintech compounding revenue-per-customer 2x-5x), and (3) consumption pricing expanding addressable spend by aligning price to value.

What underpins it is the structural fact that, per ICONIQ Growth's State of Software 2025 (127 software companies, as of Q2 2025), AI-native companies are "growing 2-3x faster than top-quartile SaaS benchmarks" and "converting users to paying customers at significantly higher rates" (100% vs 75% median growth under USD 1M ARR; 40% vs 15% above USD 50M ARR) [16].



Trends

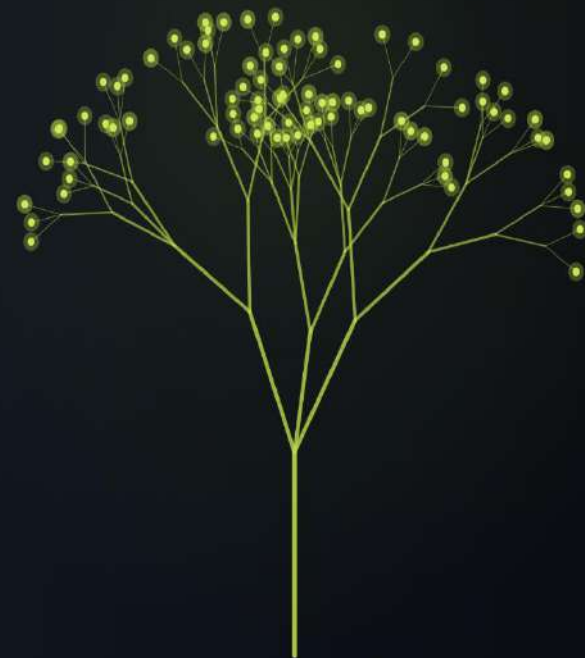
AI-native repositioning and the AI repricing of seats. The defining 2025-2026 trend is the migration of value (and price) from named-user seats toward consumption, agents, and outcomes. Gartner projects

that by 2030 at least 40% of enterprise SaaS spend will shift toward usage-, agent-, or outcome-based pricing, with seat-based vendor revenue share declining from 21% to 15% [5]. Concrete instances: Intercom's Fin AI agent at USD 0.99 per resolution scaled to eight-figure ARR at a reported 393% annualized rate; [Zendesk](#) prices AI resolutions at USD 1.50-2.00; [Salesforce](#) Agentforce charges roughly USD 2 per conversation and reported USD 800 million ARR up 169% year-over-year by February 2026, with nearly 20 trillion tokens processed; [GitHub](#) Copilot moves to usage-based billing on June 1, 2026 [5][6]. The strategic risk for incumbents is the "innovator's dilemma" of seat erosion: AI lets one user do the work of ten, compressing seat counts even as utility rises.

Gross-margin compression from inference COGS. The 80%+ gross margin that defined a generation of cloud businesses is compressing toward 52-65% for AI-heavy products. ICONIQ Capital's January 2026 State of AI snapshot puts average AI-product gross margin at 52% in 2026, up from 41% in 2024 and 45% in 2025, with inference alone consuming roughly 23% of revenue at scaling-stage AI B2B companies [6]. Bessemer's State of AI work places LLM-native gross margins at 50-60% with the best operators near 65%; bolting an AI assistant onto an USD 80/month seat can add ~USD 15 of variable cost, dropping that seat from 80% to ~65% margin overnight [6]. Public SaaS companies began disclosing inference-cost ratios as discrete MD&A line items (typically 4-9% of revenue) across Q4 2025 and Q1 2026 earnings, a structural, not cyclical, reset that mechanically compresses Rule of 40 scores by roughly the gross-margin delta [6].

The public SaaS "SaaSpocalypse" de-rating. Public SaaS multiples have collapsed from the 2021 peak. The SaaS Capital Index median EV/Revenue stood at 3.4x as of May 2026 (Aventis Advisors independently reports 3.4x for March 2026), down from a 2021 peak above 15x, while the market-cap-weighted BVP Nasdaq Emerging Cloud Index averaged 6.6x as of June 10, 2026 (the BVP index level sits -51.4% from its November 2021 peak) [7][8]. The dispersion is the story: AI-native leaders like Palantir trade near 48x while the median pure-play trades at 3.4x. Aventis attributes the mid-2025-into-2026 acceleration of the de-rating to AI-disruption fears crystallizing with the launch of agentic coding tools in February-March 2026; median public-SaaS revenue growth fell to 12.2% by Q4 2025 with a median Rule of 40 of just 28% (only 20% of 58 tracked companies cleared 40) [7].

Consumption/usage/outcome pricing shift. Beyond AI, the broader pricing migration is well underway: OpenView and industry data show 61% of SaaS companies using some usage-based component (up from ~45% in 2021), and [Maxio](#) reports 83% of AI-native SaaS companies already offer usage-based pricing [5]. Salesforce's Agentic Enterprise License Agreement (unlimited Agentforce, Data 360, and [MuleSoft](#) for



a fixed fee on 2-3 year terms) is the most visible incumbent template; New Relic's pivot to consumption at USD 150M+ ARR is the canonical mid-cap example [5].

Vendor consolidation and platform bundling. CIOs are actively cutting vendor counts: per ADAPT's CIO Edge research of 140+ CIOs, "68 percent of technology leaders are planning to consolidate their vendor landscape... a majority of organizations are targeting a 20 percent reduction in vendor count" [13]. BetterCloud's 2025 State of SaaS reports organizations average 106 SaaS tools (down from 112), while Zylo's 2025 SaaS Management Index (40M+ licenses, USD 40B spend under management) finds 51% of licenses go unused, described as "the highest waste rate ever recorded" [1][13]. The "re-bundling era" favors suite vendors ([Microsoft](#), [Salesforce](#), [SAP](#), [ServiceNow](#)) and compound startups (Rippling) over point solutions; multi-product SaaS companies are growing ~21% faster than single-product peers [13]. Redpoint's March 2026 survey of 141 CIOs found customer-service software the single most-replaced category, with AI-native challengers ([Sierra](#), [Decagon](#), Intercom Fin) winning enterprise contracts [13].

Vertical SaaS with embedded fintech. Embedded finance has flipped the revenue mix of category-leading vertical platforms. [Toast](#) generated roughly USD 5 billion in fintech/financial-services revenue in fiscal 2025 against USD 936 million in software (a 5:1 ratio, ~80% of revenue from financial services); Shopify's merchant solutions reached 73% of total revenue; ServiceTitan's December 2024 IPO mix was 71% subscription / 25% usage-based fintech / 4% services; Mindbody draws more than half its revenue from embedded financial products [15]. a16z's thesis quantifies the lift: adding fintech to vertical SaaS raises revenue-per-customer 2x-5x, against a BCG/Adyen-estimated USD 185 billion embedded-finance revenue opportunity for SaaS platforms, less than 20% captured [15].

Regulatory digitization globally. Government mandates are a durable, counter-cyclical demand driver. The EU's VAT in the Digital Age (ViDA) package was adopted March 11, 2025 and entered into force April 14, 2025, mandating intra-EU B2B e-invoicing and digital reporting on EN 16931 from July 1, 2030, with national systems harmonizing by 2035; the EU VAT gap (~EUR 93 billion) is the policy driver [14]. Germany's domestic B2B mandate phases run 2025-2028; France, Poland, Belgium, Spain, and Italy each have clearance or reporting regimes live or imminent. Latin America pioneered the clearance model (Brazil NF-e, Mexico CFDI 4.0, Argentina) where an uncleared invoice has no legal standing. India's GST e-invoicing is expanding to smaller taxpayers through 2026; Malaysia mandated e-invoicing from January 2025; Saudi Arabia's FATOORA, Egypt, and the UAE (AED 5,000/month penalties) extend the trend across MEA [14].

TRENDS · EMBEDDED FINTECH

At category leaders, fintech now outweighs software

Share of revenue from embedded financial products vs core subscription software



Drivers

Regulatory (mostly structural). E-invoicing and digital-reporting mandates (ViDA across the EU, CFDI/NF-e in LatAm, GST e-invoicing in India, FATOORA in Saudi Arabia) force net-new adoption of compliance SaaS regardless of macro, and they are non-discretionary: India denies GST input-tax credit for invoices without a valid IRN, making the software a condition of doing business [14]. Data-protection regimes (GDPR, India's DPDP Act, Brazil's LGPD) and operational-resilience rules (DORA, NIS2, the EU Data Act) drive governance, security, and vendor-risk SaaS. This driver is structural and strongest in Europe and LatAm; it translates into demand as a hard floor under regtech, e-invoicing, and compliance-led vertical SaaS.

Economic (mixed structural/cyclical). The rate climate and the end of zero-interest-rate policy reset the entire model from "growth at all costs" to efficient growth: CAC payback stretched to a median of ~18 months (Benchmarkit 2025, up from ~14 in 2023), the burn multiple became the capital-efficiency yardstick, and revenue-per-employee climbed to USD 129K-173K as AI cut headcount needs [16]. This is cyclical in its trigger but structural in its consequences. Private equity dry powder hit USD 3.7 trillion at the start of 2026, roughly doubling since 2019 (Preqin 2025 Global Private Equity Report), a structural driver of take-privates and roll-ups [13][12]. Cost-out pressure on buyers (vendor consolidation, 68% of CIOs) is cyclical-leaning. The net translation: demand shifts toward platforms and proven-ROI tools, away from discretionary point solutions.

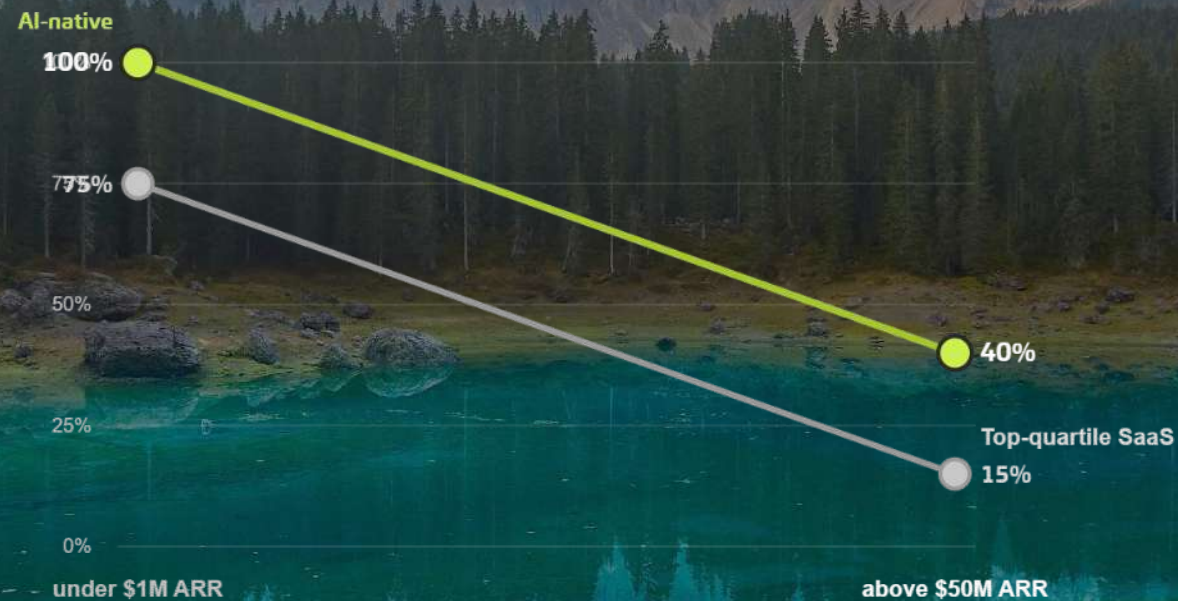
Technological (structural). AI is the dominant technological driver, both creating new categories (AI-native application layer: [Cursor](#), [Glean](#), Harvey, [Sierra](#)) and threatening incumbents (Gartner: 35% of point-product SaaS tools replaced or absorbed into agent ecosystems by 2030) [5]. Cloud-native architecture, API-first composability, and embedded fintech infrastructure (Stripe-adjacent rails) are enabling structural drivers. Regional nuance: AI adoption is fastest in North America; APAC and India lean on mobile-first and cost-efficient architectures. This translates into demand as both a greenfield AI-SaaS market (USD 22.21 billion in 2025, 36.59% CAGR) and a re-platforming cycle within incumbents.

Customer-driven (mixed). Buyers want fewer vendors, faster time-to-value, measurable ROI, and AI built in. Vendor consolidation (structural: governance and security imperatives) and the demand for outcome alignment (structural: buyers want risk-sharing, with 43% citing outcome/risk-share pricing as a significant purchase factor) reshape procurement [5][13]. SMB digitization globally and prosumer/creator subscription adoption are structural secular drivers. The translation: demand concentrates on platforms with embedded workflows, high switching costs, and credible AI roadmaps.

TRENDS · AI-NATIVE VS BENCHMARK

AI-native firms grow 2–3× the top-quartile SaaS pace

Median YoY growth by ARR stage (ICONIQ State of Software); the gap widens with scale



AI-native names also convert trials to paid at higher rates and grow ~3× faster with ~5 pts lower gross margin.

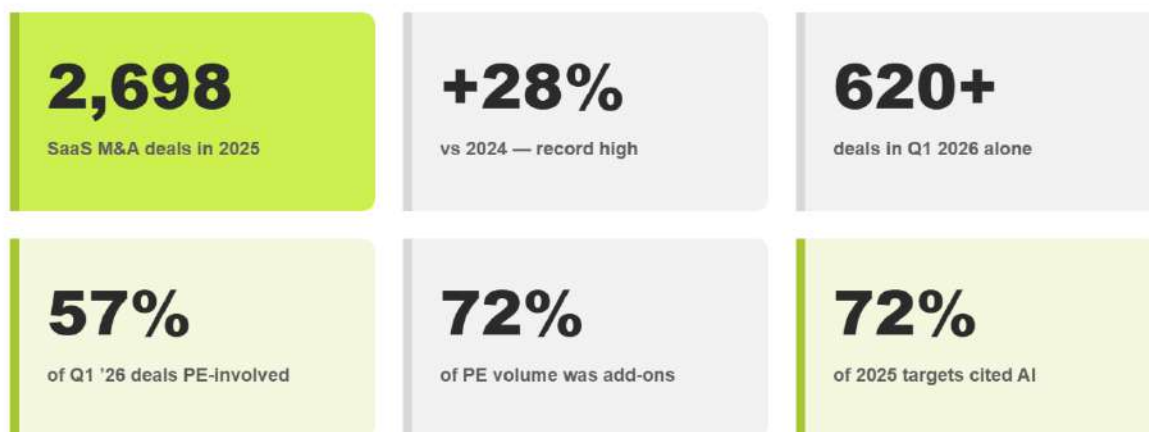
Key Topics and Insights

Competitive dynamics and concentration. The enterprise SaaS market is moderately concentrated at the top and highly fragmented in the long tail: the top 10 vendors account for roughly 35% of total market revenue, with [Microsoft](#) leading (USD 245.1 billion total FY2025 revenue, cloud +16%), [Oracle](#) (USD 53 billion, cloud 77%+ of total, +25%), [SAP](#) (EUR 26.7 billion cloud revenue through nine months of 2025, EUR 15.7 billion current cloud backlog), and [Salesforce](#) (93%+ subscription) anchoring the suite tier [4]. Below the top tier, ~30,800 companies compete, leaving enormous roll-up runway in fragmented verticals.

M&A · THE 2025-26 DEAL PULSE

A record year, and private equity is driving it

2,698 SaaS deals closed in 2025 — the highest annual count on record (Software Equity Group)



Add-ons made up ~72% of PE volume; mega take-privates (Dayforce \$12.3bn, OneStream \$6.4bn) led by value.

Consolidation patterns. 2,698 SaaS M&A transactions closed in 2025, a 28% jump from 2024 and the highest annual count on record (Software Equity Group); Q1 2026 sustained the pace at 620+ deals worth USD 95 billion+ in aggregate SaaS/software value [12][13]. PE was involved in nearly 57% of SaaS transactions in Q1 2026, with add-ons ~72% of PE volume [12]. Take-privates dominate the mega-tier: Thoma Bravo's USD 12.3 billion [Dayforce](#) (closed February 2026, 32% premium), Hg's USD 6.4 billion [OneStream](#) (closed April 2026, 31% premium), Vista/Blackstone's USD 8.4 billion [Smartsheet](#) (closed January 2025, ~12x EV/Revenue), and Permira/Warburg Pincus's USD 8.4 billion Clearwater Analytics (announced December 2025, 47% premium) [12]. [Thoma Bravo](#) alone closed roughly USD 42 billion of acquisitions in 2025 (seven USD 1bn+ deals) with USD 184 billion AUM [12]. Vertical SaaS was 46% of Q2 2025 SaaS M&A; Vista deployed USD 12.4 billion into vertical roll-ups through 2024 [12]. Strategic AI

tuck-ins ([ServiceNow/Moveworks](#) USD 2.85bn, [Workday/Sana](#) USD 1.1bn) and AI mega-deals ([Google/Wiz](#) USD 32bn, Palo Alto/CyberArk USD 25bn, [IBM/Confluent](#) USD 11bn) define the corporate-development mandate: buy AI capability and training data, not just recurring revenue (72% of 2025 SaaS M&A targets referenced AI in positioning) [12][13].

Pricing pressure and the AI repricing. The seat-to-usage shift (Gartner 40% by 2030) plus inference COGS compression (ICONIQ 52% AI gross margin) is squeezing the margin-and-multiple math simultaneously; SaaS price inflation ran 8.7-11.4% year-over-year against ~2.7% G7 inflation, with price increases functioning as the new growth lever ([Salesforce](#) price increases reportedly equal 72% of go-forward growth) [16][5][6].

Revenue-per-employee / efficiency shift. The efficiency era is structural: best-in-class ARR per FTE jumped 42-50% for scaled companies (to USD 350K-400K), 94% of [Bessemer](#) Cloud 100 companies were profitable by end-2025, and AI-native companies grow ~3x faster with ~5 points lower gross margin [16]. The two strongest predictors of durable, profitable growth remain CAC payback and net revenue retention.

Customer procurement shifts. The re-bundling era is real: 68% of CIOs plan vendor consolidation in 2026 (Gartner found the average enterprise cut SaaS vendor count 23% over the prior 18 months), 45% of AI budgets are replacing existing software budgets rather than adding to them, and IT budget growth is decelerating to ~3.4% in 2026 [13]. Net implication for an M&A thesis: platforms, compound startups, and compliance-embedded vertical leaders win share; undifferentiated point solutions are consolidation fodder, trading at 3-4x ARR while quality assets with 120%+ NRR command 7-12x [7][12].



Segmentation

Segmentation

Executive Summary

Screening a USD 400bn, ~30,800-company industry requires segmentation on economically meaningful axes, not the generic CRM/ERP/HR categories vendor taxonomies use. Eight axes (deployment, buyer type, regulatory intensity, switching cost, vertical vs horizontal, ACV, pricing model, buying behavior) collapse into one valuation-driving dichotomy: **Commodity/Compliance-Led** segments that win on price, certification and reliability (defensibility from regulatory lock-in, 3-6x ARR, PE roll-up economics) versus **High-Complexity/Value-Added** segments that win on deep workflow embedding, proprietary data, network effects or AI capability (7-15x-plus multiples, strategic and growth-equity demand). Across eleven segments, vertical SaaS with embedded fintech is the core long thesis (95 percent-plus gross retention, 2x-5x revenue-per-customer), devtools and data infrastructure is the most defensible horizontal category (consumption pricing, AI workload pull, best-in-class NRR), and the AI-native application layer is the highest-growth, highest-variance segment (triple-digit growth against 52 percent gross margins and 25-127x ARR valuations). The critical success factor splits accordingly: distribution efficiency plus an unimpeachable certification stack at the commodity end, depth of workflow ownership plus a defensible data or AI moat at the value-added end.

- **Two groupings:** Commodity/Compliance-Led derives pricing power from regulation and switching cost; High-Complexity/Value-Added derives it from proprietary data, deep integration and AI capability, the more defensible end for investors.
- **Vertical SaaS:** [Veeva](#), [Toast](#), [ServiceTitan](#), [Procore](#) and Guidewire own end-to-end regulated workflows with 95 percent-plus GRR; embedded fintech ([Toast](#) at ~80 percent of revenue from financial services) is the core long thesis and the most active PE roll-up zone.
- **DevTools and data infra:** [Datadog](#), [Snowflake](#), [Databricks](#) and [MongoDB](#) run consumption pricing aligned to AI workload growth, conferring the highest NRR among horizontals and premium multiples on data gravity.
- **AI-native layer:** [Cursor](#) ran USD 100m to USD 2bn ARR in ~13 months, [Glean](#) and Harvey to ~USD 200m; explosive growth but 52 percent margins, inference-cost risk and 25-127x valuations make this the highest-variance segment.
- **HR and HCM:** compound platforms (Rippling near USD 1bn run-rate, Deel ~USD 800m) win via land-and-expand and embedded payroll fintech, with multi-country compliance the moat and clear PE appetite ([Dayforce](#) take-private).
- **Horizontal CRM and ERP:** [Salesforce](#), [Microsoft](#), [SAP](#) and [Oracle](#) anchor mission-critical systems of record with very high switching cost; the deal action is mid-market and vertical tuck-ins, not displacing the giants.
- **Regional champions:** serial acquirers ([Visma](#) at EUR 2.96bn ARR, 15 deals in H1 2025) and global-first cohorts ([Zoho](#), [Freshworks](#)) win on local compliance and distribution, a fertile cross-border roll-up zone.
- **B2C and prosumer:** Duolingo (USD 1bn revenue, ~73 percent margin) and Spotify (281m subscribers, ~31 percent margin) show the spread; AI premium tiers drive ARPU while engagement and churn are the swing variables.

Segmentation Logic

Effective M&A screening of a USD 400 billion, ~30,800-company industry requires segmentation on economically meaningful axes rather than the generic application categories (CRM, ERP, HR) that vendor taxonomies use. We segment on eight axes that predict defensibility, margin, and exit multiple: (1) deployment/architecture (multi-tenant SaaS vs single-tenant vs AI-native inference-heavy); (2) buyer type (enterprise IT, line-of-business, developer/PLG, consumer); (3) regulatory intensity (non-discretionary compliance-bound vs discretionary); (4) switching cost (data-gravity and workflow lock-in vs low-friction); (5) vertical vs horizontal; (6) ACV / customer size (USD <25K SMB, USD 25K-100K mid-market, USD 100K+ enterprise); (7) pricing model (seat vs usage vs outcome); and (8) buying behavior (top-down committee vs bottoms-up adoption).

