

No Manual Required

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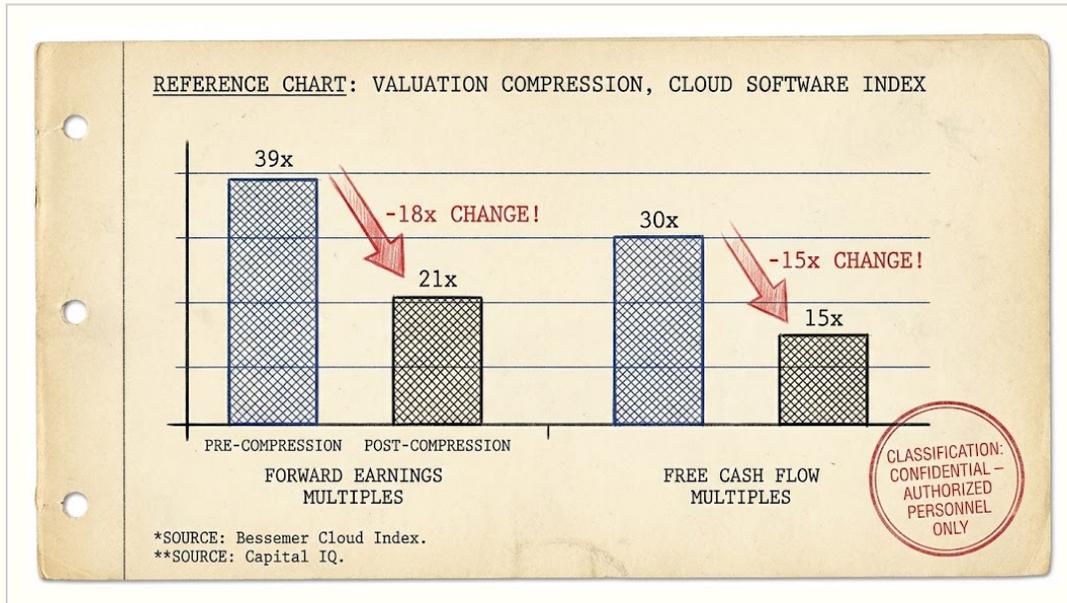
In 1543, a young anatomy professor named Andreas Vesalius did something that had not been done in thirteen hundred years. He ignored the textbook – Galen’s ancient authority on the human body, written in Latin, interpreted by a class of physicians who had never questioned it – and opened the body himself. The book said five lobes in the liver. He counted three. The knowledge had always been there. It just required someone willing to look.

Software had the same problem – and has spent sixty years working through it. The mainframe sat in a locked room with a manual only a trained operator could read. The PC put the machine on your desk. The Mac began to eliminate the manual. The internet, then SaaS, kept lowering the barrier. But at every stage, the person who knew how to run the business still needed an interpreter – a developer, an integrator, someone who spoke the language of the tool – to turn that knowledge into something the software could use. Each era got easier. None of them eliminated the gap. AI does. No manual required. And what follows will not be a correction – it will be an expansion.

I spend most of my time talking to vertical software companies – meeting with management teams, reviewing financials, watching how customers actually use the product. The market thinks software is broken. The iShares Software ETF is down 23% year-to-date. Forward earnings multiples have compressed from 39x to 21x. Free cash flow multiples from 30x to 15x.¹ Altimeter published that FCF multiples are at all-time lows and that the terminal value of software businesses appears to be in question.² The core issue is uncertainty: if no one can say with confidence whether enterprise software customers will still be paying in ten years, the market cuts the duration premium in half and moves on. I believe the market is wrong – and that for investors willing to do the work, this is an exceptional time to be buying the businesses that will win in AI. This letter explains why. Markets have always mispriced structural transitions. They see the old structure breaking and price in the loss. What they miss is that the

breaking is not the disease – it is the mechanism by which something better becomes possible. The market is pricing the disruption. It is not yet pricing what comes after.

Figure I



Valuation compression, cloud software index. Source: Bessemer Cloud Index, Capital IQ.