These axes collapse into a single strategic dichotomy that drives valuation: "Commodity/Compliance-Led" segments versus "High-Complexity/Value-Added" segments. Commodity/Compliance-Led segments win on price, certification stack, and reliability; their defensibility comes from regulatory lock-in and switching friction rather than feature differentiation, and they tend toward consolidation and PE roll-up economics (3-6x ARR, stable GRR, modest growth). High-Complexity/Value-Added segments win on deep workflow embedding, proprietary data, network effects, or AI capability; they command premium multiples (7-15x+ for the best) and attract strategic and growth-equity buyers.

The critical success factor (CSF) differs accordingly: in Commodity/Compliance-Led segments the CSF is distribution efficiency plus an unimpeachable certification stack; in High-Complexity/Value-Added segments the CSF is depth of workflow ownership plus a defensible data or AI moat.

COMPETITIVE · THE LONG TAIL

~30,800 SaaS companies — 17,000 of them in the US

Each icon ≈ 1,000 companies; the US hosts over half the world's SaaS vendors



 **United States — ~17,000 vendors (55%)**

 **Rest of world — ~13,800 vendors**

Segment Table

Segment Name	Strategic Logic	Critical Success Factors	Representative Examples	Source Refs	Key Trends
Horizontal CRM	High-Complexity/Value-Added	Ecosystem/AppExchange, data gravity, AI agents	Salesforce, HubSpot, Microsoft Dynamics	[1][2][3]	Agent repricing; SMB land; suite bundling
Horizontal ERP/Finance	High-Complexity/Value-Added	Mission-criticality, switching cost, backlog	SAP, Oracle NetSuite, Workday	[1][2]	Cloud-backlog conversion; AI copilots
HR / HCM / Payroll	Mixed	Compliance breadth, multi-country payroll, unified data	Workday, Rippling, Deel, Personio	[1][4][8]	Compound land-and-expand; embedded payroll
Finance / Billing / Payments-adjacent	Commodity-to-Value	Money-movement trust, embedded rails	Intuit, Bill.com, Stripe-adjacent	[1]	Embedded fintech attach; usage monetization
Marketing / Content	Mixed	Creative+data suite, AI generation	Adobe, HubSpot	[1][2]	GenAI repricing; seat compression risk
Collaboration / Productivity	Commodity-to-Value	Network effects, bundling resistance	Atlassian, Slack/Salesforce, Notion	[2][8]	Re-bundling pressure; AI assistants
DevTools / Data Infra	High-Complexity/Value-Added	Consumption economics, developer love, data gravity	GitHub/Microsoft, Datadog, Snowflake, Databricks, MongoDB	[1][2]	Usage scaling; AI workload pull; high NRR
Vertical SaaS (regulated/operational)	High-Complexity/Value-Added	Workflow ownership + embedded fintech + compliance	Veeva, Toast, ServiceTitan, Procore, Guidewire, Shopify, Clio	[9][7]	Embedded finance 2-5x RPC; PE roll-ups; 95%+ GRR
AI-Native Application Layer	High-Complexity/Value-Added (high-risk)	Model/eval engineering, distribution velocity, inference discipline	OpenAI, Anthropic, Cursor, Glean, Sierra, Decagon, Harvey	[9]	Triple-digit growth; 52% gross margin; outcome pricing
Regional Champions	Mixed	Local compliance, language, SMB distribution	Sage, Visma, Cegid, Zoho, Freshworks, Canva	[5][6]	Buy-and-build; local e-invoicing
B2C / Prosumer Subscription	Mixed	Engagement, ARPU expansion, freemium funnel	Spotify, Duolingo, Canva, Adobe, Notion	[10]	AI premium tiers; emerging-market growth

Segment-by-Segment Analysis

Horizontal CRM. Segment identity: the system-of-record for customer relationships, the most mature horizontal category. Demand profile: discretionary but deeply embedded; pricing power is high for the incumbent ([Salesforce](#) at 93%+ subscription, AppExchange ecosystem lock-in) and moderate for challengers. Real-world evidence: Salesforce's Agentforce reached USD 800 million ARR up 169% by February 2026, demonstrating the AI-agent repricing in action; [HubSpot](#) anchors the SMB/mid-market with PLG-inflected motion [2][3]. M&A relevance: high barrier to entry at the top (ecosystem, data gravity), but the AI-agent threat ([Sierra](#), [Decagon](#) in service) and seat compression create acquisition opportunities in adjacencies; scalable, high-margin, but facing the seat-to-outcome transition.

SIZE & GROWTH · INDIA

Indian SaaS ARR on a ~4× run to 2030

From a ~\$13–14bn base to a projected \$50bn by 2030 (~24% CAGR); 250+ firms above \$10M ARR



PE deployment into Indian SaaS hit \$1.38bn in the first seven months of 2025, up from \$833M in all of 2024.

Figure 7. India SaaS ARR: a roughly 4x run from about \$13-14bn to a projected \$50bn by 2030.

Horizontal ERP / Finance. Segment identity: mission-critical financial and operational systems of record. Demand profile: among the least discretionary horizontal categories (you cannot run a company without GL, close, and consolidation), conferring exceptional pricing power and retention. Real-world evidence: [SAP](#) reported EUR 26.7 billion cloud revenue over nine months of 2025 with EUR 15.7 billion current cloud backlog; Oracle's cloud is 77%+ of total and growing 25% [2]. M&A relevance: very high barrier to entry, very high switching cost, premium margins; the deal action is in mid-market and vertical ERP tuck-ins rather than displacing the giants.

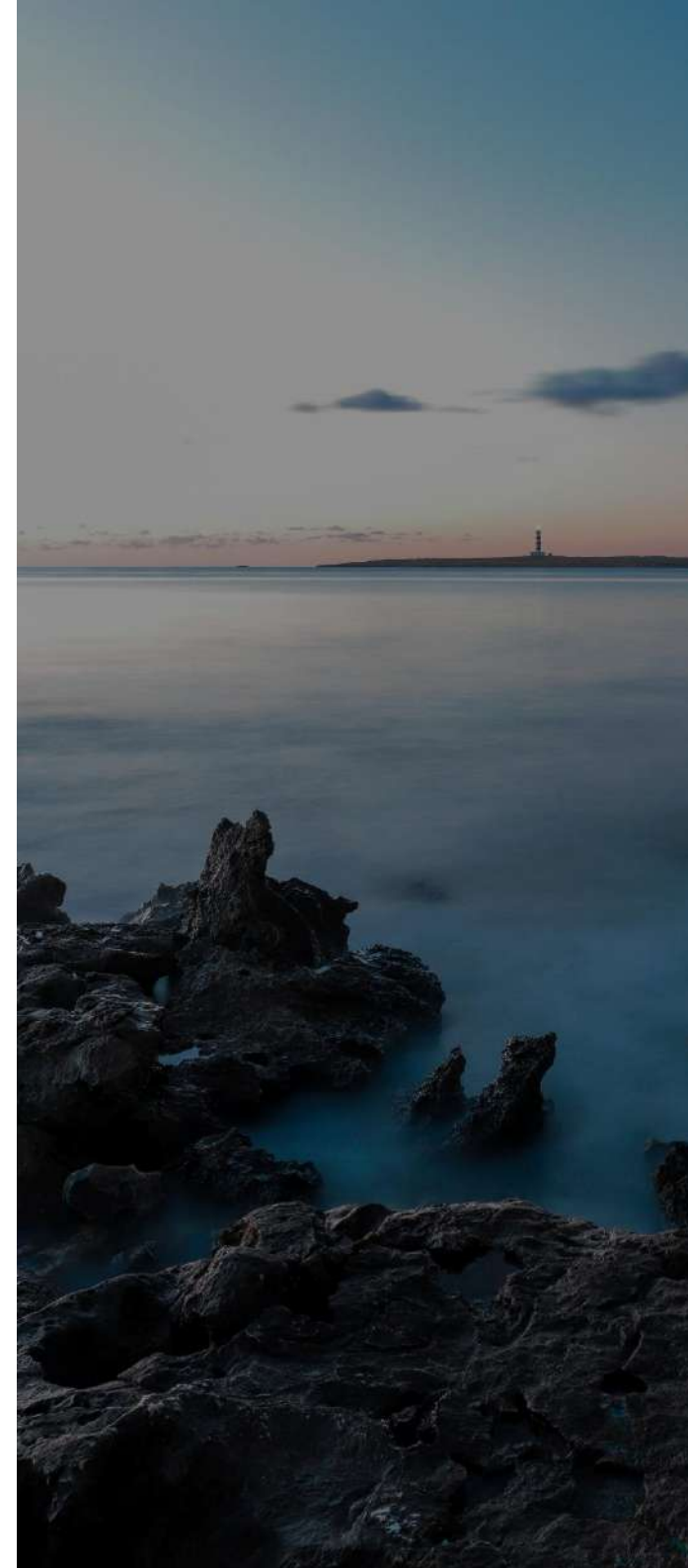
HR / HCM / Payroll. Segment identity: workforce systems spanning payroll, benefits, and IT/finance for the compound players. Demand profile: regulatory-driven (multi-country payroll compliance) plus risk-driven, supporting strong pricing power. Real-world evidence: Rippling hit roughly USD 1 billion annualized revenue by March 2026 (up from USD 570M in early 2025) at a USD 16.8 billion valuation, with 10+ product lines each above USD 1M ARR and a unified Employee Graph creating high switching costs; Deel reached an ~USD 800M run rate at a USD 12 billion valuation; [Dayforce](#) was taken private by [Thoma Bravo](#) for USD 12.3 billion [4][7]. M&A relevance: high scalability via land-and-expand, embedded-payroll fintech optionality, and clear PE appetite; the compound-startup model is the offensive thesis, multi-country compliance the moat.

Finance / Billing / Payments-adjacent. Segment identity: SMB accounting, AP/AR automation, and billing infrastructure. Demand profile: compliance-led (tax, e-invoicing) at the low end, value-added at the billing-infrastructure layer. Real-world evidence: Intuit anchors SMB finance; Bill.com automates AP/AR; e-invoicing mandates (ViDA, CFDI) convert this from discretionary to non-discretionary in mandated geographies [1]. M&A relevance: embedded-fintech attach is the value-creation lever; transaction/usage monetization lifts revenue-per-customer; moderate barrier, high switching cost once money movement is embedded.

Marketing / Content. Segment identity: demand generation, creative, and martech. Demand profile: discretionary and budget-cyclical, the most exposed to seat compression and GenAI substitution. Real-world evidence: Adobe's creative suite faces GenAI disruption even as it ships GenAI features; HubSpot's marketing hub competes on integrated suite economics [1][2]. M&A relevance: lower defensibility for point solutions (martech is a classic consolidation/sunset category), higher for integrated suites; screen for AI-native disruption risk before underwriting.

Collaboration / Productivity. Segment identity: work-management, messaging, and knowledge tools. Demand profile: discretionary, network-effect-driven, and squarely in the re-bundling crosshairs. Real-world evidence: [Atlassian](#) and Notion retain strong bottoms-up adoption, but CIO consolidation (68% in 2026) targets overlapping collaboration tools first [2][8]. M&A relevance: network effects protect leaders; the long tail is consolidation fodder; AI assistants are both a threat (seat compression) and a re-bundling defense.

DevTools / Data Infrastructure. Segment identity: the developer and data-platform layer, the highest-NRR horizontal category. Demand profile: consumption-priced and structurally aligned to AI workload growth, conferring strong expansion economics. Real-world evidence: [Datadog](#) reached USD 886 million quarterly revenue (Q3 2025, +28%) with ~4,060 customers above USD 100K ARR and USD 3.43 billion FY2025 revenue; [Snowflake](#), [Databricks](#), and [MongoDB](#) anchor the data layer with usage models that benefit from AI inference and training pull [2]. M&A relevance: high barrier (technical depth, data gravity),



best-in-class NRR, premium multiples; the AI workload tailwind makes this the most defensible horizontal segment.

Vertical SaaS (regulated/operational). Segment identity: industry-specific platforms that own end-to-end workflows in healthcare/life-sciences, restaurants, trades, construction, insurance, commerce, and legal. Demand profile: regulatory- and risk-driven with embedded operational dependency, the strongest pricing power and retention in the entire market. Real-world evidence: [Veeva](#) posted USD 2.36 billion total revenue serving only life sciences; [Toast](#) crossed USD 2 billion ARR in fiscal 2025 with ~80% of revenue from financial services and 164,000+ restaurant locations; [ServiceTitan](#) reported 95%+ gross retention at its USD 9 billion IPO; [Procore](#) crossed USD 780 million serving only construction; Guidewire anchors P&C insurance; Clio leads legal [9][7]. M&A relevance: highest barrier to entry (deep workflow plus compliance plus embedded fintech), 2x-5x revenue-per-customer uplift from fintech, 95%+ GRR, and the most active PE roll-up zone (46% of Q2 2025 SaaS M&A; Vista USD 12.4 billion deployed); this is the core long thesis.

AI-Native Application Layer. Segment identity: companies built model-first, repricing software around inference, agents, and outcomes. Demand profile: discretionary but explosively growing, with outcome-aligned pricing that expands TAM. Real-world evidence: [Anysphere/Cursor](#) scaled from USD 100M ARR (January 2025) to USD 1 billion (November 2025) to USD 2 billion (February 2026), the fastest application-layer SaaS ramp ever, last valued at USD 29.3 billion (November 2025) and reportedly raising at USD 50 billion+; [Glean](#) doubled to USD 200M ARR at a USD 7.2 billion valuation; Harvey reached ~USD 200M ARR at an USD 11 billion valuation; [Sierra](#) hit USD 100M ARR in seven quarters; [Decagon](#) stepped from USD 1.5 billion (June 2025) to USD 4.5 billion (March 2026) valuation [9]. M&A relevance: highest growth and strategic-buyer demand ([OpenAI/Windsurf](#) ~USD 3 billion), but 52% gross margins, inference-cost risk, and 25-127x ARR valuations make this the highest-risk, highest-variance segment; screen for inference discipline and proprietary data/eval moats.

B2C / Prosumer Subscription. Segment identity: consumer and prosumer subscription software spanning edtech, creator tools, wellness, and media. Demand profile: discretionary, engagement-driven, with ARPU expansion via premium tiers the key value lever. Real-world evidence: Duolingo crossed USD 1 billion revenue in 2025 (41% Q2 growth, 46% subscription growth, ~73% gross margin, 10M+ paid subscribers, Max AI tier driving ARPU); Spotify reached 281 million premium subscribers (+12%) with EUR 4.3 billion quarterly revenue at 31.6% gross margin; [Canva](#) and Notion bridge prosumer-to-B2B [10]. M&A relevance: lower gross margins than B2B (Spotify ~31%), engagement/churn risk, but Duolingo-style 70%+ margins and AI premium tiers show the defensible end; emerging-market growth (India, Brazil) is the expansion driver.

Canva





End-Users

End-Users

Executive Summary

Global SaaS demand resolves into six end-user profiles distinguished by regulatory exposure, risk and scale, and criticality determines pricing power and price elasticity. The **large enterprise** runs an average of 473 applications and treats systems of record as existential, buying through committee-based, security-gated procurement; the mid-market buys consolidated suites and compound platforms on time-to-value; the SMB buys self-serve and price-led with high logo churn; the regulated enterprise (healthcare, financial services, public sector) buys non-discretionary, certification-gated software where no SOC 2, HIPAA or FedRAMP means no deal; the developer/PLG buyer adopts bottoms-up on consumption pricing; and the consumer/prosumer buys discretionary, engagement-driven subscriptions. Go-to-market mirrors the split, from PLG and self-serve for SMB to trust-led enterprise selling and hyperscaler marketplaces for regulated buyers. Pricing is mid-migration from seat to usage and outcome (Gartner: 40 percent by 2030), and retention is engineered through embedded workflows, with median NRR at 101 to 106 percent (115 to 125 percent enterprise, 90 to 105 percent SMB) the metric that underwrites the whole model.

- **Large enterprise:** runs ~473 applications and treats ERP, CRM and HCM as existential; ranks security, integration and reliability first, with very high switching costs and low price elasticity for systems of record.
- **Regulated enterprise:** in healthcare, financial services and public sector the certification stack (SOC 2, HIPAA, FedRAMP, DORA/NIS2) is a binary gate; demand is non-discretionary and price elasticity is low because compliance is non-negotiable.
- **Stated vs revealed:** RFPs state security and features drive decisions, but the revealed winner in 2026 is often the platform the buyer is already consolidating toward, as 54 percent of CIOs run active consolidation programs.
- **Developer/PLG:** bottoms-up adoption converts free tiers to enterprise contracts ([Cursor](#), [Datadog](#), [Snowflake](#)); the product is the marketing and usage-based pricing aligns expansion to value.
- **Pricing shift:** seat pricing undervalues software when one user plus an agent does the work of ten, so vendors reprice around resolutions (Intercom USD 0.99), conversations (Agentforce ~USD 2) and FTE-equivalent agents.
- **Retention benchmarks:** median NRR runs 101 to 106 percent (115 to 125 percent enterprise, 90 to 105 percent SMB), GRR ~88 to 91 percent, and CAC payback ~15 to 18 months; only ~11 to 30 percent of companies clear the Rule of 40.
- **Embedded-fintech gap:** vertical SaaS outside restaurants, commerce and trades leaves 80 percent-plus of a USD 185bn embedded-finance opportunity uncaptured, the clearest value-creation lever for a PE platform.
- **Consolidation gap:** 68 percent of CIOs are cutting vendors but Zylo finds 51 percent of licenses unused; SaaS-management platforms (BetterCloud, Zylo, Vendr) are the tooling that owns the consolidation workflow.

Final User Profiles and Criticality

Large enterprise (10,000+ employees). Why they need SaaS and how critical: SaaS is the operating substrate for the modern enterprise, with large organizations running an average of 473 applications and treating systems of record (ERP, CRM, HCM) as existentially critical (compliance, financial reporting, market access) [1]. Specific challenges: vendor sprawl, integration complexity, cross-border compliance, shadow IT (30-40% of apps unsanctioned), and security attack surface. How challenges shape purchasing: they drive committee-based, security-gated procurement, vendor consolidation (68% of CIOs in 2026), and a preference for platforms over point solutions. Key buying criteria (ranked): 1) security/certification stack and data governance, 2) integration and platform fit, 3) reliability/SLAs, 4) AI roadmap, 5) total cost. Switching costs: very high (data gravity, integrations, change management); price elasticity: low for systems of record, moderate for discretionary tools.

Mid-market (1,000-10,000 employees). Why they need SaaS: SaaS enables enterprise-grade capability without enterprise IT headcount; mid-market firms average ~217 applications [1]. Specific challenges: limited IT staff, cost/time pressure, the need for fast time-to-value, and growing compliance burden as they scale. How challenges shape purchasing: faster cycles than enterprise, more receptive to suites and compound platforms (Rippling), strong ROI scrutiny. Key buying criteria: 1) time-to-value, 2) price/ROI, 3) breadth (consolidation), 4) ease of administration, 5) certifications. Switching costs: moderate-high; price elasticity: moderate.

SMB (under 1,000 employees). Why they need SaaS: SaaS is the only viable software model for SMBs (no capex, no IT team); it provides market access and automation (81% of organizations automate at least one process via SaaS) [1]. Specific challenges: budget constraints, churn-inducing cost sensitivity, limited technical sophistication. How challenges shape purchasing: self-serve/PLG, low-touch, price-led; high logo churn (SMB monthly logo churn ~4.2%). Key buying criteria: 1) price, 2) ease of use, 3) speed to value, 4) support, 5) integrations. Switching costs: low-moderate; price elasticity: high.

Regulated enterprise (healthcare, financial services, public sector). Why they need SaaS and criticality: for these buyers SaaS adoption is gated by, and driven by, compliance, risk, and reputation; the software is non-discretionary where it enables a mandated function (e-invoicing, HIPAA-compliant records, financial reporting). Specific challenges: certification requirements (HIPAA, FedRAMP, SOC 2, ISO 27001, GDPR, DORA/NIS2), data residency/sovereignty, audit trails, and slow procurement. How challenges shape purchasing: certification stack is a hard gate (no SOC 2/FedRAMP, no deal), sovereignty drives sovereign-cloud preference (Gartner: sovereign cloud IaaS USD 80 billion in 2026, up 35.6%), and risk-aversion lengthens cycles. Key buying criteria: 1) certification/compliance stack, 2) data residency/sovereignty, 3) security, 4) auditability, 5) vendor viability. Switching costs: very high (compliance re-certification); price elasticity: low (compliance is non-negotiable).

Developer / PLG buyer. Why they need SaaS and criticality: developers are both users and buyers of devtools and infrastructure, where adoption is bottoms-up and consumption-priced; the tooling is mission-critical to shipping software. Specific challenges: tool fragmentation, cost variability under usage pricing, and AI-driven workflow change. How challenges shape purchasing: try-before-buy, free tiers, self-serve expansion to team/enterprise contracts (Cursor's bottoms-up-to-enterprise motion). Key buying criteria: 1) product quality/developer experience, 2) performance, 3) usage-based pricing transparency, 4) integrations/extensibility, 5) security. Switching costs: moderate (data gravity in data infra is high, IDE/tooling lower); price elasticity: moderate, rising with usage-pricing visibility.

Consumer / prosumer. Why they need SaaS and criticality: discretionary subscription software for learning, creating, and media; criticality is low (entertainment/productivity) but engagement-driven retention is the business. Specific challenges: subscription fatigue, churn, ARPU pressure. How challenges shape purchasing: freemium funnels, app-store distribution, AI premium tiers (Duolingo Max). Key buying criteria: 1) engagement/value, 2) price, 3) brand, 4) AI features, 5) cross-platform. Switching costs: low; price elasticity: high.

User Expectations and Buying Criteria

What users value most diverges sharply between non-discretionary (regulated) and discretionary buyers. For highly regulated, non-discretionary users, the certification stack is the threshold criterion: SOC 2 Type II, ISO 27001, HIPAA, FedRAMP, GDPR, and increasingly DORA/NIS2 compliance function as binary gates rather than differentiators; geographic footprint and data residency follow, then security depth, then price.

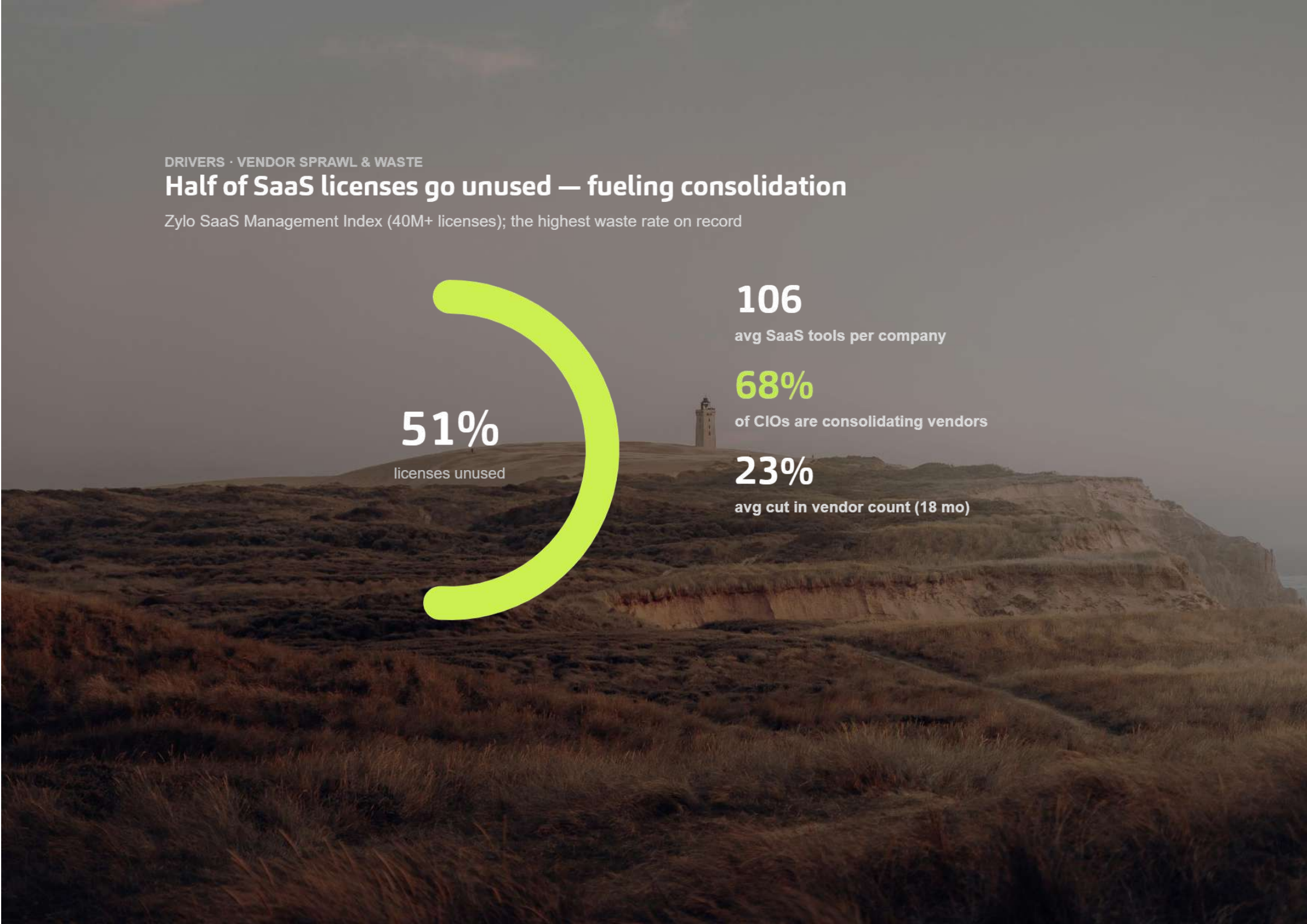
These buyers will pay a premium for compliance and viability, and they revealed-prefer incumbents with audit history over cheaper challengers. For discretionary users (SMB, prosumer, line-of-business), price, speed-to-value, and ease-of-use dominate, with certifications mattering only as hygiene.

The stated-versus-revealed gap is material. In RFPs, enterprise buyers state that security, compliance, and feature completeness drive decisions; what actually wins (revealed) is often integration fit, executive relationships, AI roadmap credibility, and the platform-consolidation story, plus the incumbency advantage of being the vendor the buyer is consolidating toward. In 2026 the consolidation dynamic sharpens this: 54% of CIOs run active consolidation programs, so the revealed winner is frequently "the platform we already use that can absorb this function," not the best point solution [6].

DRIVERS · VENDOR SPRAWL & WASTE

Half of SaaS licenses go unused — fueling consolidation

Zylo SaaS Management Index (40M+ licenses); the highest waste rate on record



51%

licenses unused

106

avg SaaS tools per company

68%

of CIOs are consolidating vendors

23%

avg cut in vendor count (18 mo)

Go-to-Market Strategies

Large enterprise: enterprise sales plus hyperscaler marketplaces plus SIs. The motion is top-down, committee-sold, multi-quarter, with security review and proof-of-concept gates. Value proposition centers on platform consolidation, governance, and AI-at-scale. Partnerships are decisive: hyperscaler marketplaces ([AWS](#), Azure, [Google](#) Cloud) let buyers draw down committed cloud spend, and SIs ([Accenture](#), [Deloitte](#)) drive implementation. Marketing is trust-based: analyst positioning (Gartner Magic Quadrant), reference customers, and security attestations over performance ads.

Mid-market: hybrid sales plus suite/compound platform. Inside sales and product-qualified leads feed a faster cycle; the value proposition is enterprise capability without enterprise overhead. Compound platforms (Rippling) and suites win by collapsing multiple tools. Partnerships with regional resellers and marketplaces accelerate reach.

SMB: product-led growth plus self-serve plus channel. PLG dominates: free tier, self-serve onboarding, in-product expansion. Low CAC is essential given high churn and price sensitivity (SMB CAC payback target 8-12 months). Marketing is content/SEO-led; channel partners (accountants for finance SaaS, agencies for martech) extend distribution.

Regulated enterprise: trust-led enterprise sales plus compliance-gated marketplaces. The motion leads with the certification stack and references in-vertical; FedRAMP/HIPAA/DORA attestations are the opening qualification. Sovereign-cloud deployment options and SI partnerships with security practices are differentiators. Sales cycles are longest; the value proposition is risk reduction and audit-readiness, not features.

Developer / PLG: bottoms-up product-led plus usage expansion. Free/low-cost individual adoption converts to team then enterprise contracts ([Cursor](#), [Datadog](#), [Snowflake](#)). Developer marketing (docs, communities, open source) replaces traditional demand gen; the product is the marketing. Usage-based pricing aligns expansion to value.

Consumer / prosumer: freemium plus app-store plus brand. Mass-market freemium funnels with app-store distribution and brand-led marketing; conversion to premium and AI tiers drives ARPU (Duolingo Max, Spotify Premium). Engagement mechanics (streaks, gamification) substitute for sales.

DRIVERS · VENDOR SPRAWL & WASTE

Half of SaaS licenses go unused — fueling consolidation

Zylo SaaS Management Index (40M+ licenses); the highest waste rate on record



51%

licenses unused

106

avg SaaS tools per company

68%

of CIOs are consolidating vendors

23%

avg cut in vendor count (18 mo)

Pricing Logic and Retention Mechanics

Conceptually, SaaS pricing spans value-based, subscription (seat), usage/consumption, and outcome models, and the industry is mid-migration from seat to usage and outcome. Gartner projects at least 40% of enterprise SaaS spend shifts to usage-, agent-, or outcome-based pricing by 2030, with seat-based vendor revenue share falling from 21% to 15% [2]. The seat-to-usage shift is driven by AI: when one user plus an agent does the work of ten, seat pricing undervalues the software, so vendors reprice around resolutions (Intercom USD 0.99/resolution), conversations ([Salesforce](#) Agentforce ~USD 2), or FTE-equivalent agents (USD 800-2,000+/month positioned against a USD 60K salary anchor) [2][3].

Retention is engineered through embedded workflows and switching costs: vertical platforms that own compliance, payments, and operational data ([Toast](#), [ServiceTitan](#) at 95%+ GRR) make leaving operationally infeasible; horizontal data-gravity ([Snowflake](#), [Datadog](#)) and unified data models (Rippling's Employee Graph) achieve the same. ChurnZero's 2025 Customer Revenue Leadership Study finds teams using customer-success platforms average 100% NRR versus 94% without, and McKinsey's analysis of 100+ B2B SaaS companies found top-quartile NRR of 113% versus 98% for the bottom quartile [7].

Quantified global benchmarks (2024-2025, flagged where pre-Q4 2024): NRR median sits at roughly 101-106% across private B2B SaaS (Benchmarkit/[Maxio](#) median slid from ~105% in 2021 to ~101% in 2024; SaaS Capital and ChartMogul cluster 104-106%). By segment, enterprise (USD 100K+ ACV) runs ~115-125% (118% median commonly cited), mid-market ~108%, and SMB (under USD 25K ACV) ~90-105% (97% median).

GRR median is ~88-91%, sliding from ~90% in 2022 to ~88% in 2024 (KeyBanc ~86% in 2023, FLAG: pre-Q4 2024). 2% monthly, far higher than enterprise. CAC payback medians ~15-18 months (Benchmarkit 2025 ~18, up from ~14 in 2023), splitting SMB 8-12, mid-market 14-18, enterprise 18-24. Only ~11-30% of companies clear the Rule of 40, with the median public-SaaS score ~28% in Q4 2025.

Revenue per employee runs USD 129K-173K, with best-in-class scaled ARR per FTE at USD 350K-400K. Expansion now drives ~40% of new ARR (up from ~30% in 2021), rising to 50-67% above USD 50M ARR. Source firms: SaaS Capital, [Bessemer](#) Cloud Index, Benchmarkit, ChartMogul, ICONIQ, KeyBanc/Sapphire, High Alpha, ChurnZero, McKinsey [7].



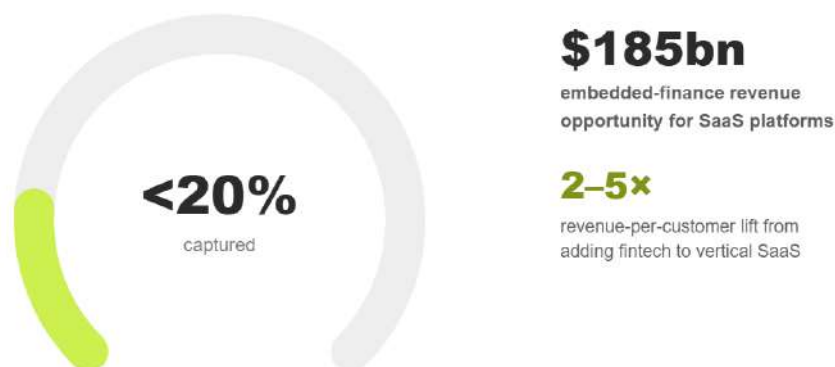
Strategic GTM Gaps and M&A Relevance

Gap 1: Usage/outcome billing infrastructure for incumbents. Underlying end-user pain: enterprises and vendors cannot cleanly meter, forecast, and bill for AI agents and consumption, the FinOps/variable-cost problem. The FinOps Foundation's 5th annual State of FinOps survey (861 respondents, ~USD 69B cloud spend) found AI spending "is now managed by the majority of respondents (63% up from 31% last year)" [7]. Capability that could fill it: metering/billing platforms (Metronome, m3ter-style). M&A/hiring move: a suite vendor or billing incumbent (Stripe-adjacent, Bill.com) acquires a usage-metering engine to own the agentic-billing layer; hire billing/FinOps product leaders.

TRENDS · EMBEDDED FINANCE

A \$185bn SaaS opportunity, <20% captured

Embedded-finance revenue available to SaaS platforms (BCG/Adyen) vs the share realized so far



Toast draws ~80% of revenue from financial services; Shopify merchant solutions reached 73%.

Figure 10. Embedded finance: a \$185bn SaaS opportunity, less than 20% captured.

Gap 2: Embedded fintech in under-penetrated verticals. Pain: vertical SaaS outside restaurants/commerce/trades (agritech, legal, logistics, healthcare-adjacent) leaves 80%+ of the BCG/Adyen-estimated USD 185 billion embedded-finance opportunity uncaptured [8]. Capability: payments/lending/insurance rails embedded into workflow leaders. M&A move: PE platforms and strategic acquirers buy vertical workflow leaders and bolt on embedded-finance infrastructure to lift revenue-per-customer 2x-5x.

Gap 3: Compliance/e-invoicing SaaS for the ViDA/CFDI wave. Pain: every EU and LatAm business faces non-discretionary e-invoicing and digital-reporting mandates (ViDA from 2030, CFDI/NF-e live) with fragmented national formats. Capability: pan-regional compliant e-invoicing platforms (Pagero/Sovos-

style). M&A move: roll up national compliance specialists into a pan-EU/LatAm platform; this is counter-cyclical, non-discretionary demand.

Gap 4: AI governance, security, and eval tooling for regulated buyers. Pain: regulated enterprises cannot deploy AI agents without governance, data-defense, and audit (the trust gap that gates agent adoption). Capability: AI governance and eval-engineering platforms ([Glean](#) Protect-style, observability). M&A move: security/governance incumbents acquire AI-eval and observability startups; hire eval engineers (Q1 2026 calls disclosed 8-15 eval hires at enterprise platforms) [3].

Gap 5: Vendor-consolidation enablement (SaaS management platforms). Pain: 68% of CIOs are cutting vendors but lack tooling to find redundancy and offboard safely, with Zylo finding 51% of licenses unused [1][6]. Capability: SaaS management/spend platforms (BetterCloud, Zylo, Vendr, Gatekeeper). M&A move: ITSM/procurement incumbents acquire SaaS-management platforms to own the consolidation workflow.

Gap 6: Mid-market AI-native vertical applications in emerging regions. Pain: APAC/India and LatAm mid-market lacks affordable, locally-compliant, AI-native vertical software. Capability: India global-first vendors ([Zoho/Freshworks](#) model) and regional champions. M&A move: global strategics acquire India/LatAm vertical-AI scale-ups as efficient, AI-native entry points (Indian SaaS sales efficiency 80-100%); growth funds back regional roll-ups.

Buying Criteria Matrix

End-user profile	#1 criterion	#2	#3	Certification weight	Switching cost	Price elasticity	Dominant GTM
Large enterprise	Security/governance	Integration/platform fit	Reliability/SLA	High	Very high	Low	Enterprise sales + marketplaces + SIs
Mid-market	Time-to-value	Price/ROI	Breadth/consolidation	Medium	Moderate-high	Moderate	Hybrid sales + suites
SMB	Price	Ease of use	Speed to value	Low	Low-moderate	High	PLG + self-serve + channel
Regulated enterprise	Certification stack	Data residency/sovereignty	Security/audit	Critical (gate)	Very high	Low	Trust-led sales + compliant marketplaces
Developer / PLG	Product quality/DX	Performance	Usage-price transparency	Medium	Moderate	Moderate (rising)	Bottoms-up PLG + usage expansion
Consumer / prosumer	Engagement/value	Price	Brand	Low	Low	High	Freemium + app-store + brand



Supplier Ecosystem

Supplier Ecosystem

Executive Summary

Global SaaS rests on a supply chain of compute, capital, models, tooling, certifications and labor whose pricing power shifted decisively at the 2023 generative-AI inflection. The central supply-side question is no longer whether SaaS can scale cheaply but **who captures the margin as AI inference becomes a permanent COGS line**. Three hyperscalers ([AWS](#), Azure, [Google](#) Cloud) hold a stable ~67-68% of cloud infrastructure and constitute the largest COGS item for most vendors; [Nvidia](#) controls roughly 70% of data-center GPUs via CUDA; and a handful of foundation-model labs supply the new and volatile inference layer. The defining structural feature is asymmetric lock-in: re-architecting around proprietary cloud services is severe enough that repatriation, which a16z estimates recovers a third to a half of cloud spend, remains rare. AI is compressing the historic 75-80% gross-margin band toward 52-65%, with inference reaching 23% of cost at scale. Consolidation runs along two axes: hyperscalers and suites buying data and governance layers to feed AI, and PE rolling up infrastructure software where switching costs and retention are high.

- **Cloud oligopoly:** [AWS](#), Azure and [Google](#) Cloud hold ~67-68% of cloud infrastructure; Q1 2026 quarterly spend topped \$129bn at a 35% growth rate, and the hyperscaler is the largest single COGS line for most vendors.
- **GPU chokepoint:** [Nvidia](#)'s CUDA held roughly 70% of the data-center GPU market in 2025; data-center revenue near \$115bn, with [OpenAI](#) and [Anthropic](#) estimated at 15-20% of it, makes silicon the tightest constraint.
- **Margin compression:** AI-product gross margins ran ~52% for 2026 versus 75-85% for classic SaaS; bolting a ~\$15 AI assistant onto an \$80 seat drops gross margin from 80% to roughly 65% overnight.
- **Specialized infrastructure:** [Snowflake](#), [Databricks](#), [Stripe](#), [Twilio](#) and [Okta](#) convert undifferentiated work into embedded APIs that ship product faster but deepen dependency through data gravity and consumption pricing.
- **Compliance gatekeepers:** SOC 2, ISO 27001, GDPR and FedRAMP gate enterprise deals; the resulting automation market is led by [Vanta](#) (~\$300m ARR, \$4.15bn valuation) and [Drata](#), both strategic targets.
- **Geopolitical risk:** GPU export controls are live; [Nvidia](#) flagged a \$5.5bn hit from H20 China licensing, and its public clash with [Anthropic](#) shows export policy now shapes the AI layer SaaS depends on.
- **Vertical integration:** Salesforce-Informatica (\$8bn), IBM-HashiCorp (\$6.4bn) and Synopsys-Ansys share one logic: own the data, governance and infrastructure primitives that agentic AI requires.
- **Capital as supplier:** PE is now the dominant exit buyer; [Thoma Bravo](#) closed \$42bn of acquisitions in 2025, signaling that the financial supply layer sets clearing prices as much as the technical one.

Supplier Categories and Value Contributions

Cloud infrastructure and hyperscalers. The foundational supplier layer is the "Big Three": Amazon Web Services ([AWS](#)), [Microsoft](#) Azure, and [Google](#) Cloud Platform (GCP). Synergy Research Group's Q1 2026 reads place the three at roughly two-thirds of the market, though the precise split varies by methodology: one widely cited Synergy-sourced figure puts [AWS](#) at ~30%, Azure ~25%, and GCP ~13% (68% combined) [2], while Synergy's own infographic via Statista reads [AWS](#) 28%, Azure 21%, and [Google](#) Cloud 14% (67% combined) [3]. The discrepancy reflects whether the denominator is total cloud infrastructure spend or public-cloud-only; both confirm a stable ~67-68% oligopoly. Growth rates have re-ranked the field even as share held: Azure grew cloud revenue ~40% year over year, [Google](#) Cloud ~63%, and [AWS](#) ~19% in their latest reported quarters, with AI workloads driving the divergence [2]. Per Synergy chief analyst John Dinsdale, Q1 2026 enterprise spending on cloud infrastructure services jumped by over \$35 billion year over year to reach \$129 billion for the quarter, the ninth successive quarter of accelerating growth at a 35% rate, an annualized run rate above \$500 billion [3]. For most SaaS vendors, the hyperscaler is not optional: it is the substrate on which the product runs, and cloud hosting historically constitutes the single largest line of cost of goods sold (COGS).

Specialized infrastructure. A second layer of "picks and shovels" suppliers provides data, communications, payments, and identity primitives that SaaS vendors embed rather than build. [Snowflake](#) reported \$4.68 billion in FY2026 revenue at 29% growth with 125% net revenue retention [4]. [Databricks](#) reported a \$5.4 billion annualized run rate as of January/February 2026 growing 65%, with AI products at a ~\$1.4 billion run rate, and was valued at \$134 billion in its December 2025 Series L (with a subsequent round reportedly pricing it at \$165 billion to \$175 billion) [5]. [MongoDB](#) posted \$2.01 billion in FY2025 revenue (+19%), with Atlas at 71% of Q4 revenue [6]. [Stripe](#) processed \$1.4 trillion in payment volume in 2024 and \$1.9 trillion in 2025, and was valued at \$159 billion in a February 2026 tender [7]. [Twilio](#) reached \$5.07 billion in FY2025 revenue (+14%), turning GAAP-profitable [8]. [Okta](#) reported \$2.61 billion in FY2025 revenue (+15%), anchoring identity via the [Okta](#) and Auth0 platforms [9]. These suppliers convert undifferentiated infrastructure work into API calls, letting SaaS vendors ship faster but embedding dependency.

AI/LLM model providers and GPU supply. The newest and most consequential supplier category is foundation-model providers: [OpenAI](#), [Anthropic](#), [Google](#), [Cohere](#), and [Mistral](#), plus the GPU supply that underpins them via Nvidia. Nvidia's data-center revenue for fiscal 2026 (ending January 2026) reached approximately \$115 billion, with [OpenAI](#) and [Anthropic](#) collectively estimated at 15-20% of that total [10]. Nvidia's CUDA software architecture held roughly 70.30% of the data-center GPU market in 2025 [11]. [Anthropic](#) was generating an estimated \$3.6 billion annualized revenue by March 2026 [10]. For AI-native



SaaS, the model API is the engine; for traditional SaaS bolting on copilots, it is a new and volatile variable cost.

Developer tooling and observability. [GitHub](#) ([Microsoft](#)), [Datadog](#), [Vercel](#), and [HashiCorp](#) supply the build-test-ship-monitor pipeline. [Datadog](#) reached roughly \$3.4 billion in FY2025 revenue (+28%) with net revenue retention around 120% [12]. These tools are essential because modern SaaS ships continuously; observability and infrastructure-as-code are operational necessities, not luxuries.

Regulatory and standards bodies. SOC 2 (AICPA), ISO 27001, GDPR, and FedRAMP are not vendors but gatekeepers: without attestations, enterprise and public-sector deals do not close. This created an entire compliance-automation supplier sub-market led by [Vanta](#) (≈\$300 million ARR by April 2026, 16,000+ customers, valued at \$4.15 billion in July 2025) and [Drata](#) (≈\$98 million ARR in January 2025) [13][14].