There are two responses to the bear case, and both favor the investor who is paying attention. First, the companies that get AI right will not just retain customers – they will charge materially more per customer. When software shifts from a seat-based subscription to outcome-based pricing, the revenue ceiling lifts. A platform that deploys an AI agent to replace a \$50,000-per-year employee is not losing a seat – it is capturing a share of a labor budget it never had access to before. Second, the math on customer churn changes completely when revenue per account expands by multiples, not percentages. Lose 5% of your customer base – customers paying \$5,000 a year on seat licenses – and replace that revenue by expanding the remaining 95% into agentic pricing at \$50,000 per account, and the business is not just larger. It is a fundamentally different business. And the churn that does happen tends to come from the smallest, low-value accounts – the ones paying the least on per-seat pricing.

Start with what the data actually says. Enterprise software customers retain for five to seven years on average, with monthly churn below 1% and renewal rates above 93%.³ The larger and more mission-critical the deployment, the stickier it becomes. The Bessemer Cloud Index – 46 public software companies with a combined market capitalization of \$690 billion – trades at roughly 7.5x EV/revenue, which is near the 10-year average, not a distressed multiple.⁴ The market is telling us something important: vertical software platforms with deep industry data and high switching costs are not going away. The question is which ones get stronger from here, and which ones get absorbed. That distinction is the entire game.

The winners will be defined by four things: domain knowledge, regulatory capture, operational gravity, and distribution. Only about 1% of enterprise data trains public AI models. The other 99% sits inside vertical platforms – decades of project records, compliance histories, cost benchmarks, customer workflows.⁵ That data is not merely an asset. It is a compounding barrier to entry that deepens as AI raises the cost of switching. And the platform that already has thousands of customers in a vertical does not just have retention – it has built-in distribution for every new product it launches. Agentic workflows, embedded payments, new modules – the go-to-market is the installed base. Each customer added makes the platform smarter for every other customer in the same industry. That network effect is invisible on a balance sheet, but it is the reason the next dollar of revenue costs a fraction of the first. In regulated, high-stakes verticals – construction permitting, financial compliance, healthcare administration, legal filings – the AI cannot be wrong. It must be right every time, and it must be able to explain why it made the decision it made. That requires domain knowledge that no foundation model possesses on its own: the proprietary data, the embedded workflows, the industry-specific rules and exceptions that have accumulated over decades. When a platform becomes embedded in compliance and audit trails, switching creates regulatory risk – not just inconvenience. And when that platform runs your payroll, your bids, your projects, your customer records, switching is not a vendor decision. It is an operational shutdown.

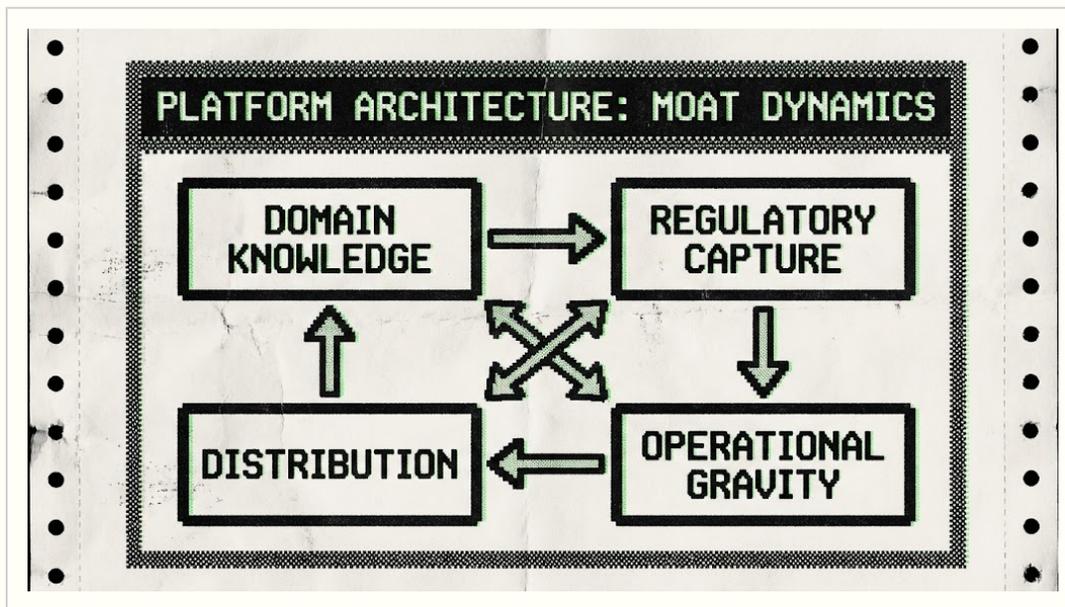
Some investors argue that AI will reduce switching costs – that migration agents will extract data and retrain on a new platform in weeks. That is plausible for data migration. It is not plausible for workflow migration. The switching cost is not the data. It is the fact that every project manager, every compliance officer, every operations lead has built their daily process

around this specific platform. AI does not reduce that dependency. It increases it, because the software is now performing work that people once did. You do not unplug something that is doing your job.