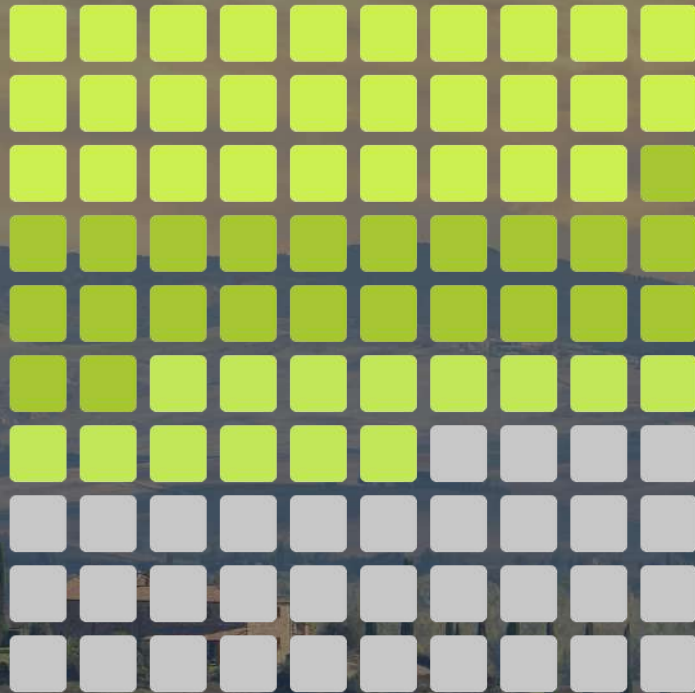
Outsourced labor and channel. Offshore development, customer success, and contract labor remain a cost-efficiency supplier, concentrated in India and increasingly Eastern Europe and Latin America. Alliance and channel networks (system integrators like [Accenture](#) and [Deloitte](#), plus app marketplaces such as [Salesforce](#) AppExchange) extend distribution. IDC's "[Salesforce](#) Economy" study estimated the partner ecosystem would earn \$6.19 for every \$1 [Salesforce](#) makes by 2026 [15].

Capital. Venture capital, growth equity, and private equity are the financial suppliers. PE has become the dominant exit buyer: [Thoma Bravo](#) closed \$42 billion in acquisitions in 2025, including the \$12.3 billion [Dayforce](#) take-private [16].

SUPPLIER ECOSYSTEM · GLOBAL CLOUD INFRASTRUCTURE

A ~67% hyperscaler oligopoly — 100 squares = the market

Each square ≈ 1% of cloud infrastructure spend (Synergy, Q1 2026)



 AWS

29%

 Microsoft Azure

23%

 Google Cloud

14%

 Others

34%

Top three = 67% · Q1 2026 spend

\$129bn/quarter, a >\$500bn run rate.

Structural Interdependencies and Switching Costs

The defining structural feature of the SaaS supply chain is asymmetric lock-in. Cloud was framed by a16z partners Sarah Wang and Martin Casado in their 2021 essay "The Cost of Cloud, a Trillion Dollar Paradox" as a force that "you're crazy if you don't start in the cloud; you're crazy if you stay on it" [17]. They estimated an \$8 billion aggregate cloud bill across 50 top public software companies, with roughly \$100 billion of market value suppressed by cloud's margin drag, and noted public-cloud list prices can run 10 to 12x the cost of running equivalent workloads in-house [17].

Repatriation, they found, typically recovers one-third to one-half of cloud spend [17]. Yet repatriation remains rare because switching costs are severe: re-architecting around proprietary services ([AWS](#) DynamoDB, [Google](#) BigQuery, Azure-native AI) creates deep technical entanglement.

SUPPLIER ECOSYSTEM · CLOUD GROWTH

AI workloads re-ranked the field

Latest-quarter cloud revenue growth, YoY %

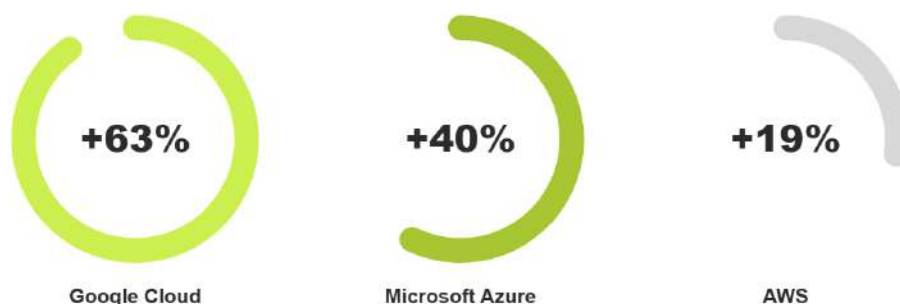


Figure 12. Hyperscaler cloud growth: AI workloads re-ranked the field.

Cloud as a share of COGS is the single most important unit-economics fact in SaaS. Historically, classic SaaS gross margins sat at 75-80%. The AI era is compressing that band. ICONIQ Capital's January 2026 State of AI: Bi-Annual Snapshot, drawing on roughly 300 software executives, reported average AI-product gross margin at 52% projected for 2026, up from 45% in 2025 and 41% in 2024, against 75-85% for traditional SaaS [18].

Per the same ICONIQ report, inference cost rises to 23% of the cost structure at the scaling stage, and public SaaS companies have begun disclosing inference cost ratios of 4-9% of revenue in MD&A sections [18][19]. The SaaS CFO's Ben Murray illustrated the mechanics: bolt a ~\$15 AI assistant onto an \$80/month seat and gross margin drops from 80% to roughly 65% overnight [19]. Across Q4 2025 and Q1 2026 earnings, a new operating corridor of 60-70% gross margin established itself among public SaaS vendors openly discussing AI margin pressure [20].

Per SaaS Mag citing Bessemer's State of AI 2025, LLM-native company gross margins sat around 65%, well below the 80-90% ceiling that defined the prior era [19].

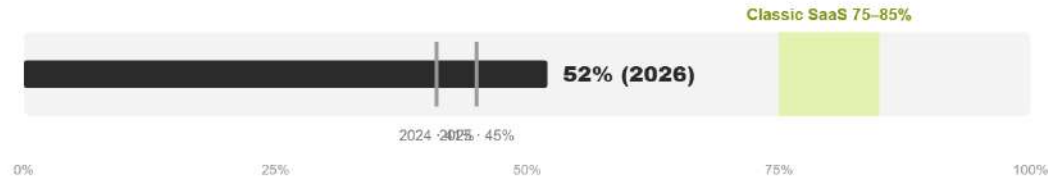
Switching costs among model providers are lower than cloud but rising. Multi-model routing (using [OpenAI](#) for complex queries, fine-tuned open models for simple ones) has emerged as a hedge, and a16z's "LLMflation" framing describes roughly 10x annual declines in inference cost for equivalent performance [21]. But the dependency is structural: an AI-native SaaS product is only as good as the model it calls, and frontier capability remains concentrated in a handful of labs.

Ecosystem Challenges and Disruptions

Supplier concentration and oligopoly scrutiny. The ~67-68% cloud share held by three US firms [2][3] has drawn regulatory attention in multiple jurisdictions, particularly around egress fees and bundling. Nvidia's ~70% data-center GPU dominance via CUDA [11] is an even tighter chokepoint. The "circular investment" concern, where [Nvidia](#) invested ~\$30 billion in OpenAI's early-2026 round and \$10 billion in [Anthropic](#) in November 2024, with capital flowing back as GPU purchases, has been flagged by analysts including Bernstein's Stacy Rasgon as making financial statements harder to interpret [10]. Nvidia's original ~\$100 billion [OpenAI](#) commitment was scaled back to \$30 billion, with CEO Jensen Huang signaling these would be Nvidia's final private bets before expected 2026 IPOs [10].

AI gross margin rebuilds toward the SaaS floor

Bullet: bar = 2026 AI margin; ticks = 2024 & 2025; lime zone = the 75–85% classic-SaaS band



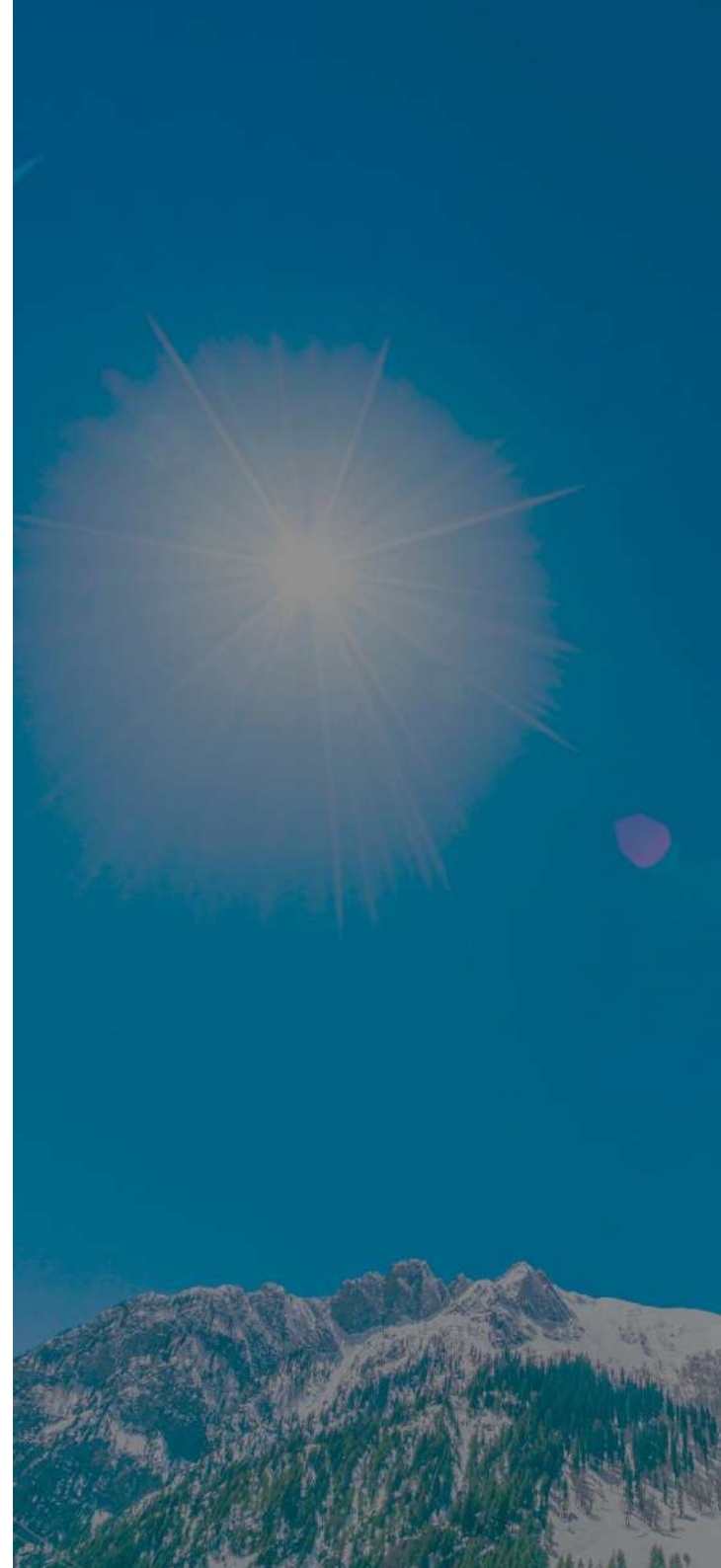
At scale, inference reaches ~23% of the cost structure; disclosed inference runs 4–9% of revenue.

Figure 13. The AI margin squeeze: 2026 AI margin against the 75-85% classic-SaaS band.

Geopolitical supply-chain factors. GPU export controls are a live risk. [Nvidia](#) stated that a new licensing requirement for its H20 AI chips to be sold in China could cost it \$5.5 billion in Q1 of its fiscal 2026 [22]. [Anthropic](#) publicly supported tightening the AI Diffusion Rule, citing chip-smuggling tactics; [Nvidia](#) retorted that American firms should "rise to the challenge, rather than tell tall tales" about chips smuggled in "baby bumps" or "alongside live lobsters" [22]. This public clash underscores how export policy now directly shapes the AI supplier layer that SaaS depends on.

Regulatory rigidity. Compliance frameworks impose fixed friction: a SOC 2 Type 2 audit plus platform commonly runs \$30,000-\$65,000 in year one for a startup-scale program [13]. GDPR and emerging AI regulation (the EU AI Act, ISO 42001) raise the floor cost of operating, which simultaneously creates the compliance-automation supplier opportunity.

Technology disruption. The same AI that compresses SaaS margins also disrupts the supplier layer itself: vibe-coding tools threaten developer-tooling incumbents, and the shift toward agentic workloads is repricing observability and data infrastructure around token and trace volume rather than seats.



Strategic M&A and Vertical Integration Opportunities

The supplier ecosystem is consolidating along two axes: hyperscalers and suites acquiring data and governance layers to feed AI, and PE platforms rolling up infrastructure software. [Salesforce](#) acquired [Informatica](#) for ~\$8 billion (\$25/share), signed May 2025 and closed November 18, 2025, explicitly to build a "trusted data foundation" for its Agentforce agents [23]. 4 billion [HashiCorp](#) acquisition on February 27, 2025 (\$35/share), folding Terraform and Vault into its hybrid-cloud and watsonx stack [24].

[Synopsys](#) completed its acquisition of [Ansys](#) on July 17, 2025, creating a \$31 billion TAM "silicon to systems" leader [25]. These deals share a logic: own the data, governance, and infrastructure primitives that agentic AI requires.

SUPPLIER ECOSYSTEM • THE "PICKS & SHOVELS"

Embedded infrastructure SaaS vendors depend on

Annual revenue / run-rate, \$bn



Plus Stripe's \$1.9tn 2025 payment volume and Nvidia's ~\$115bn data-center revenue underpinning the AI layer.

Figure 14. The picks and shovels: specialized infrastructure SaaS vendors depend on.

For an acquirer, the strategic opportunities are: (1) vertically integrating a data or identity supplier to reduce a category-defining dependency and capture its margin (the Salesforce-Informatica template); (2) acquiring compliance-automation assets ([Vanta](#), [Drata](#)) as the regulatory gatekeeper layer becomes a system of record; and (3) rolling up specialized infrastructure where switching costs are high and NRR exceeds 120% (the consumption-pricing data and observability cohort). The defensive counter-thesis: AI repricing of inference may commoditize parts of the model-provider layer, so vertical integration into compute is a bet best hedged via multi-model architecture rather than single-supplier exclusivity.

Supplier Power Matrix

Supplier category	Representative firms	Power type	Switching cost	Power level	Margin impact on SaaS
Cloud hyperscalers	AWS, Azure, GCP	Lock-in (proprietary services)	Very high	Very high	Largest COGS line; 50%+ of COGS for many
GPU / silicon	Nvidia (CUDA)	Lock-in (~70% share)	Very high	Very high	Drives AI inference cost
LLM / model providers	OpenAI, Anthropic, Google, Cohere, Mistral	Lock-in, weakening via routing	Medium	High	New COGS line; 4-23% of revenue
Specialized infra	Snowflake, Databricks, Stripe, Twilio, Okta	Lock-in (data gravity, embedded APIs)	High	High	Variable COGS; consumption-priced
Dev tooling / observability	GitHub, Datadog, Vercel, HashiCorp	Mixed	Medium	Medium	OpEx and COGS
Standards / regulators	AICPA (SOC 2), ISO, GDPR, FedRAMP	Gatekeeper	N/A (mandatory)	High	Fixed compliance cost
Compliance automation	Vanta, Drata, Secureframe	Captured (depend on SaaS)	Medium	Low-Medium	Reduces compliance cost
Outsourced labor / SI	Offshore dev, Accenture, Deloitte	Captured	Low-Medium	Low-Medium	Reduces SG&A/COGS
Capital	VC, growth equity, PE	Cyclical leverage	N/A	Medium-High	Sets valuation, exit terms



Complementary Products & Solutions

Complementary Solutions

Executive Summary

Complements are the downstream and lateral products that make core SaaS more valuable, stickier and more monetizable, and they are the difference between a point tool and a platform. The strategic test for any complement is whether it drives **cost leadership or differentiation**, and whether it builds a data moat (proprietary data accumulation) or a technical moat (hard-to-replicate integration depth). Eight categories matter most in 2026: integration and iPaaS, analytics and embedded BI, data warehouses and lakehouses, AI copilots and agent layers, vertical add-on modules, payments and billing, security and compliance, and app marketplaces. The clearest pattern is the land-and-expand stack: a customer adds integration, analytics, billing and an AI copilot to a core seat, and each addition raises the cost of leaving, which is why expansion now drives roughly 40% of new ARR and up to 67% above \$100m ARR. Complement-driven stickiness translates directly into multiple expansion, with vertical SaaS that has NRR above 115% plus embedded fintech trading at a 25-30% premium. The category is the most active tuck-in hunting ground in SaaS M&A.

- **Land-and-expand stack:** integration, analytics, billing and AI copilots layered on a core seat mechanically drive expansion, which rose from ~25% of new ARR in 2022 to 40% in 2024 and up to 67% above \$100m ARR.
- **AI copilots and agents:** the fastest-growing complement; [Microsoft 365 Copilot](#) at \$30 per user reached 15 million paid seats, a premium layer that reprices the base seat while carrying inference COGS.
- **Embedded fintech:** vertical add-ons monetize transactions far beyond seats; [ServiceTitan](#)'s embedded payments processed \$62bn of gross volume, evidence that a complement can exceed the core SaaS TAM.
- **Integration economics:** native managed packages consume zero external API allocation while iPaaS calls burn 3-7 per record, a build-versus-buy driver that lets platforms monetize both core and integration layers.
- **Data and technical moats:** complements that accumulate proprietary data or achieve deep integration compound defensibility; best-in-class 80%+ gross-margin businesses earn a median 6.9x ARR.
- **Convergence:** the agent layer is absorbing copilots, billing is converging with AI metering as usage pricing spreads, and compliance is converging with AI governance via [Vanta](#) and Drata.
- **M&A logic:** acquirers buy complements to convert integration points into owned margin; Salesforce-Informatica bought the data-governance complement to feed Agentforce, and compliance assets are prime targets.
- **Bundling risk:** hyperscaler and suite bundling can absorb standalone complements, as [Microsoft](#) did by folding Copilot for Sales, Service and Finance into one SKU, compressing independent vendors' TAM.

Defining the Complementary Landscape

Eight complement categories matter most for the global SaaS industry in 2026:

Integration / iPaaS. [Zapier](#), [Workato](#), [MuleSoft](#) ([Salesforce](#)), [Boomi](#), and [Make](#) connect SaaS apps to each other. [MuleSoft](#) holds roughly 18% of the iPaaS market and [Boomi](#) ~14% [1]. The category exists because the average enterprise runs 106 SaaS applications (down from a 2022 peak of 130 per BetterCloud), each generating data silos that must be bridged [2]. North America accounted for roughly 52% of iPaaS revenue in 2025 [3].

Analytics, BI, and embedded analytics. [Power BI](#), [Tableau](#) ([Salesforce](#)), [Looker](#) ([Google](#)), and embedded-analytics vendors turn SaaS-generated data into decisions. Embedded analytics inside a vertical SaaS product is a differentiation lever that raises switching costs.

Data warehouses and lakehouses. [Snowflake](#) and [Databricks](#) function as both suppliers (Section 5) and complements: SaaS vendors increasingly let customers pipe product data into a customer-owned warehouse, and "data sharing" creates network effects that deepen lock-in.

AI copilots and agent layers. The fastest-growing complement category. [Salesforce](#) Agentforce, [Microsoft 365](#) Copilot (priced at \$30/user/month, 15 million paid seats as of Q2 FY26), and ServiceNow's AI agents extend core platforms into "digital labor" [4]. These are sold as premium add-ons that reprice the base seat.

Vertical add-on modules. Industry-specific extensions (e.g., payments, scheduling, dispatch in home-services SaaS) deepen workflow embedding. ServiceTitan's embedded payments processed \$62 billion of gross transaction volume by mid-2024, illustrating how a vertical add-on can exceed the core SaaS TAM [5].

Payments, billing, and monetization. [Stripe](#) Billing, [Chargebee](#), [Zuora](#), and [Maxio](#) let SaaS vendors operationalize subscription and usage pricing. As pricing shifts from per-seat to usage and outcome models (Section 7), billing infrastructure becomes mission-critical.

Security and compliance add-ons. [Vanta](#), [Drata](#), and [Secureframe](#) (compliance) plus identity ([Okta](#)) and security posture tools attach to core SaaS to satisfy enterprise procurement.

App marketplaces and ecosystems. [Salesforce](#) AppExchange, the IDC-estimated "[Salesforce](#) Economy" earning \$6.19 per \$1 of [Salesforce](#) revenue by 2026, plus marketplaces from [Atlassian](#), [ServiceNow](#), and [HubSpot](#), turn third-party developers into a distribution and lock-in flywheel [6].



Practical Use Cases and Workflow Integration

The clearest workflow pattern is the "land-and-expand" complement stack. A customer buys a core CRM seat, then adds iPaaS to sync it with ERP, embedded analytics to report on it, a billing complement to monetize it, and an AI copilot to operate it. Each addition raises the cost of leaving. Maxio's 2025 data shows expansion ARR rising from ~25% of new ARR in 2022 to 40% in 2024, and Benchmarkit data shows expansion reaching ~67% of new ARR above \$100 million ARR [7]. Complements are the mechanical drivers of that expansion.

[Salesforce](#) integration illustrates the technical depth. Native managed-package integrations run inside the customer's org and consume zero external API allocation, while iPaaS platforms call the [Salesforce](#) API from outside and can burn 3-7 API calls per record; a single mid-volume integration can consume a 50-seat Enterprise org's entire 150,000-call daily allocation [8]. This API economics drives the build-versus-buy decision for complements and explains why [Salesforce](#) can monetize both the core and the integration layer.

AI copilots show the repricing use case. Microsoft's 15 million paid Copilot seats at \$30/month [4] represent a premium layer that lifts revenue per existing customer without new logo acquisition, the highest-margin growth available. The flip side, covered in Section 5, is that these copilots carry inference COGS that compress gross margin.

Mechanisms of Value Creation and Stickiness

Complements create value through five mechanisms. First, switching costs: each integration, automation recipe, and embedded report is sunk-cost configuration that resets to zero on migration. Second, customer lock-in via data gravity: the more product and customer data accumulates in a warehouse or analytics layer, the more painful exit becomes. Third, the transition from one-off to recurring revenue: billing and monetization complements convert perpetual or services revenue into subscription and usage streams, the structural shift that defines SaaS.

Fourth, scalability: iPaaS and marketplace ecosystems let a vendor add capability without building it, scaling the value proposition faster than headcount. Fifth, vendor-to-strategic-partner repositioning: a vendor that owns the integration, analytics, and AI layers becomes the system of record, not a swappable tool.

Platforms trade at >2× point-solution levels

Bessemer Cloud Index via Equal Ventures; lime = platform, gray = traditional SaaS

Median EV / revenue multiple



Median market capitalization



● Platform companies ● Traditional SaaS

Figure 15. The platform premium: platforms trade at more than 2x point-solution levels.

The moat analysis matters for valuation. Complements that accumulate proprietary data (embedded analytics, AI agents trained on customer workflows) build a Data Moat that compounds and is hard to replicate. Complements that achieve deep technical integration (native managed packages, marketplace ecosystems with thousands of certified apps) build a Technical Moat.

9x ARR, and vertical SaaS with NRR above 115% plus embedded fintech trades at a 25-30% premium to horizontal peers, evidence that complement-driven stickiness translates directly into multiple expansion [9][10].

Trends and Technological Convergence

Three convergence trends define 2026. First, the agent layer is absorbing the copilot layer: standalone copilots are giving way to autonomous agents that execute multi-step workflows, which is why [Salesforce](#) bought [Informatica](#) for data governance and why [ServiceNow](#) shipped an "AI Control Tower" to govern agents across vendors [11]. Second, billing is converging with AI metering: as usage and outcome pricing spread (Gartner projects 40% of enterprise SaaS spend shifting to usage/agent/outcome models by 2030), billing complements must meter tokens, tasks, and resolved outcomes, not just seats [12].

Third, compliance is converging with AI governance: [Vanta](#) and [Drata](#) are extending from SOC 2 automation into AI risk management and continuous monitoring as the regulatory bar rises [13].

A data uncertainty to flag: iPaaS market-size estimates vary wildly across sources, from MarketsandMarkets' ~\$13.9 billion 2026 figure to far larger projections, reflecting inconsistent category definitions (pure iPaaS vs. broader integration and data-integration markets) [1]. These figures should be treated as directional, not precise.

Strategic M&A and Digital Transformation

Complement categories are the most active tuck-in hunting ground in SaaS M&A. The strategic logic: an acquirer buys a complement to convert an integration point into owned margin and to raise switching costs. Salesforce-Informatica (\$8 billion, closed November 2025) bought the data-governance complement to feed Agentforce [11]. 15 billion, [Drata](#)) are prime strategic targets for security platforms; CrowdStrike Ventures already backs [Vanta](#) [13][14].

4 billion into vertical SaaS roll-ups through 2024, and 46% of SaaS M&A in Q2 2025 was vertical SaaS, where complement-driven completeness beats best-of-breed [15].

For a growth-equity thesis, the highest-conviction complement bets are: (1) AI agent and metering-billing layers, which capture the pricing-model transition; (2) embedded payments and fintech in vertical SaaS, where GTV economics dwarf SaaS seats; and (3) data and governance layers that agentic AI requires. The risk: hyperscaler and suite bundling ([Microsoft](#) folding Copilot for Sales, Service, and Finance into one SKU in October 2025) can absorb standalone complements, compressing independent vendors' TAM [4].

Complementary vs Core Value Matrix

Complement category	Cost Leadership or Differentiation	Moat type	Stickiness driver	M&A activity
iPaaS / integration	Cost Leadership	Technical	Configuration sunk cost	High (Salesforce-MuleSoft, IBM)
Analytics / embedded BI	Differentiation	Data	Decision dependency	High (Salesforce-Tableau, Google-Looker)
Data warehouse / lakehouse	Differentiation	Data	Data gravity	Very high (IPO/PE)
AI copilots / agents	Differentiation	Data + Technical	Workflow automation	Very high
Vertical add-on modules	Differentiation	Technical	Workflow embedding	High (vertical roll-ups)
Payments / billing	Cost Leadership + Differentiation	Technical	Revenue-system embedding	High
Security / compliance	Differentiation	Technical	Procurement gatekeeping	High (Vanta, Drata targets)
App marketplaces	Differentiation	Technical (network)	Ecosystem network effects	Platform-owned



Substitute Products & Solutions

Substitute Solutions

Executive Summary

Substitutes are the most strategically charged topic in the 2026 SaaS thesis because, for the first time since the category emerged, the cost of building or replacing professional SaaS has collapsed. The **SaaSpocalypse** of February 2026, when roughly \$285bn of SaaS market capitalization vanished in 48 hours, was a market verdict that substitutes are now credible at scale. Seven categories compete with core SaaS: in-house custom builds, open-source self-hosted alternatives, AI-native point tools and agents, spreadsheets and manual processes, horizontal-suite bundling, no-code and low-code internal apps, and vibe coding. The seat-collapse thesis bites hardest: if one agent does the work of ten users, a per-seat vendor loses most of its seat revenue, and Gartner projects 40% of enterprise SaaS spend shifting to usage, agent or outcome models by 2030. Yet professional SaaS reasserts value on security and compliance, reliability, continuous innovation and integration breadth; a self-hosted or vibe-coded substitute that cannot produce SOC 2, HIPAA or FedRAMP evidence cannot serve regulated buyers. Substitution risk should be priced directly into valuation as a function of substitutability.

- **The SaaSpocalypse:** roughly \$285bn of SaaS market cap vanished in 48 hours in February 2026 after [Anthropic](#) launched Claude Cowork, a market verdict that credible substitutes now exist at scale.
- **Seat collapse:** AI agents that resolve bounded workflows directly compress per-seat revenue; Gartner projects 40% of enterprise SaaS spend shifting to usage, agent or outcome models by 2030.
- **Vibe coding limits:** AI app generators reach 90% of an app fast but break on the last mile; a scan of 1,645 [Lovable](#) apps found 10.3% exposed user data, capping production use in regulated contexts.
- **Klarna signal:** [Klarna](#) wound down some [Salesforce](#) and [Workday](#) usage and lifted revenue per employee toward \$700,000, though it replaced them with a blend of alternative SaaS and in-house tooling, not pure AI.
- **Suite bundling:** the most frictionless substitute is already licensed; a [Microsoft 365](#) customer can switch on Teams or Copilot Chat at no incremental procurement, undercutting standalone tools.
- **Least substitutable:** vertical SaaS in regulated, mission-critical workflows with embedded payments resists substitution; fintech-led verticals held 96% gross retention versus 78-85% for horizontal SMB SaaS.
- **Multiple re-rating:** the SaaS Capital Index median fell to ~3.4x ARR by 2026 from an 18-19x 2021 peak as investors discount substitution risk, while AI-native rounds price at 15-30x and higher.
- **Defensive posture:** incumbents should reprice around outcomes before being forced to and acquire the substitute; ServiceNow-Moveworks and Workday-Sana show buyers writing billion-dollar checks for AI capability.

Substitutes are the most strategically charged topic in the 2026 SaaS investment thesis because, for the first time since the category emerged, the cost of building or replacing professional SaaS has collapsed. The "SaaS apocalypse" of February 2026, when roughly \$285 billion of SaaS market capitalization vanished in 48 hours after [Anthropic](#) launched Claude Cowork, was a market verdict that substitutes are now credible at scale [1]. This section maps the substitute landscape, compares total cost of ownership (TCO), and identifies the trigger points that drive customers back to professional SaaS.

Defining the Substitute Landscape

Seven substitute categories now compete with core SaaS:

SUBSTITUTES · THE BUILD-IT-YOURSELF WAVE

AI app generators scaled at record speed

Bubble area $\propto$ ARR or valuation, early 2026; the collapsing cost to build is the substitute threat



Quality caveat: a May 2025 scan found 10.3% of Lovable-built apps leaked user data; code churn rose to 5.7–7.1%.

Figure 16. The build-it-yourself wave: AI app generators scaled at record speed.

In-house custom builds. The classic "build vs. buy" decision has reversed for some workloads as AI lowers build cost. [Klarna](#) is the canonical case: CEO Sebastian Siemiatkowski announced in 2024 that [Klarna](#) would wind down [Salesforce](#) CRM and [Workday](#), citing an AI overhaul; the company later clarified to CX Today that it replaced them with a blend of alternative SaaS (including Deel for HR) and in-house tooling rather than pure AI [2]. [Klarna](#) reported average annual revenue per employee rising to \$700,000 from \$400,000 [3].

Open-source self-hosted alternatives. Mature open-source replacements (e.g., self-hosted alternatives to commercial CRM, BI, and collaboration tools) substitute for paid SaaS where teams have engineering capacity and data-sovereignty needs.

AI-native point tools and agents. Autonomous agents that collapse multi-seat workflows are the sharpest substitute. The seat-collapse thesis holds that if one agent does the work of ten users, a per-seat vendor loses 90% of its seat revenue [4].

Spreadsheets and manual processes. The oldest substitute, still dominant for long-tail workflows, especially in SMB and emerging markets where SaaS penetration is thin.

Horizontal-suite bundling. [Microsoft 365](#) absorbing standalone tools is the most powerful incumbent substitute: bundling Copilot, Teams, and security into one SKU undercuts standalone vendors [5].

No-code/low-code internal apps. Platforms that let business users build internal apps substitute for buying point SaaS.

Vibe coding / AI app generation. [Cursor](#), [Lovable](#), [Replit](#), v0, Bolt, and Base44 let non-engineers generate working applications from prompts. [Lovable](#) reached roughly \$400 million ARR by early 2026 with ~146 employees; [Cursor](#) crossed \$2 billion ARR at a \$29.3 billion valuation; [Replit](#) reached a \$9 billion valuation on a \$400 million Series D in March 2026 [6][7]. Y Combinator CEO Garry Tan stated of the Winter 2025 batch that for about a quarter of current YC startups, 95% of their code was written by AI, adding "you don't need a team of 50 or 100 engineers" [8].

Operational Mechanics and Implementation

Substitution rarely happens wholesale; it happens at the margin and by workflow. The operational pattern for AI-native substitution: a company identifies a high-volume, well-bounded workflow (customer-service triage, invoice processing, code boilerplate), deploys an agent, and reduces seat count for the SaaS tool that previously served that workflow. Per Klarna's February 2024 release with [OpenAI](#), its AI assistant handled 2.3 million conversations, two-thirds of Klarna's customer-service chats, doing the equivalent work of 700 full-time agents and cutting resolution time from 11 minutes to under 2, with an estimated \$40 million profit improvement in 2024 [2].

Vibe coding's mechanics are well documented and so are its limits. Getting from 0 to 90% of an app is fast; the "last mile" (edge cases, authentication, deployment, payments, security) is where it breaks. 3%) allowed anyone to access user information including names, email addresses, financial information, and secret API keys [6]. 1% as AI-assisted development scaled [9]. [Cursor](#) offers no self-hosted deployment as of early 2026, a compliance constraint for regulated industries [9].

The operational reality: vibe coding substitutes for prototypes and internal tools effectively but faces a maintenance and governance wall for production, regulated, or scaling workloads.

Suite-bundling substitution is operationally frictionless because the alternative is already licensed: a customer paying for [Microsoft 365](#) can switch on Teams or Copilot Chat at no incremental procurement, which is why [Microsoft](#) folded multiple Copilot agents into its \$30 SKU in October 2025 [5].

Structural Value Comparison

TCO comparison is the crux. Third-party SaaS carries a predictable subscription cost, vendor-managed security and compliance, continuous updates, and support, against a substitute's variable mix of build cost, maintenance burden, and risk. For a bounded internal tool, a vibe-coded substitute can be dramatically cheaper: one founder built a \$40,000-MRR product on [Replit](#) Agent with under \$1,800 of infrastructure spend in 90 days [10]. But that comparison omits the hidden TCO of substitutes: security remediation, compliance attestation, maintenance, and key-person risk.

The structural value of professional SaaS reasserts itself on four dimensions the substitute struggles to match: (1) security and compliance at enterprise grade, evidenced by the audit-vulnerability data above; (2) reliability and SLAs; (3) continuous innovation funded by a vendor's R&D; and (4) integration breadth. Marc Benioff's response to [Klarna](#) captured the incumbent counter-thesis: he questioned how [Klarna](#) would manage data, sharing, and "compliance governance" without the platform [11].

The pricing-model dimension is where substitutes bite hardest. The collapse of seat-based pricing is structural: Gartner projects seat-based vendor revenue share declining from 21% to 15% and 40% of enterprise SaaS spend shifting to usage, agent, or outcome models by 2030 [12]. [Atlassian](#) reportedly fell ~35% after its first-ever decline in enterprise seat counts in early 2026 [13].

50 per automated resolution [12]. The vendors most exposed are those whose value was a proxy measured in seats; the most defended are those priced on consumption or embedded in mission-critical, regulated workflows.

SUBSTITUTES · THE PRICING-MODEL SHIFT

Seats decline as usage & outcomes rise

Gartner: seat-based vendor-revenue share and usage/agent/outcome share, today → 2030



Drivers of Substitution and Market Evolution

The primary driver is AI cost deflation meeting AI capability inflation: as build cost falls 10x annually (a16z's "LLMflation") and agent capability rises, the build-or-substitute calculus tips for more workloads [14]. A secondary driver is vendor pricing behavior: the "AI Tax" of 20-37% price uplift at renewal pushes buyers to evaluate substitutes [12]. A third is CIO vendor-consolidation pressure: per ADAPT's CIO Edge research surveying 140+ CIOs, 68% of technology leaders are planning to consolidate their vendor landscape, with a majority targeting a 20% reduction in vendor count, which favors suite bundling over point tools [15].

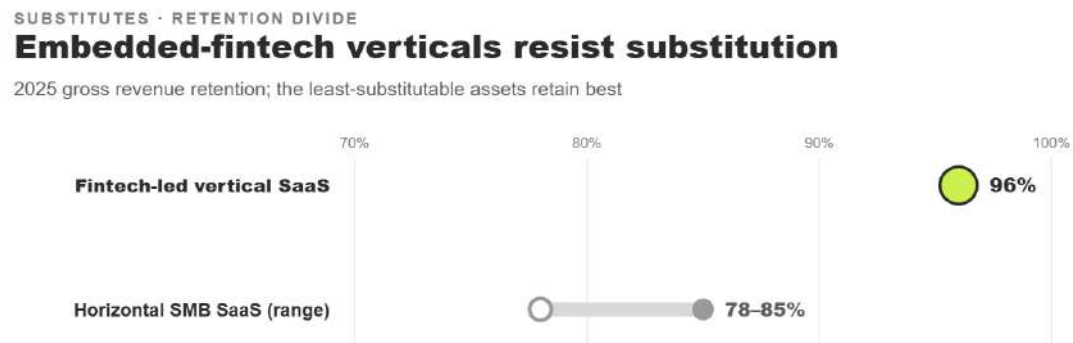


Figure 18. Retention divide: embedded-fintech verticals resist substitution.

Which categories are most versus least substitutable is the decisive M&A question. Most substitutable: horizontal point tools with shallow workflows, seat-priced collaboration and productivity utilities, and generic horizontal CRM/marketing/HR where Klarna-style substitution and suite bundling bite. Least substitutable: vertical SaaS embedded in regulated, mission-critical workflows with high switching costs and embedded payments (healthcare, legal, construction, home services), where ServiceTitan-style GTV economics and compliance moats hold.

The data supports this: fintech-led vertical SaaS achieved 96% gross retention in 2025 versus 78-85% for horizontal SMB SaaS [16].

A regulatory dependency to flag: substitution is constrained wherever compliance attestation is mandatory. A self-hosted or vibe-coded substitute that cannot produce SOC 2, HIPAA, or FedRAMP evidence cannot

serve regulated buyers, which is precisely the trigger point that returns customers to professional SaaS. A data uncertainty: the "SaaSocalypse" market-cap and seat-decline figures come largely from trade press and should be treated as directional pending audited disclosures.

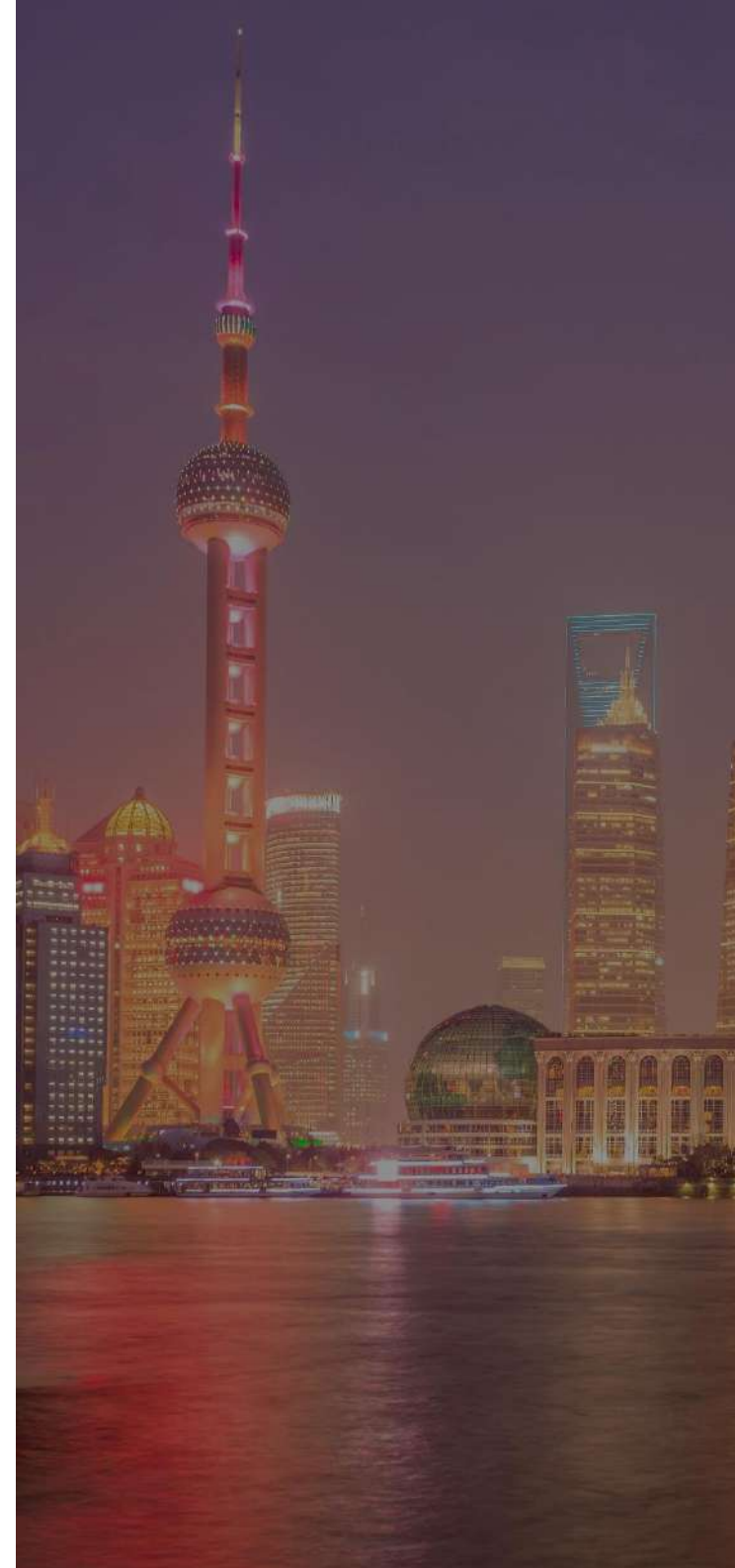
Strategic M&A and Defensive Positioning

The substitution wave reshapes both buy-side and sell-side strategy. For incumbents, the defensive playbook is to convert from AI-enhanced tool to AI-native platform and to reprice around outcomes before being forced to: [Salesforce](#) launched an Agentic Enterprise License Agreement for fixed-price Agentforce access, and [ServiceNow](#) shifted to consumption pricing for AI agents [17]. The acquisition logic for incumbents is to buy the substitute: acquiring AI-native point tools and agent platforms neutralizes the threat and accelerates the platform transition.

1 billion) [18].

For PE and growth equity, the thesis bifurcates. Take-privates concentrate on the least-substitutable, cash-generative, mission-critical assets: the [Smartsheet](#) (\$8.4 billion, closed January 2025), [OneStream](#) (\$6.4 billion, closed April 2026), and [Dayforce](#) (\$12.3 billion, closed February 2026) take-privates total over \$27 billion in ~13 months, all betting on durable recurring revenue insulated from substitution [19]. Public SaaS multiples have re-rated hard: the SaaS Capital Index median fell to 3.4x ARR by May 2026 and Aventis Advisors to 3.4x by March 2026, down from 18-19x at the 2021 peak, with Aventis attributing the drop to investors who "aggressively discount SaaS valuations on the back of AI disruption fears" [20]. Meanwhile AI-native private rounds price at 15-30x ARR (35-45x for foundation models), a dispersion that defines the bifurcated market [21].

The decision-relevant conclusion: substitution risk should be priced directly into SaaS valuation as a function of substitutability. The recommended posture is to underwrite least-substitutable vertical and consumption-priced assets at premium multiples, to discount seat-priced horizontal point tools, and to treat AI-native substitutes as either acquisition targets (to neutralize threat) or as the new platform core.