The build-it-yourself threat is real, and it is more credible now than at any point in software history. AI has collapsed the cost of standing up a v1 from millions of dollars and months of development to weeks and a small team. Any serious investor has to take that seriously. But a v1 is not a business. What an enterprise cannot build internally is the aggregate intelligence of thousands of companies in the same industry running the same workflows on the same platform. That multi-tenant pattern recognition compounds over years and cannot be replicated from a single company's data. An internal tool gives you your own data. A platform gives you your entire industry's. This is what we underwrite for. These companies do not need to find customers. They need to deploy new capabilities into relationships they already own. That is a fundamentally different risk profile than what the market is pricing.

This is Software for Dummies – and I mean that as the highest compliment. The project manager who runs a \$50 million build in their head, the creative director testing two hundred ad variations across twelve markets before breakfast, the plant supervisor who can hear a machine falling out of tolerance from across the floor – none of them could write a line of code. None of them needed to. The barrier was never intelligence. It was language – a language that has been written and rewritten for sixty years, like an inside joke that has been running since 1964. You were never going to catch up. You were never supposed to have to. And because the domain expert had to go through the interpreter, the nuance got sacrificed for the greater good – the edge cases around form, around workflows, around how the person actually uses the thing day to day. That was the trade-off. Now there is another way. The barrier is gone.

Figure II



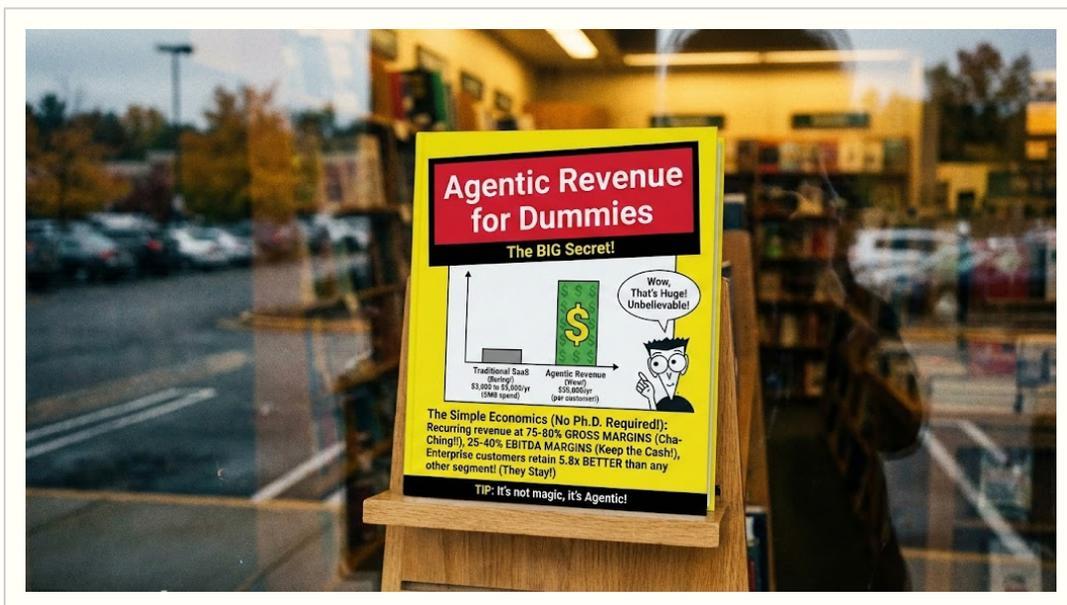
Domain knowledge, regulatory capture, and operational gravity form a self-reinforcing moat.