Substitute vs Traditional Service Matrix

Substitute	Replaces	TCO vs SaaS	Key weakness / trigger to return	Substitution threat
In-house custom build	Horizontal CRM/HR/finance	Lower if bounded; higher with maintenance	Compliance, scaling, maintenance burden	Medium-High
Open-source self-hosted	CRM, BI, collaboration	Lower cash, higher labor	Security, support, key-person risk	Medium
AI-native agents	Seat-based workflow SaaS	Variable; collapses seat count	Governance, reliability, data control	Very High
Spreadsheets / manual	Long-tail SaaS	Lowest cash, highest error	Scaling pain, audit need	Low-Medium
Horizontal-suite bundling	Standalone point tools	Near-zero incremental	Feature depth	Very High
No-code/low-code	Internal point apps	Lower build	Complexity wall, governance	Medium-High
Vibe coding	MVPs, internal tools	Far lower upfront	Security (10%+ critical vulns), last-mile	High (prototype), Low (production)



Competitive Landscape

Competitive Landscape

Executive Summary

The global SaaS market, between \$315.7bn and \$408.2bn for 2025 depending on definition, is bifurcating into a small set of **platform compounds** that capture disproportionate value and a long tail of point-solution vendors whose recurring-revenue moat is being repriced by AI. Four archetypes structure the field: global multi-segment incumbents ([Microsoft](#), [Salesforce](#), [SAP](#), [Oracle](#), [ServiceNow](#), [Adobe](#), [Workday](#)), regional champions ([Sage](#), [Visma](#), [Cegid](#), [Zoho](#), [Atlassian](#)), niche and vertical specialists ([Veeva](#), [Toast](#), [ServiceTitan](#), [Procore](#), [Shopify](#)), and AI-native entrants ([OpenAI](#), [Anthropic](#), [Cursor](#), [Glean](#), [Sierra](#), [Decagon](#)). Differentiation rests on four structural advantages ranked by durability: data gravity and proprietary corpora, distribution and installed base, switching cost via workflow embeddedness, and platform economics, where platforms command an 8.2x median EV/revenue multiple versus 3.9x for traditional SaaS. The dominant threat is AI repricing of the seat, compounded by hyperscaler and suite bundling. Market structure is barbelled: concentration rises at the platform top while fragmentation persists in the vertical middle, which is exactly where consolidation is most active.

- **Four archetypes:** global incumbents, regional champions, vertical specialists and AI-native entrants each carry distinct economics and M&A behavior; the top 10 enterprise vendors hold roughly 35% of revenue.
- **Platform premium:** platforms command an 8.2x median EV/revenue multiple versus 3.9x for traditional SaaS, with median market cap of \$26.4bn versus \$4.1bn, paying for increasing returns to scale, not just recurring revenue.
- **Data gravity:** [Salesforce](#) ingested 22 trillion records into Data 360 in a quarter and bought [Informatica](#) for \$8bn to build the trusted data foundation for agentic AI; data ownership is the moat AI cannot commoditize.
- **Vertical lock-in:** [Veeva](#), [Toast](#), [ServiceTitan](#) and [Procore](#) embed in mission-critical workflows; vertical SaaS grew 31% versus 28% for horizontal peers, with retention durability supporting both pricing and the multiple.
- **AI-native ramp:** [Cursor](#) scaled from a \$100m run rate to over \$2bn ARR by February 2026 with 182 employees, the fastest application-layer ramp on record, attacking the per-seat model directly.
- **Repricing threat:** if agents do the work, seat revenue compresses; hyperscalers and suites can attach AI at the platform level, squeezing standalone vendors on both price and distribution.
- **Multiple dispersion:** public SaaS sits at 6.4-8.0x EV/revenue, with AI-native firms at 15-40x and the bottom quartile at 2-4x, a buyer's market for bolt-ons and an existential repricing for sub-scale vendors.
- **Positioning playbook:** acquirers should buy data and agent-orchestration assets to defend the seat; growth funds should overweight vertical SaaS with embedded fintech; NRR above 110% is the signal that the seat is defended.

The global Software-as-a-Service (SaaS) market sits between \$315.7 billion (Fortune Business Insights, tight definition) and \$408.2 billion (Precedence Research, broad cloud-application definition) for 2025, with North America holding 46.9% to 48% of revenue, and the competitive structure is bifurcating into a small set of platform compounders that capture disproportionate value and a long tail of point-solution vendors whose recurring-revenue moat is being repriced by AI [1][2][3]. This section maps the archetypes, the structural advantages that separate winners, and the strategic gaps where specialists out-execute incumbents.

Competitive Archetypes and Market Structure

The SaaS universe resolves into four competitive archetypes, each with distinct economics, defensibility, and M&A behavior.

COMPETITIVE · THE AI-NATIVE RAMP

Cursor: \$100M → \$2bn ARR in ~13 months

Annualized run-rate, \$M — the fastest application-layer SaaS ramp on record, at 182 staff

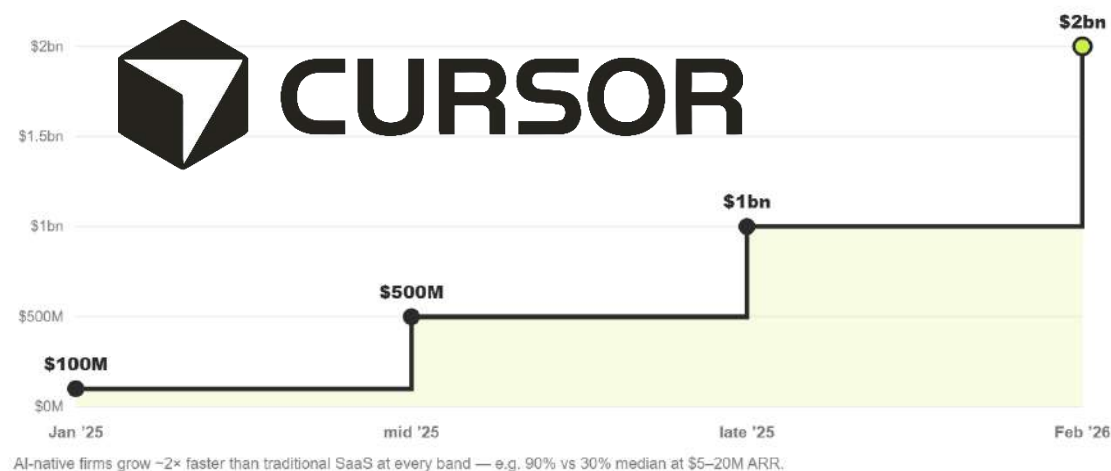


Figure 19. The AI-native ramp: Cursor from \$100M to \$2bn ARR in roughly 13 months.

"Global multi-segment incumbents" are the platform compounders: [Microsoft](#), [Salesforce](#), [SAP](#), [Oracle](#), [ServiceNow](#), [Adobe](#), and Workday. These firms run multi-product suites with cross-sell engines, own the system-of-record layer for their respective domains, and increasingly bundle AI as a margin-defended upsell rather than a standalone SKU. [Microsoft](#) alone reported \$245.1 billion in total FY2025 revenue with its cloud segment growing 16% year over year, and its productivity and business-processes segment (M365, Dynamics) generated \$77.73 billion in a recent fiscal period [3][4]. The top 10 enterprise SaaS

vendors account for roughly 35% of total market revenue, a concentration ratio that understates platform power because suite bundling pulls adjacent spend toward incumbents [3].

"Regional champions" anchor non-US markets through local compliance depth, language, and channel. [Sage](#) (UK accounting/SMB), [Visma](#) (Nordic/Benelux mission-critical SMB software, €2.8 billion 2025 revenue, 2.5 million customers), [Cegid](#) (French ERP/retail/HR), [Zoho](#) and [Freshworks](#) (India), and [Canva](#) and [Atlassian](#) (Australia) hold defensible positions precisely where US incumbents underinvest in localization [5][6]. Visma's federated model (more than 350 acquisitions, 190+ independent software companies) is a regional roll-up archetype in its own right [5][6].

"Niche/vertical specialists" win on workflow depth and regulatory embeddedness: [Veeva](#) (life-sciences cloud), [Toast](#) (restaurant POS+payments+SaaS), [ServiceTitan](#) (trades), [Procore](#) (construction), and [Shopify](#) (commerce). These firms trade workflow intimacy and switching cost for total addressable market ceiling, and they command premium retention because their software is the operational system of record, not a discretionary layer.

"Technology-enabled entrants" are the AI-native challengers reshaping defensibility assumptions: [OpenAI](#) and [Anthropic](#) (foundation-model platforms moving up-stack into applications), [AnySphere/Cursor](#) (AI coding), [Glean](#) (enterprise search/knowledge), [Sierra](#) and [Decagon](#) (customer-service agents). [Cursor](#) scaled from a \$100 million annualized run rate in January 2025 to over \$2 billion ARR by February 2026, the fastest application-layer SaaS ramp on record, while [Glean](#) doubled ARR to \$200 million in roughly nine months to a \$7.2 billion valuation [7][8]. These entrants attack the seat-based pricing model directly: if an AI agent resolves the work, the seat that used to do it is at risk.

Market structure therefore is "barbelled": concentration is rising at the platform top (suite bundling, AI repricing of seats favoring incumbents with data and distribution) while fragmentation persists in the vertical and long-tail middle, which is exactly where consolidation (PE roll-ups, strategic bolt-ons) is most active.

SUBSTITUTES · VALUATION DISPERSION 2026

A bifurcated market — AI-native vs repriced seats

EV/ARR (×); the same ARR is worth 3–4× more or less depending on the AI moat



Strategic Differentiation and Structural Advantages

Differentiation in SaaS now rests on four structural advantages, ranked by durability.

First, "data gravity and proprietary corpora." Salesforce's strategy is explicit: its Data Cloud (rebranded Data 360) ingested 22 trillion records in a single quarter (up 175% year over year), and the \$8 billion [Informatica](#) acquisition was justified as building the "trusted data foundation" for agentic AI [9][10]. The strategic logic, in Steve Fisher's words, is that "truly autonomous, trustworthy AI agents need the most comprehensive understanding of their data" [10]. Data ownership is the moat AI cannot easily commoditize.

Second, "distribution and installed base." Microsoft's structural advantage is that Copilot rides into enterprises already standardized on M365 and Azure, collapsing customer-acquisition cost to near zero for cross-sell. This is the bundling threat to standalone vendors: an incumbent can attach AI at the suite level and undercut a best-of-breed point solution on total cost.

Third, "switching cost via workflow embeddedness." Vertical specialists ([Veeva](#), [ServiceTitan](#), [Procore](#), [Toast](#)) embed in regulated or mission-critical workflows where rip-and-replace risk is operational, not just financial. Vertical SaaS companies grew 31% versus 28% for horizontal peers, and the broader vertical-horizontal growth gap widens to 24% versus 16%, reflecting that workflow lock-in supports both pricing and retention [3].

Fourth, "platform economics versus point-solution economics." [Bessemer](#) Cloud Index data parsed by Equal Ventures shows platform companies command an 8.2x median EV/revenue multiple versus 3.9x for traditional SaaS, a greater than 2x premium, with median platform market cap of \$26.4 billion versus \$4.1 billion [11]. The market is paying for increasing returns to scale (data network effects, third-party developer ecosystems), not merely recurring revenue.

The intangible-asset layer reinforces these advantages. 7% of the worldwide CRM market in 2024, its 12th consecutive year as IDC's #1 [9]. "Regulatory influence and certifications" function as moats: FedRAMP authorization ([Moveworks](#) was the first agentic-AI platform on the FedRAMP Marketplace) gates the public-sector market, and Veeva's GxP/validation depth in pharma is a de facto license to operate [12].

"Proprietary IP" includes Darktrace's 200+ patent applications in cybersecurity AI and Anysphere's in-house Composer inference model, which moved roughly half of Cursor's autocomplete requests off third-party models and turned the company gross-margin positive [13][7].

Market Positioning and Value Propositions

Positioning maps onto a grid of "system of record" versus "system of engagement/intelligence" and "horizontal" versus "vertical."

[Microsoft](#) positions as the horizontal system of productivity and intelligence: M365 (engagement), Dynamics (record), and Copilot (intelligence layer) sold as one bundled estate. The value proposition is consolidation: fewer vendors, one security and identity perimeter, AI included.

[Salesforce](#) positions as the horizontal system of customer record plus agentic action: Customer 360, Data 360, and Agentforce. Agentforce and Data 360 combined ARR reached nearly \$1.4 billion by Q3 FY26, up 114% year over year, with Agentforce ARR alone surpassing \$500 million, and the company has closed over 18,500 Agentforce deals (9,500 paid) [9][14]. The value proposition is "digital labor": on its own help site, Agentforce handled over 1.4 million requests and deflected case volume, an internal proof point [Salesforce](#) sells outward [14].

85 billion [Moveworks](#) acquisition (over 20x Moveworks' 2024 revenue) bought a front-end AI assistant and enterprise search to extend into CRM and mid-market [12][15]. [SAP](#) and [Oracle](#) position as the ERP systems of record monetizing migration to cloud (RISE/S4HANA; [Oracle](#) Fusion/NetSuite) with embedded AI copilots (SAP's Joule). [Adobe](#) positions as the creative and document system of record now defending against generative-AI substitution.

[Workday](#) positions as the HCM/financials system of record for the enterprise.

Vertical specialists position on "we are your operating system": [Toast](#) for restaurants (ARR crossed \$2.0 billion, up 30% year over year, with quarterly gross payment volume of \$51.5 billion across roughly 156,000 locations), [Veeva](#) for life sciences (FY2026 revenue \$3,195.3 million, up 16%), [ServiceTitan](#) for the trades, [Procore](#) for construction, [Shopify](#) for commerce [16][17]. Their proposition trades breadth for depth: deeper workflow fit, embedded payments/fintech monetization, and higher switching cost.

AI-native entrants position as "the work gets done, not just managed." [Cursor](#), [Glean](#), [Sierra](#), and [Decagon](#) sell outcomes (code written, answers found, tickets resolved) rather than seats. This is the repricing threat: as AI-native firms grow at roughly 2x the rate of traditional SaaS across every revenue band (for example, 90% versus 30% median growth at \$5 million to \$20 million ARR), they pull both budget and the pricing narrative away from per-seat incumbents [18].

M&A Logic and Consolidation Patterns

Competitive consolidation follows three logics that recur across the landscape (developed in depth in Section 10).

"Capability acquisition" dominates strategic buyers: Salesforce-Informatica (\$8 billion, data management for agentic AI), ServiceNow-Moveworks (\$2.85 billion, conversational AI front end), SAP-WalkMe (~\$1.5 billion, digital adoption to feed its Joule copilot), and Google-Wiz (\$32 billion, cloud security) are all "buy the missing AI/data layer" deals [9][12][19]. The pattern: incumbents pay AI-premium multiples to close a defensibility gap rather than to add revenue scale.

"Scale/share consolidation" appears in horizontal mega-deals like Synopsys-Ansys (\$35 billion, the largest design-software deal ever), which expanded Synopsys' TAM by roughly 1.5x to ~\$28 billion [20]. "Take-private and roll-up" is the PE logic: [Thoma Bravo](#) ([Darktrace](#) \$5.3 billion, [Dayforce](#) \$12.3 billion), Vista/[Blackstone](#) ([Smartsheet](#) \$8.4 billion), and serial compounders [Constellation Software](#)/Topicus and [Roper Technologies](#) acquiring vertical-market software at disciplined multiples [13][21][22][23].

The consolidation map shows most activity where fragmentation meets durable cash flow: vertical SaaS (Roper deployed \$3.3 billion in 2025 toward VMS), European SMB software (Visma's 350+ deals, [Main Capital](#) and [Hg](#) portfolios), and security/devtools (where AI raised strategic urgency).

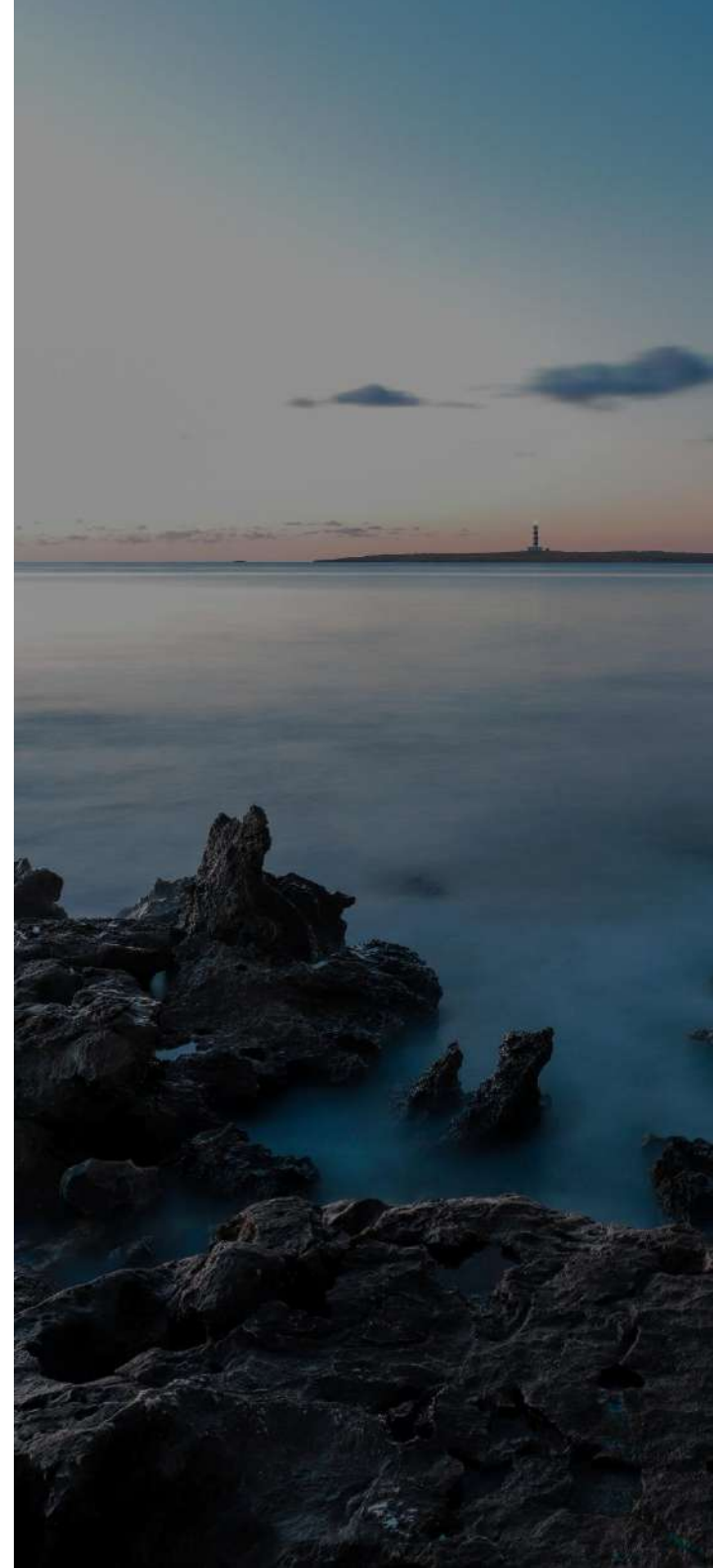
Competitive Threats and Barriers to Entry

The dominant competitive threat is "AI repricing of the seat." If agents do the work, per-seat SaaS revenue compresses. Equal Ventures' read of the data is blunt: "as AI makes it easier and easier to achieve product parity ... the value of platform companies will diverge even further from traditional SaaS companies as the increased competition further erodes SaaS multiples" [11]. The corollary threat is "hyperscaler and suite bundling": [Microsoft](#), [Google](#), and [Salesforce](#) can attach AI at the platform level, squeezing standalone vendors on price and distribution.

Barriers to entry remain high in specific places and have collapsed in others. They remain high where data, regulation, and workflow lock-in compound: enterprise systems of record, regulated verticals (FedRAMP, GxP, financial compliance), and platforms with developer ecosystems. They have fallen where AI code generation slashes build cost: [Cursor](#) reaching \$2 billion ARR in three years with 182 employees, and AI-native firms posting revenue-per-employee far above legacy norms, demonstrates that minimum efficient scale for a point product has dropped sharply [7][24].

This asymmetry, low barriers to build a feature but high barriers to own a system, is why AI-native entrants proliferate at the application edge while consolidation continues at the platform core.

A second-order threat is "funding and rate climate." Public SaaS multiples sit at roughly 6.4x EV/revenue (SaaS Capital Index) to 8.0x (BVP Nasdaq Emerging Cloud Index) as of Q1 2026, down from a 2021 peak, with a widening dispersion where AI-native firms command 15-40x and the bottom quartile trades at 2-4x [25][11]. For incumbents this is a buyer's market for bolt-ons; for sub-scale vendors it is an existential repricing.



Strategic Recommendations for Investment/Positioning

For strategic acquirers: prioritize "data-layer and agentic-orchestration assets" that defend the seat against AI erosion. The Salesforce-Informatica and ServiceNow-Moveworks template (buy the data/agent layer at premium multiples to protect a much larger installed base) is the correct defensive playbook; the multiple paid is justified by the revenue defended, not the revenue added.

For growth-equity and crossover funds: overweight "vertical SaaS with embedded fintech" ([Toast](#), [ServiceTitan](#), [Procore](#) archetypes) where workflow lock-in and payments attach create AI-resistant moats and expansion revenue. Vertical's growth premium (31% versus 28%) and retention durability make it the defensible end of the barbell.

For PE platforms: the take-private and roll-up thesis is strongest in "mission-critical European SMB software and undermanaged public point-solutions" trading at compressed multiples; the [Visma](#)/Constellation/Roper compounding model converts fragmentation into durable free cash flow. Use the current 6-8x public multiple environment to acquire scale assets at a discount to 2021 peaks.

For all participants, the benchmark that should change the strategy is net revenue retention: a portfolio company holding NRR above 110% in an AI-pressured category is defending the seat; one drifting below 100% is being repriced and should be a sell or restructure candidate.



Value Chain



Value Chain

Executive Summary

Value in global SaaS is migrating decisively toward two poles, the **AI-model-plus-data layer** and the **application-workflow layer**, while undifferentiated middleware and generic delivery commoditize, a shift the public market already prices through the 8.2x platform versus 3.9x point-solution multiple gap. The chain runs through seven stages: infrastructure and cloud, the model and AI layer, platform and core SaaS, data and integration, application and workflow, distribution and go-to-market, and customer success and retention. Value creation concentrates where proprietary data, workflow lock-in and switching cost compound, and leaks at stages that are substitutable. Three control points confer bargaining power: the system of record, the data and integration layer that governs whether agents can act safely, and distribution, where product-led growth is becoming the choke point for AI-native products. The principal bottleneck of 2026 is data readiness for AI, which flipped the data and integration stage from commoditized plumbing to strategic control point. Acquirers buy up the value-capture gradient, toward data, AI and workflow-embedded applications, away from commoditizing middleware.

- **Seven stages:** from infrastructure and cloud through the model layer, platform, data and integration, application and workflow, distribution and customer success; profit concentrates at the data, AI and workflow poles.
- **Core delivery quality:** platform and core SaaS remains the highest-quality profit pool at 75-85% subscription gross margins, with the system of record setting integration terms for everything downstream.
- **Control points:** the system of record, the governed data and integration layer, and distribution confer pricing latitude; whoever controls ETL and governance controls whether AI agents can act safely.
- **Data bottleneck:** agents cannot act without governed, integrated data, which flipped the data and integration stage from commoditized middleware to strategic control point and justified the [Informatica](#) price.
- **Unit economics:** median NRR compressed to 101-106% in 2025, with enterprise at 115-125%; expansion revenue now drives durable growth as existing customers generate roughly 40% of new ARR.
- **Margin by stage:** resold infrastructure runs 30-50% and is pressured by inference cost; platform and application stages run 70-85%; the model layer is thin until fused with proprietary data and distribution.
- **M&A follows value:** capability deals cluster at the data and model stages while vertical and application deals (Roper, Constellation, [Toast](#)) target workflow lock-in and embedded payments that resist AI.
- **Emerging profit pools:** the governed-data-plus-agent layer, vertical workflow with embedded fintech, and proprietary-model-plus-distribution fusion; undifferentiated middleware and seat-priced point tools are the declining stages.

Value in global SaaS is migrating decisively toward two poles, the AI/model-plus-data layer and the application/workflow layer, while the undifferentiated middleware and generic delivery stages commoditize, a shift the public market already prices through the 8.2x platform versus 3.9x point-solution multiple gap [1]. This section maps the chain stage by stage, quantifies margins, and draws the M&A implications.

Value Chain Framework and Mapping

The SaaS value chain runs through seven stages from infrastructure to retention:

- "Infrastructure/cloud" (compute, storage, networking): [AWS](#), Azure, [Google](#) Cloud, [Oracle](#) Cloud.
- "Model/AI layer" (foundation models, inference): [OpenAI](#), [Anthropic](#), plus open and proprietary in-house models.
- "Platform/core SaaS" (system of record, multi-tenant platform): [Salesforce](#), [SAP](#), [ServiceNow](#), Workday.
- "Data/integration" (ETL, catalog, governance, MDM): [Informatica](#), [MuleSoft](#), HashiCorp-style infra automation.
- "Application/workflow" (the functional product the user touches): vertical and horizontal apps.
- "Distribution/GTM" (app stores, channel, product-led growth): hyperscaler marketplaces, PLG motions.
- "Customer success/retention" (onboarding, expansion, renewal): the NRR engine.

Value creation concentrates where proprietary data, workflow lock-in, and switching cost compound (stages 3, 5, and increasingly 2 when fused with proprietary data); value capture leaks at stages that are substitutable (raw infrastructure resold, generic middleware, undifferentiated distribution).

Upstream Enabling Layers and Core Delivery

The "infrastructure/cloud" layer is high-margin for the three hyperscalers but a cost center (COGS) for SaaS vendors who resell it. The strategic fact of 2024-2026 is that AI inference has re-inflated this layer's importance: AI infrastructure software is projected to reach roughly \$230 billion in 2026, up from \$60 billion in 2024 [2]. For SaaS vendors, rising inference costs compress gross margin unless offset by proprietary models, which is precisely why [Anysphere](#) built Composer to move roughly half of Cursor's queries off paid third-party models and restore gross-margin positivity [3].

The "model/AI layer" is the fastest-shifting profit pool. Foundation-model providers ([OpenAI](#), [Anthropic](#)) are scaling revenue at unprecedented rates, but the layer is capital-intensive and margin-thin at the model level; the value accrues to whoever fuses the model with proprietary data and distribution. This is the

structural reason incumbents are buying data assets (Salesforce-Informatica) rather than building models from scratch.

"Core delivery" (platform/core SaaS) remains the highest-quality profit pool: multi-tenant platforms with 75-85% subscription gross margins, recurring revenue, and cross-sell. Salesforce's subscription and support gross economics and ServiceNow's premium 15-20x historical revenue multiples reflect the durability of this layer [4]. The control point here is the system of record: whoever owns it sets the integration terms for everything downstream.

Value Flow, Interdependencies, and Bottlenecks

The chain's "control points," the stages that confer bargaining power and pricing latitude, are three:

First, "the system of record." The platform that owns the canonical customer, employee, or transaction data dictates API access, integration economics, and which third-party apps survive. [Salesforce](#) ingesting 22 trillion records per quarter into Data 360 is an exercise in control-point reinforcement: the more data resident, the higher the switching cost and the more defensible the agentic AI built on top [4].

Second, "the data/integration layer." Whoever controls ETL, cataloging, and governance controls whether AI agents can act safely. Salesforce's rationale for paying \$8 billion for [Informatica](#), that "the combination of Informatica's advanced catalog and metadata capabilities with our Agentforce platform" enables trustworthy agents, is an explicit bid to own this bottleneck [5]. IBM's \$6.4 billion [HashiCorp](#) acquisition (Terraform, Vault) is the same logic for hybrid-cloud infrastructure automation: control the provisioning layer, control the deployment [6].

Third, "distribution/GTM." Hyperscaler marketplaces and PLG motions are increasingly the choke point for customer acquisition. Notably, roughly 7% of AI application spend flows through PLG motions, nearly 4x the rate of traditional software, indicating that for AI-native products the distribution control point is shifting from enterprise sales to bottoms-up developer adoption [2].

The principal "bottleneck" of 2026 is data readiness for AI: agents cannot act without governed, integrated data, which is why the data/integration stage has flipped from commoditized plumbing to strategic control point. Undifferentiated middleware (generic connectors, basic iPaaS) commoditizes; governed, AI-grade data infrastructure commands a premium.

Economic Drivers and Unit Economics

The unit-economics spine of SaaS is net revenue retention, gross margin, and CAC payback. Median NRR compressed to roughly 101-106% in 2025 (SaaS Capital and multiple benchmark sources), with enterprise segments at 115-125% and SMB at 90-105% [7][8]. The economic meaning: expansion revenue, not new-

logo acquisition, now drives durable growth, and existing customers generate roughly 40% of new ARR (over 50% above \$50 million ARR) [9].

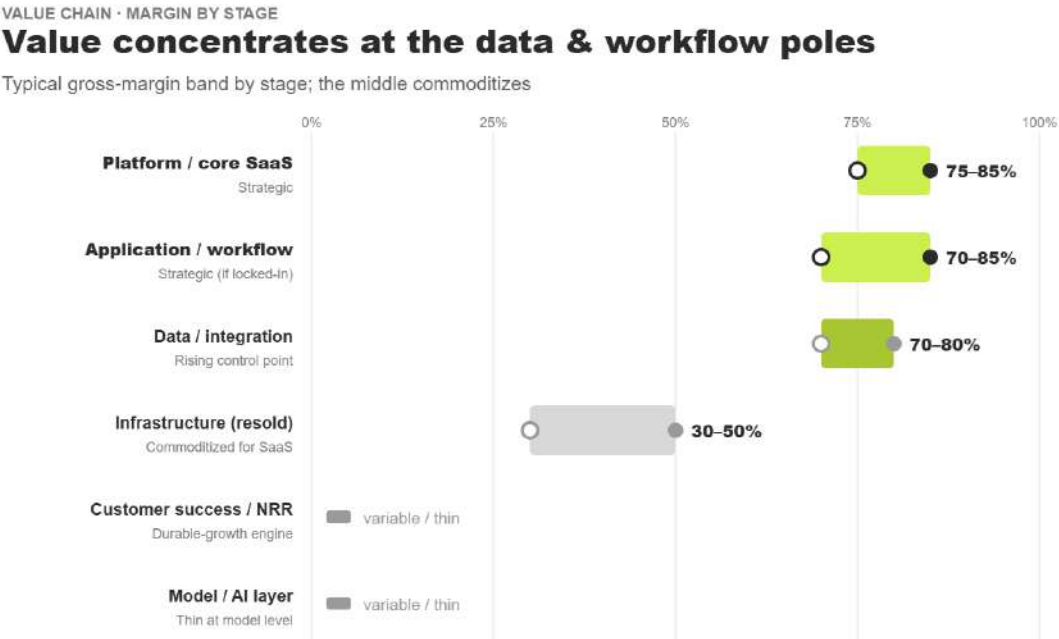


Figure 21. Margin by value-chain stage: value concentrates at the data and workflow poles.

Margin profile varies sharply by stage. AI-native firms run roughly 5 points lower gross margin than traditional SaaS because of inference COGS, but grow about 3x faster, producing superior Rule of 40 outcomes despite the margin drag [8]. Revenue per employee has jumped to \$129,724 median for private SaaS (public median \$283,000) as AI compresses headcount, with companies under \$5 million ARR cutting headcount 25-41% while maintaining growth [10].

The "Margin Profile by Value Chain Stage" table:

Value Chain Stage	Typical Gross Margin	Margin Trend	Strategic vs Commoditized
Infrastructure/cloud (resold)	30-50% (vendor view; COGS)	Pressured by AI inference cost	Commoditized for SaaS vendor; strategic for hyperscaler
Model/AI layer	Low/variable at model level; negative for many	Improving with proprietary models	Strategic when fused with proprietary data
Platform/core SaaS	75-85%	Stable	Strategic (highest-quality profit pool)

Value Chain Stage	Typical Gross Margin	Margin Trend	Strategic vs Commoditized
Data/integration	70-80%	Rising in value	Shifting from commoditized to strategic control point
Application/workflow	70-85% (vertical often higher retention)	Rising for vertical; pressured for horizontal point tools	Strategic where workflow lock-in exists
Distribution/GTM	n/a (cost stage); marketplace take rates 3-20%	PLG rising for AI	Strategic where it becomes a control point
Customer success/retention	n/a (drives NRR)	Increasingly automated by AI	Strategic (the durable-growth engine)

(Gross-margin ranges synthesized from [Bessemer](#)/SaaS Capital benchmark commentary and platform-versus-SaaS analysis; stage-level figures are directional, not audited per-stage disclosures [1][8].)

M&A Logic through the Value Chain Lens

M&A follows value migration. Acquirers buy "up the value-capture gradient": toward the data/AI layer and toward workflow-embedded applications, away from commoditizing middleware.

Capability deals cluster at the data/integration and model stages: Salesforce-Informatica (\$8 billion), IBM-HashiCorp (\$6.4 billion), ServiceNow-Moveworks (\$2.85 billion), SAP-WalkMe (~\$1.5 billion) [5][6][11][12]. Each buys a control point that defends a far larger installed base. Synopsys-Ansys (\$35 billion) is a horizontal scale deal that fuses two adjacent design-software stages to widen the moat and TAM [13].

Vertical/application deals (Roper's \$3.3 billion 2025 VMS deployment, Constellation's 140+ deals, [Toast](#)/ServiceTitan-style verticals) target the application/workflow stage where switching cost and embedded payments create AI-resistant retention [14]. The strategic message: the chain's profit is concentrating, and buyers are paying to own the concentrated stages.

Forward-Looking Evolution of Value Concentration

The "emerging profit pools" are: (1) the governed-data-plus-agent layer, where the ability to let AI act safely on enterprise data is the new control point; (2) vertical application/workflow with embedded fintech, where payments monetization layers on top of subscription; and (3) proprietary-model-plus-distribution fusion, where owning both the model economics and the customer relationship (Cursor's Composer, Microsoft's Copilot-on-M365) captures the margin that pure-model players cannot.

The "declining legacy stages" are: undifferentiated middleware and generic iPaaS (commoditized by both hyperscalers and AI-generated connectors); seat-priced horizontal point tools without data or workflow moats (directly repriced by AI agents); and resold-infrastructure-heavy businesses whose inference COGS

outrun pricing power. Equal Ventures' thesis, that recurring revenue alone "will not enable you to achieve sustainable FCF as a business" as competition erodes SaaS multiples, is the forward-looking summary: value concentrates at the stages that own data, workflow, and distribution simultaneously [1].

10

M&A Landscape & Transactions

M&A Landscape

Executive Summary

Global tech M&A roared back in 2025, with Bain reporting deal value up more than 76% to **\$478bn**, and almost half of strategic technology deal value above \$500m coming from AI natives or deals citing AI benefits. The SaaS subset is defined by three converging forces: strategic buyers acquiring AI and data control points at premium multiples, private equity deploying near-record dry powder into take-privates and roll-ups, and an acquihire and licensing wave reshaping how AI talent changes hands. Five deal categories structure the field: large-scale consolidations above \$5bn, bolt-on acquisitions of niche specialists, venture funding in AI-native emerging tech, geographic joint ventures and licensing, and PE take-privates and roll-ups. The central analytical distinction is new capabilities versus more volume: capability deals dominate strategic acquirers because the multiple is justified by the revenue defended, not added. Key-man risk is the dominant operational barrier, since AI-native targets are talent-and-founder-centric, as the Windsurf collapse showed. This section closes with concrete, named, ranked acquisition targets and deal-structure recommendations.

- **Deal value rebound:** tech M&A rose more than 76% to \$478bn in 2025; megadeals above \$5bn drove more than 73% of incremental value as infrequent acquirers came off the sidelines.
- **Capability versus volume:** Salesforce-Informatica (\$8bn), ServiceNow-Moveworks (\$2.85bn) and Google-Wiz (\$32bn) are defensive capability buys; the premium multiple is justified by the installed base protected, not added.
- **Marquee consolidations:** Synopsys-Ansys (\$35bn) and Google-Wiz (\$32bn) reset competitive boundaries; [Wiz](#) crossed \$1bn ARR at roughly 32x projected revenue, a benchmark for AI-era security premiums.
- **PE take-privates:** Thoma Bravo-Dayforce (\$12.3bn), Vista/Blackstone-Smartsheet (\$8.4bn) and [Darktrace](#) (\$5.3bn) convert undervalued public point-solutions into private cash-flow compounders, often with ADIA co-investment.
- **Dry powder:** US PE dry powder neared a record \$1.1 trillion at year-end 2025, and PE crossed \$1.2 trillion of deal value, the second time ever, pressuring deployment into SaaS take-privates.
- **Acquihire and licensing:** Meta-Scale AI (\$14.3bn for 49% plus talent), Microsoft-Inflection and Google-Windsurf route around antitrust; FTC scrutiny of these structures adds a regulatory vector.
- **Key-man risk:** AI-native targets are founder-centric; the Windsurf collapse, where founders left for [Google](#) and the remainder went to Cognition, shows diligence must price retention, vesting cliffs and team half-life.
- **Named priorities:** sell data and agent assets ([Glean](#), [Sierra](#), [Decagon](#)) to incumbents; mandate vertical roll-ups with embedded fintech to Roper, Constellation and Vista; pursue European SMB consolidation via [Visma](#) and Hg.

Global tech M&A roared back in 2025: per Bain & Company's December 11, 2025 statement, "Tech M&A is back in force in 2025, with deal value up more than 76% to \$478 billion in the year-to-date," and Bain EVP Suzanne Kumar characterized it as "a year of big bets by companies that traditionally make few deals" [1]. Per Bain's Global M&A Report 2026, "almost half of strategic technology deal value for deals greater than \$500 million came from AI natives or deals that cited AI benefits in 2025" [1]. The SaaS subset is defined by three converging forces: strategic buyers acquiring AI/data control points at premium multiples, private equity deploying near-record dry powder into take-privates and roll-ups, and an acquihire/licensing wave reshaping how AI talent changes hands [1][2].

This section is the deepest of the report: it taxonomizes the deal flow, dissects rationale and management/key-man risk, presents the rationale-versus-impact matrix, works through case studies, and closes with named, ranked acquisition targets and deal-structure recommendations.

Transactional Taxonomy and Industry Relevance

Five deal categories structure SaaS M&A, each shaping industry structure differently.

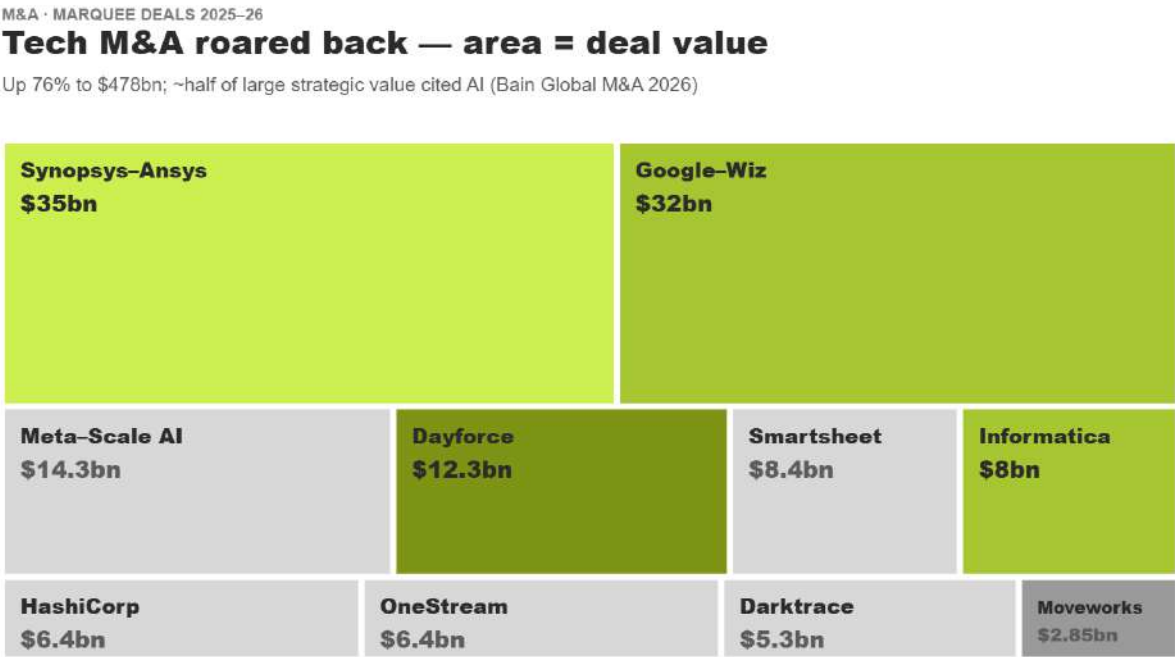


Figure 22. Marquee tech M&A 2025-26: area is deal value; up 76% to \$478bn.

"Large-scale consolidations" (>\$5 billion) reset competitive boundaries. Synopsys-Ansys (\$35 billion, closed July 2025, the largest design-software deal ever), Google-Wiz (\$32 billion, closed March 2026, Google's largest acquisition), Salesforce-Informatica (\$8 billion), and IBM-HashiCorp (\$6.4 billion) are the marquee examples [3][4][5][6]. Per Bain, "megadeals greater than \$5 billion represented more than 73% of incremental deal value as infrequent acquirers came off the sidelines," with infrequent acquirers accounting for roughly 59% of megadeals [1].

"Bolt-on acquisitions of niche specialists" extend platform capability. ServiceNow-Moveworks (\$2.85 billion), SAP-WalkMe (~\$1.5 billion), Workday-Sana, and the steady tuck-in cadence of Roper and Constellation belong here [7][8]. These deals buy capability, not scale, and rarely move antitrust radar.

"Venture funding in emerging tech" (AI-native) is the new front. [Cursor](#)/Anysphere's round-by-round markups (Series D at \$29.3 billion in November 2025, reportedly raising toward a \$50 billion valuation by April 2026), Glean's \$7.2 billion valuation, and the foundation-model rounds dwarf classic SaaS venture in size [9][10].

"Geographic JVs and licensing" route around regulatory and valuation friction. The Meta-Scale AI structure (\$14.3 billion for a 49% stake plus talent) and the Apple-Google Gemini commercial deal exemplify licensing as an M&A substitute; as Akin notes, "licensing has been a growing theme of late as companies have sought to circumnavigate regulatory, valuation and other M&A hurdles" [11][12].

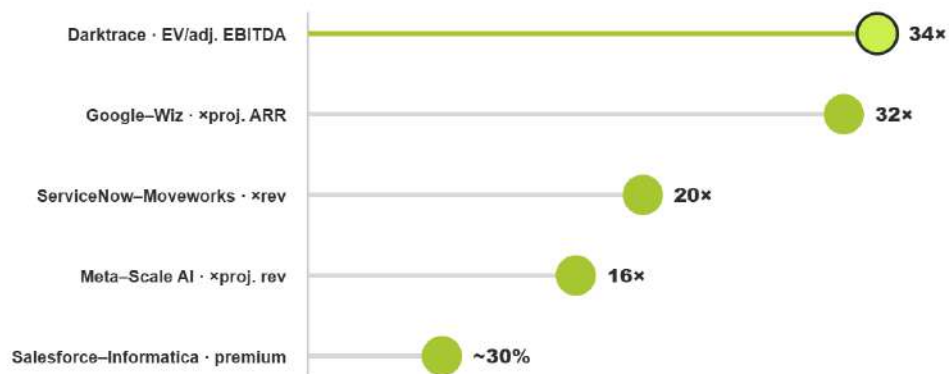
"PE take-privates and roll-ups" convert public point-solutions and fragmented vertical software into private cash-flow compounders. [Thoma Bravo](#) ([Darktrace](#) \$5.3 billion, [Dayforce](#) \$12.3 billion), Vista/[Blackstone](#) ([Smartsheet](#) \$8.4 billion), [KKR](#) ([OneStream](#)), and the serial compounders (Constellation/Topicus, Roper, [Visma](#)) define this category [13][14][15].

Strategic Rationales and Deal Drivers

The central analytical distinction is "New Capabilities versus More Volume."

Capability deals clear premium multiples

Incumbents pay up to defend the installed base, not to add revenue scale



Justification is the revenue defended, not the revenue added — the post-2024 capability-acquisition logic.

Figure 23. What buyers paid: capability deals clear premium multiples.

"New Capabilities" deals dominate strategic acquirers in 2024-2026 and command premium multiples because they defend a much larger installed base. [Salesforce](#) paid roughly a 30% premium for [Informatica](#) explicitly to build "the trusted data foundation critical for deploying powerful and responsible agentic AI" [5][16]. [ServiceNow](#) paid over 20x revenue for [Moveworks](#) to fix "critical gaps in ServiceNow's AI ecosystem, particularly in conversational AI, enterprise search, and in mid-market penetration" [7][17]. [SAP](#) bought [WalkMe](#) to feed its Joule copilot with digital-adoption telemetry.

[Google](#) paid \$32 billion for [Wiz](#), which per Cyber Security News crossed "\$1 billion in annual recurring revenue (ARR) in 2025, with an anticipated growth rate of 40% in 2026," serving over 50% of the Fortune 100 at roughly 32x projected 2025 ARR, to make [Google](#) Cloud competitive in multicloud security against [AWS](#) and Azure [4][18]. These are defensive capability buys: the multiple is justified by revenue protected, not revenue added.