This is not theoretical. I will use construction as an example because it is an industry we know well through our portfolio company RedTeam Software, but the pattern repeats across every industry we evaluate. McKinsey ranks construction second-to-last on its industry digitization index.⁶ The sector spends 1-2% of revenue on IT versus 3-5% for the economy overall.⁷ A single commercial project may involve 30 firms on site at once, each working from different data and different schedules. Projects run 80% over budget and 20 months behind schedule on average.⁷ The real cost is not the overrun – cost inflation is priced into every bid. The real cost is capital locked while the project stalls: commercial construction loans carry 7-10% annual interest, retainage clauses withhold 5-10% of every contract for a year or more, and every month of delay compounds financing costs while the capital that should be deploying to the next project earns nothing.⁸ Schedule optimization alone improves net present value by 20% or more on large capital projects.⁸ Software does not eliminate the complexity. It compresses the timeline so that when problems arise, they are resolved in hours rather than weeks, and capital moves again. The back office – permitting, document review, change orders, compliance – is where agentic revenue will land first in these industries, and we are positioning for that across the portfolio.

Let me be specific about the economics. Recurring revenue at 75-80% gross margins, no factories, no freight, no raw materials. Revenue is contracted and converts to free cash flow at 25-40% EBITDA margins.⁹ And it is the last bill a customer cancels – when your payroll, your compliance, and your customer records all live inside a platform, you will cut every other expense first. Enterprise customers demonstrate 5.8 times better retention than any other segment.¹⁰ That is annuity-grade revenue with near-zero marginal cost of delivery. I have yet to find another asset class that produces this combination of margin, retention, and capital efficiency.

The bear case is straightforward – and wrong. If revenue predictability declines from ten years to five, cut the multiple in half. But that logic assumes cash flows remain constant. They will not. AI is pushing operating margins toward 40% and above. Agentic revenue and embedded financial services add new, higher-margin streams on top of existing platform revenue. A business producing \$2 million in annual free cash flow for ten years at a 10x multiple is worth \$20 million. The same business producing \$5 million for five years at 5x is worth \$25 million. The bears are doing the multiplication correctly. They are using the wrong inputs. The market is pricing these businesses on what they earn today. We are underwriting what they will earn when AI expands revenue per customer by multiples.

Figure III



Agentic revenue: same customer, dramatically different economics. Source: Podium, industry benchmarks.

The addressable market is expanding, not contracting. This is already happening. Zendesk prices its AI agents at \$1.50 per resolved ticket – outcome-based, trained on 19 billion historical interactions.¹² Salient, automating loan servicing for auto lenders, reached \$25 million in ARR within two years; its agents are 30 times more compliant than human collectors.¹³ Decagon cut Chime’s contact-center operating costs by more than 60% and doubled its Net Promoter Score.¹⁴ Gartner projects that by 2030, at least 40% of enterprise software spend will shift to outcome-based pricing.¹⁵ The shift matters enormously: when software is priced per seat, value is capped by headcount. When priced by work completed, the market expands to include every dollar currently spent on the labor those agents replace.¹¹ Agentic pricing will compress in generic use cases: customer service chatbots, basic scheduling, simple lead routing. Where it will not compress is where the agent requires domain knowledge to function – auto loan servicing with CFPB compliance, construction pay applications with state-by-state lien law, healthcare claims with payer-specific adjudication rules. That is where we focus.

Podium is worth studying because of the speed. The company launched an AI employee in early 2024 that answers calls, books appointments, and follows up on leads. Within 24 months – most of it back-weighted – AI revenue reached a trajectory toward \$100 million.¹⁶ The price point is what matters: Podium’s customers start at roughly \$10,000 per year for the software platform. The AI employee expands that to as much as \$50,000 per year – a 5x revenue expansion from the same customer, because the value delivered far exceeds the cost of the software alone.¹⁷ The typical SMB spends \$3,000 to \$5,000 per year on all of its software combined.²⁵ That is not a SaaS upsell. That is a company capturing a share of the labor budget that software never had access to before. Vista Equity now has 30 portfolio companies generating agentic revenue, with another 30 to 40 in conversion.¹¹ We are seeing similar opportunities in our own pipeline.