"More Volume" deals appear in scale consolidations and PE roll-ups. Synopsys-Ansys expanded TAM ~1.5x to \$28 billion and was sold to investors on margin accretion (~125 bps non-GAAP operating-margin expansion in year one) [3][19]. Roper's model is pure volume-of-cash-flow compounding: \$3.3 billion deployed in 2025, 75% of the portfolio now vertical-market software, generating \$7.9 billion revenue and \$3.1 billion EBITDA [20]. Constellation closed 140+ deals in 2025, shifting toward larger platform acquisitions [21].

The macro deal drivers: (1) AI urgency, almost half of large strategic deal value cited AI [1]; (2) rate relief, the year-end Fed rate cut lowered cost of capital and reopened leveraged buyouts; (3) near-record PE dry powder, with US PE dry powder "reaching close to \$1.1 trillion" at year-end 2025, a record high (PitchBook via [Cherry Bekaert](#)), against a global figure that peaked at \$2.62 trillion mid-2024 and eased to roughly \$2.51 trillion (Preqin/S&P Global Market Intelligence), pressuring deployment [22][23]; (4) valuation reset, public SaaS at 6.4-8.0x revenue (down from 2021's ~18x peak) makes take-privates attractive [24][25]; and (5) the IPO window reopening selectively ([ServiceTitan](#), Rubrik) while many issuers took haircuts ([OneStream](#) fell 35% before its take-private; Navan listed at ~4x ARR) [26].

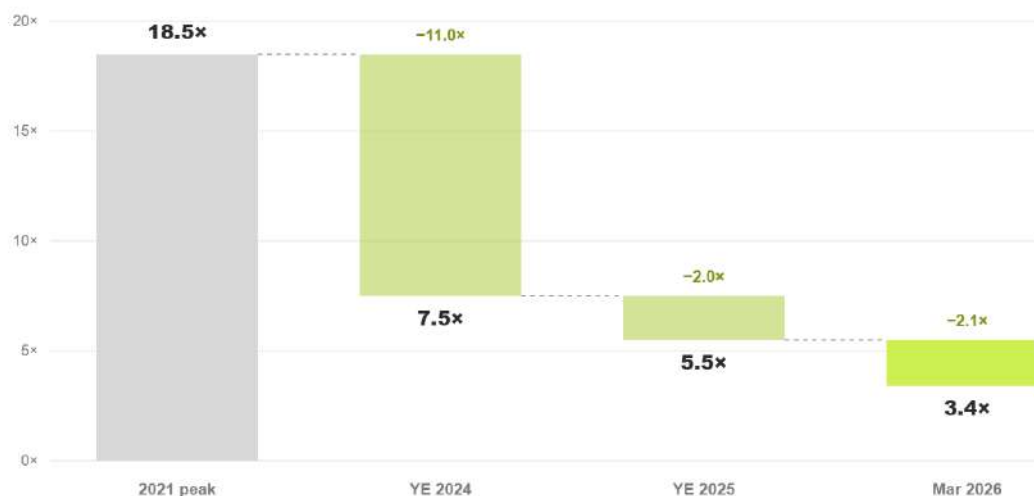
Market Impact and Structural Trends

The structural impact is "concentration at the platform core, churn at the long-tail edge." Capability deals entrench the incumbents ([Microsoft](#), [Salesforce](#), [ServiceNow](#), [Google](#)) by giving them the data and agent layers that defend seat revenue. Take-privates remove undervalued public point-solutions from the market entirely, shrinking the public SaaS universe and concentrating it among scaled, profitable names, exactly the dynamic SaaS Capital flags as a "rich get richer" market where the top decile commands 15-20x and the bottom quartile 2-4x [26].

SUBSTITUTES - PUBLIC RE-RATING

The de-rating, step by step

Median public multiple (× ARR); each step is the drop between snapshots from the 2021 peak



The Feb 2026 "SaaS Apocalypse": ~\$285bn of SaaS market cap erased in 48 hours after Claude Cowork launched.

Figure 24. Public re-rating, step by step: the deepest SaaS de-rating in over a decade.

PE's role is now structural rather than cyclical. 2 trillion ... only the second time in history that annual deal value has crossed the trillion-dollar threshold," with megadeals (\$1B+) hitting a record \$568 billion across 150 deals, and the OBBBA tax changes favoring "growth-oriented, long-duration investment strategies" and highly levered buyouts [22]. However, PwC's mid-2026 read warns of bifurcation: H1 2026 PE deal volume fell sharply while average deal size rose, as "AI disrupts the economics of legacy software holdings, making exits harder even as it unlocks new value creation levers" [27].

The structural trend: capital concentrates in higher-conviction bets; DPI (distributions to paid-in capital) overtakes IRR as the watched metric; and continuation vehicles/secondaries become the primary liquidity release valve [27].

A distinct AI-native structural trend is the "acquire/licensing" pattern that sidesteps full M&A: Microsoft-Inflection (~\$650 million to hire the team), Amazon-Adept (licensing), Google-Character.AI and Google-Windsurf (\$2.4 billion to hire founders and license technology), and Meta-Scale AI (\$14.3 billion for 49% plus Alexandr Wang) [28][11]. The July 23, 2024 FTC/DOJ/CMA/EC Joint Statement on Competition in Generative AI (signed by Khan, Kanter, Cardell, and Vestager) committed regulators to "scrutinizing investments and partnerships between incumbents and newcomers, to ensure that these agreements are not sidestepping merger enforcement or handing incumbents undue influence or control"; a separate January 17, 2025 FTC staff 6(b) report examined the Alphabet/Amazon/Microsoft-Anthropic/OpenAI partnerships specifically [29]. The Windsurf saga, OpenAI's acquisition collapsing, [Google](#) taking the founders, Cognition acquiring the remainder, illustrates both the fragility and the key-man centrality of these deals [28].

Landscape Gaps and Future Opportunity Areas

The clearest gaps and opportunity areas for the next 18-24 months:

First, "AI-grade data infrastructure for the mid-market." The [Informatica](#) and [HashiCorp](#) deals took the enterprise-grade data/governance assets off the board; the gap is governed-data tooling sized for the mid-market and verticals, a fragmented field ripe for roll-up.

Second, "vertical SaaS with embedded fintech in under-penetrated verticals." Beyond restaurants ([Toast](#)) and trades ([ServiceTitan](#)), construction, logistics, agritech, and healthcare back-office remain fragmented with low cloud penetration, the highest-conviction growth-equity and roll-up territory.

Third, "European mission-critical SMB software," where [Visma](#) (heading toward a 2026 London IPO at a ~€19 billion 2023 valuation), [Cegid](#) (Silver Lake-controlled, not [Thoma Bravo](#)), and [Main Capital/Hg](#) portfolios show that disciplined buy-and-build compounds; the continent remains under-consolidated relative to the US [15][30].

Fourth, "agentic-AI application layer with proprietary data moats," where the durable winners (versus repriced point tools) will be acquisition targets for incumbents needing to defend seats.

Fifth, "emerging-market SaaS," India (about 250 companies with \$10 million or more in ARR, 36 of which have passed the \$100 million threshold, on a 24% CAGR since FY19, with PE investment of \$1.38 billion in the first seven months of 2025 versus \$833 million in all of 2024), Latin America, and the Middle East, where ADIA's co-investment in [Smartsheet](#) and [Dayforce](#) signals sovereign capital entering SaaS buyouts [31][14].

Illustrative Transaction Case Studies

735 billion first-lien and \$410 million second-lien term loan [13][32]. Rationale: scale a UK cybersecurity-AI champion (200+ patents, ~9,400 customers) globally, with the standard PE playbook of operational improvement then resale, the Barracuda template. Management/key-man read: CEO Jill Popelka retained; the asset is platform-and-patent-driven rather than founder-dependent, lowering key-man risk.

Industry impact: removes a scaled European cyber-AI asset from public markets and adds to Thoma Bravo's 12-company cybersecurity portfolio (Proofpoint, Sophos, SailPoint, Ping).

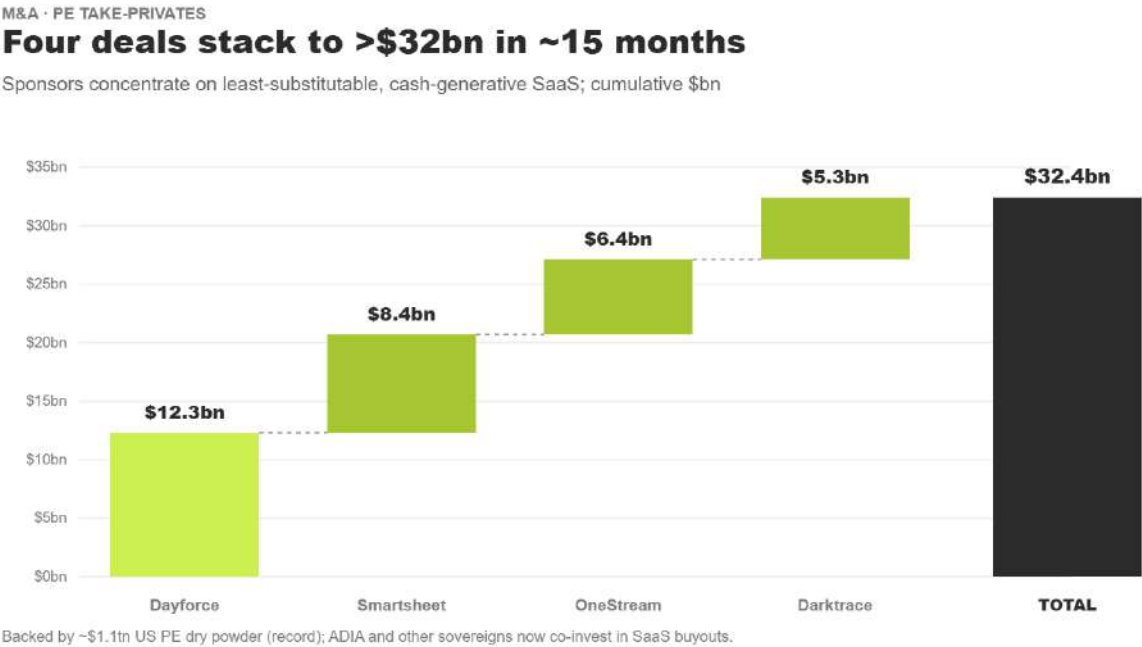


Figure 25. PE take-privates: four deals stack to more than \$32bn in roughly 15 months.

"Salesforce-Informatica (\$8 billion, announced May 2025, expected close early FY27)." \$25/share cash (~30% premium), funded by cash and new debt; Salesforce's largest deal since Slack (\$27.7 billion, 2021) [5][16]. Rationale: own the data catalog/MDM/ETL control point to make Agentforce trustworthy. Key-man risk: low, this is an infrastructure asset with 5,000+ customers across 100+ countries, not a founder story. Impact: vertically integrates the data layer beneath Salesforce's agentic stack and signals that the data/integration stage is now a must-own control point.

"ServiceNow-Moveworks (\$2.85 billion, announced March 2025)." Over 20x Moveworks' ~\$100 million+ 2024 revenue, cash and stock, with \$150-300 million expected integration cost; [ServiceNow](#) shares fell ~5.5% on announcement over multiple/dilution concerns [7][17][33]. Rationale: buy a front-end AI assistant (nearly 5 million users in 18 months, ~250 mutual customers, FedRAMP-listed) to extend into CRM and mid-market. Key-man risk: moderate-high, co-founder/CEO Bhavin Shah and the AI research team are central; retention and integration are the execution test, "whether [ServiceNow](#) can successfully integrate Moveworks' NLU capabilities without compromising security, governance, or flexibility" [33].

"Synopsys-Ansys (\$35 billion, closed July 2025)." \$197/share cash plus 0.3450 [Synopsys](#) shares; TAM expansion ~1.5x to ~\$28 billion; the deal's signature challenge was regulatory, CEO Sassine Ghazi personally lobbied Chinese regulators (SAMR cleared it with conditions, including a bar on rejecting customer renewal requests) [3][19][34]. Rationale: fuse silicon design with multiphysics simulation for AI-era "silicon to systems" engineering. Impact: creates a design-software superpower and demonstrates that cross-border tech mega-deals remain closable in a fractious geopolitical climate.

"All-cash; Google's largest acquisition ever; cleared a 12-month global antitrust gauntlet (DOJ ended its probe early). [Wiz](#) crossed \$1 billion ARR in 2025 (~40% anticipated 2026 growth, over half the Fortune 100 as customers) after rejecting Google's earlier \$23 billion offer in 2024 [4][18][35]. Rationale: make [Google](#) Cloud (~10% infrastructure share versus [AWS](#) ~33%, Azure ~22%) the multicloud-security leader.

Key-man read: CEO Assaf Rappaport's confidence ("the business could grow a lot bigger") drove the price up 39% between offers, a founder-leverage case study. Impact: the largest cybersecurity deal in history and a benchmark for AI-era security premiums.

"Thoma Bravo-Dayforce (\$12.3 billion, announced August 2025)." \$70/share cash (32% premium), with a significant minority investment from ADIA [14][36]. Rationale: take a HCM leader private to "accelerate growth, customer value, and AI leadership" away from quarterly scrutiny. Key-man read: Chair/CEO David Ossip retained. Impact: signals PE appetite for scaled, AI-repositionable HCM and the recurring presence of sovereign co-investors (ADIA also co-invested in [Smartsheet](#)).

"Vista/Blackstone-Smartsheet (\$8.4 billion, closed January 2025)." \$56.50/share (41% premium to 90-day VWAP), with ADIA as a third partner and a \$3.2 billion Blue Owl-led ARR-loan financing package; advised by Qatalyst ([Smartsheet](#)) and Goldman/Morgan Stanley (sponsors) [15][37]. Rationale: scale an AI-

enhanced work-management platform (85% of the Fortune 500) internationally under private ownership. Impact: a template club-deal take-private blending two mega-sponsors plus sovereign capital, with an ARR-loan structure that itself signals lender comfort with recurring-revenue collateral.

"Meta-Scale AI (\$14.3 billion, June 2025)." A 49% stake plus hiring founder Alexandr Wang at an implied ~\$28-30 billion valuation (~16x projected 2025 revenue of \$2 billion) [11][38]. Rationale: a "quasi-acquihire" securing RLHF/data-labeling capability and control without full ownership, sidestepping antitrust. Key-man read: extreme, the deal is fundamentally about Wang and a handful of researchers; Scale subsequently laid off ~14% of staff and faces customer-trust erosion (it serves Meta's rivals [OpenAI](#), [Google](#), [Anthropic](#)). Impact: defines the licensing/investment hybrid as a structural alternative to acquisition.

Challenges, Risks, and Execution Barriers

"Regulatory and antitrust risk" lengthens timelines: Google-Wiz took a full year and multi-jurisdiction clearances; Synopsys-Ansys hinged on China's SAMR with behavioral conditions; IBM-HashiCorp drew FTC and CMA reviews [4][34][6]. The FTC's scrutiny of AI partnership/licensing structures adds a new vector [29].

"Valuation and multiple risk" is acute: paying 20-34x revenue/EBITDA for AI or cyber assets ([Moveworks](#), [Darktrace](#)) assumes growth durability that AI competition can erode; ServiceNow's stock drop on the [Moveworks](#) announcement priced this risk immediately [33][13].

"Integration and key-man risk" is the dominant operational barrier for capability deals. AI-native targets are talent-and-founder-centric; the Windsurf collapse (founders left for [Google](#), the remainder went to Cognition) shows how fragile these assets are when the key people are the asset [28]. Diligence must price retention packages, vesting cliffs, and the realistic half-life of an acquired team.

"Financing and exit risk" persists despite rate relief: PwC's mid-2026 data shows H1 2026 PE volume down sharply with exits suppressed, pushing sponsors toward continuation vehicles and secondaries; AI is simultaneously "disrupting legacy software valuations that underpin many PE portfolios" [27]. A take-private bought at 6x today can be hard to exit if AI repricing compresses the category further.

"Cultural and go-to-market risk" recurs in PE take-privates that strip cost too aggressively and damage NRR, the metric that underwrites the entire thesis.

M&A Rationale vs Impact Matrix

Deal / Type	Primary Rationale	Capability vs Volume	Key-Man Risk	Structural Market Impact
Google-Wiz (\$32B)	Multicloud security control point	Capability + share	Medium (founder-led, retained)	Largest cyber deal ever; resets Google Cloud competitiveness
Synopsys-Ansys (\$35B)	Silicon-to-systems TAM expansion	Volume + capability	Low	Creates design-software superpower; cross-border template
Salesforce-Informatica (\$8B)	Data layer for agentic AI	Capability	Low	Data/integration becomes must-own control point
ServiceNow-Moveworks (\$2.85B)	Front-end AI assistant, CRM/mid-market	Capability	Medium-High	Validates premium AI-agent multiples; integration test
IBM-HashiCorp (\$6.4B)	Hybrid-cloud automation	Capability	Low	Entrenches IBM hybrid-cloud + AI stack
SAP-WalkMe (~\$1.5B)	Digital adoption feeding Joule copilot	Capability	Low-Medium	Adds adoption telemetry to ERP AI
Thoma Bravo-Dayforce (\$12.3B)	Take-private HCM, AI repositioning	Volume (cash flow)	Low	PE appetite for scaled HCM; sovereign co-invest
Vista/Blackstone-Smartsheet (\$8.4B)	Take-private work management	Volume (cash flow)	Low	Club deal + ARR-loan financing template
Thoma Bravo-Darktrace (\$5.3B)	Cyber-AI roll-up, resale	Volume + capability	Low	Removes scaled EU cyber asset from public market
Meta-Scale AI (\$14.3B)	RLHF/data capability + talent	Capability (acquire)	Extreme	Defines licensing/investment hybrid
Roper / Constellation (serial)	VMS cash-flow compounding	Volume	Low (diversified)	Converts fragmentation into durable FCF

Strategic Recommendations for M&A Advisory

The following are concrete, named, ranked priorities with deal-structure guidance.

"Priority 1 (defensive capability for incumbents): sell the data/agent-layer thesis to [Microsoft](#), [Salesforce](#), [ServiceNow](#), [SAP](#), and [Workday](#), and steer them toward named targets." Credible acquisition candidates: [Glean](#) (enterprise search/knowledge graph, \$7.2 billion last valuation, \$200 million ARR), a natural fit for a [Microsoft](#) or [ServiceNow](#) seeking a horizontal knowledge layer; [Sierra](#) and [Decagon](#) (agentic customer service) for [Salesforce](#) or [ServiceNow](#) to bolt onto CRM workflows; and mid-market data-governance players in Informatica's wake. Structure: cash-and-stock with heavy multi-year retention/earnout tied to

NRR and named-engineer vesting cliffs, given extreme key-man risk in AI-native targets. Advise buyers to price the team's realistic half-life, not just the ARR.

"Priority 2 (PE take-privates of repriced public point-solutions): build sell-side and sponsor mandates around sub-scale public SaaS trading at 2-4x revenue with defensible NRR." Named candidate profiles fitting the [Smartsheet/Dayforce/OneStream](#) template: public work-management, billing, marketing, and analytics vendors with NRR above 100% but below-peer multiples. Buyers to court: [Thoma Bravo](#) (AUM ~\$181-184 billion, fresh \$34.4 billion 2025 fundraise), Vista, [KKR](#), and [Blackstone](#), frequently in club deals with sovereign co-investors (ADIA pattern) [14][39]. Structure: club deals with ARR-loan financing (the [Blue Owl](#) \$3.2 billion [Smartsheet](#) package is the template), 30-41% premiums, and go-shop provisions to defend fiduciary process.

"Priority 3 (vertical SaaS roll-ups with embedded fintech): mandate buy-and-build in construction, logistics, agritech, healthcare back-office, and field services." Named acquirers/compounders to bring targets to: [Roper Technologies](#) (\$3.3 billion 2025 deployment, significant remaining M&A capacity), [Constellation Software](#)/Topicus (140+ deals in 2025), Vista, and [Thoma Bravo](#); for European targets, [Visma](#), [Hg](#), [Main Capital](#), and Cegid. Structure: disciplined sub-10x EBITDA bolt-ons, founder-retention earnouts where the founder is the customer relationship, and payments-attach as the value-creation lever.

"Priority 4 (European and emerging-market consolidation): advise on cross-border roll-ups." Bring [Visma](#) (pre-2026-IPO, ~€19 billion 2023 valuation), [Sage](#), and [Cegid](#) ([Silver Lake](#)) named targets in DACH, Nordics, Iberia, and Benelux SMB software; in India, position Zoho-adjacent and Freshworks-adjacent assets for growth capital given the 24% CAGR and surging PE inflows [30][31][15]. Structure: majority recap with management rollover (the [Visma/Hg](#) long-hold model) rather than clean buyouts, preserving the federated operating culture.

"Priority 5 (advise AI-native founders and their counterparties on licensing/acquihiere structures)." Given FTC scrutiny and the Windsurf precedent, counsel both sides on licensing-plus-talent structures (Meta-Scale, Google-Windsurf) that move capability without triggering full-merger review, while protecting rank-and-file employees through accelerated vesting (Cognition's waiver of cliffs is the reputational best practice) [28][29]. Structure: non-exclusive technology licenses paired with founder hiring, explicit retention pools for non-founder staff, and antitrust pre-clearance memos.

The benchmark that should reprioritize this list: if public SaaS multiples re-expand above ~10x (signaling renewed growth confidence), shift weight from take-privates toward IPO-readiness mandates; if AI-native ARR durability falters (NRR cohorts decaying), pull back from premium capability-deal advisory and toward distressed/restructuring roll-ups.

Data-Currency Note

All transaction values, ARR figures, and valuation multiples reflect the most recent fiscal-year or quarterly data available as of June 2026. Figures predating Q4 2024 are explicitly flagged where used: the [Visma](#) €19 billion valuation (December 2023), the Vista-Avalara \$8.4 billion take-private (October 2022), and certain market-sizing base years (2024) carry their dates inline. Market-sizing estimates diverge by source methodology (Fortune Business Insights \$315.7B versus Precedence Research \$408.2B for 2025); both are cited with their definitional basis rather than reconciled to a single figure. AI-native private valuations and ARR ([Cursor](#), [Glean](#), [Sierra](#), [Decagon](#), [OpenAI](#), [Anthropic](#)) derive substantially from venture trackers and trade press rather than audited filings and should be treated as directional.

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