I see this pattern outside of software too. My wife is an MD in physical medicine and rehabilitation. She reviews MRI scans that arrive in clunky software from someone else’s notes, watches a patient walk across the room, asks the right questions, and knows within thirty minutes what is likely wrong. She does this eight to ten times a day. An AI with a camera and a scripted intake could probably do the pattern matching. But that misses the point entirely. The MRI costs what it costs because a physician has to review every one. Remove that bottleneck and the scan gets cheaper. The scan gets cheaper and more people get one. More people get one and more conditions get caught before they become

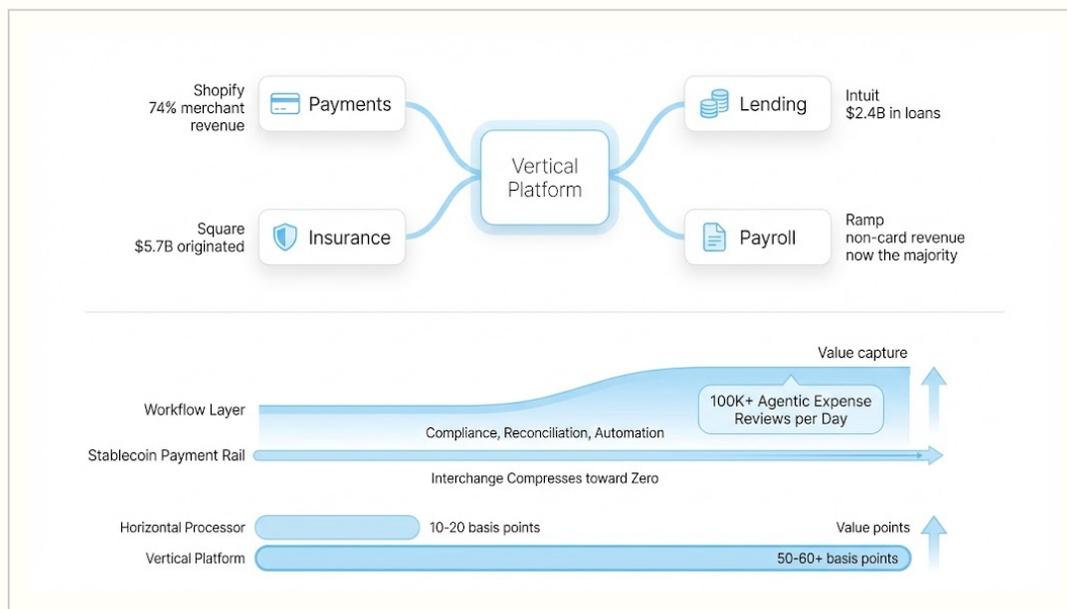
catastrophic – conditions that today go undiagnosed because the patient could not afford the scan or could not get the appointment. The market does not shrink. It was never as large as it should have been. The same economics apply to every vertical we evaluate.

There is a second expansion lever that compounds on top of agentic revenue: embedded financial services. Once a platform owns the daily workflow, layering in payments, lending, insurance, or payroll is a natural extension – not a pivot. Shopify generates 74% of revenue from merchant solutions.¹⁸ Intuit’s QuickBooks Capital facilitated \$2.4 billion in small business loans in 2024 – underwritten not by a bank, but by the financial data already inside the platform.²⁶ Square originated \$5.7 billion in business loans the same year, making it the largest online business lender in the country, with lending embedded directly into the merchant workflow.²⁷ More than 80% of the embedded finance market remains unaddressed.¹⁹ What matters for our thesis is that embedded finance is the type of rail where AI has to be right. A horizontal payment processor captures 10-20 basis points. A vertical platform that embeds payments into an industry-specific workflow captures 50-60 or more, because the payment cannot be separated from the compliance and the compliance cannot be separated from the domain knowledge.

Ramp is instructive here. CEO Eric Glyman told Stripe’s John Collison that non-card business lines – software, bill pay, procurement – will soon comprise the majority of Ramp’s revenue, with over 100,000 expenses per day already reviewed by AI agents.²⁸ The implication is worth stating plainly: when stablecoins eventually commoditize the payment rail itself, the interchange margin compresses toward zero. What remains is the workflow – the compliance, the reconciliation, the automation. That is where the revenue lives. And that is vertical software.

William Blair studied approximately 100 transactions in our segment of the market – privately held software companies between \$100 million and \$3 billion in enterprise value – and found that platforms with embedded finance trade at a 23% premium on revenue multiples and a 19% premium on EBITDA multiples versus software-only peers. Net revenue retention rises from 105% to 111%. Only 10% of platforms have built multiproduct embedded finance strategies; those trade at 12.7x revenue versus 8.4x for software-only.²⁴ This is not what makes a software company defensible on its own. But it is exactly the kind of infrastructure we want to build on top of every platform we own – high-margin, deeply integrated, and nearly impossible to displace.

Figure IV



Embedded financial services: vertical platforms capture 50-60+ basis points where horizontal processors capture 10-20.

I want to be honest about what worries me. The transition is not guaranteed for every company. Orlando Bravo said at Davos that AI will disrupt fewer than half of software companies – and he is the optimist.²³ Seventy-two percent of S&P 500 companies now flag AI as a material risk in their disclosures, up from 12% two years ago.²⁰ Only one in five has mature governance for autonomous agents.²¹ The companies that fail will be the ones that treat AI as a feature to bolt on rather than a fundamental rearchitecting of how they deliver value – and how they operate. The org chart has to change. Teams get smaller. Domain experts sit inside engineering, not three layers removed from it. The companies that keep the same structure, the same headcount, the same reporting lines and just add an AI budget line will ship slower, learn slower, and lose to the ones that actually rebuilt. They will cling to seat-based pricing because it is familiar, not because it is right. They will build agents that hallucinate in regulated environments because they lack the domain knowledge to prevent it. They will lose the trust of their customers at precisely the moment trust matters most. We evaluate every company – existing and prospective – against this risk. Some will not make the cut. The fear during every structural transition is the same – that the gains concentrate at the top and the people doing the work get displaced. Every time, the opposite has happened. The technology does not replace the worker. It removes the intermediary between the worker and the work. The loom did not eliminate the need for cloth. The press did not eliminate the need

for knowledge. What they eliminated was the bottleneck that kept both expensive and scarce. The same pattern is playing out in software, and the companies that see it will be the ones still standing.

What gives us conviction is what we see as possible – and what we are building toward. We believe the winning model puts domain experts directly alongside engineering teams, not separated by layers of product management, but working together on the same agents, in the same sprint cycles. We are working to build an agentic library across the JettyCove portfolio: shared implementations, tools, and frameworks so that each company benefits from what the others learn. We are not there yet. Vista has operationalized a version of this at scale – 100% of their portfolio companies have begun the AI transition, with 30-50% engineering productivity gains.²² That is the benchmark. Our advantage is that we are smaller and can move faster – but only if we actually do. The playbook is clear. The execution is what matters now.

The economics of this transition deserve attention. The software industry has lived by the Rule of 40 – growth rate plus margin should exceed forty percent. AI changes the math. When engineering productivity improves by thirty to fifty percent and support costs compress, companies can hit a Rule of 70 without adding headcount. But the number is not the point. What matters is what you do with the margin you free up. The lazy move is to let it fall to the bottom line. The smart move – and the one we are building toward – is to reinvest that efficiency into domain expertise and customer success. Hire the person who actually did the job your software serves. Put them in front of your customers. Your customers are no longer talking to a support representative reading a script – they are talking to a peer who understands their business, their regulations, their daily reality. That builds trust. Trust builds brand. Brand builds the kind of moat that no horizontal competitor can replicate, because it is not built on code – it is built on knowledge and relationships. The software companies that understand this will not just be more efficient. They will be more trusted, more deeply embedded, and more valuable. That is the compounding advantage.

Figure V



The future of work is not chrome and glass. It is craft, thought, and time restored.

Here is what we are doing with capital. We are actively evaluating vertical software platforms in industries with the characteristics I have described: deep domain knowledge that cannot be replicated, regulatory workflows that create structural switching costs, operational gravity that makes the platform essential to daily business, and an existing customer base that serves as built-in distribution for every new product. We are looking for companies where AI expands the revenue per customer – through agentic pricing, embedded payments, or both – and where the management team understands that the next three years will reshape their business more than the last ten. We are actively bringing a fintech platform to market that embodies this thesis – domain expertise, embedded financial services, and AI-native workflows – and we have a strong pipeline of additional opportunities behind it.

Not every software company will survive what is coming. But the ones that own the domain knowledge, earn the regulatory trust, build the operational gravity, and already have the distribution – those businesses will be more valuable in five years than they have ever been. The dummies win – not because they are dumb, but because the technology finally got smart enough to meet them where they are. Vesalius did not invent anatomy. He told the surgeons to stop deferring to the interpreters and look at the body themselves. What followed was not

a correction – it was an explosion. Modern surgery, modern physiology, the scientific method applied to the human body – all unlocked because the people doing the actual work could finally build on what they saw instead of what they were told. That is what happens when an interpretation layer falls away. The rate of discovery does not change incrementally. It changes structurally. The project manager, the compliance officer, the physician, the creative director – they no longer need to learn a sixty-year-old language to get the tools to work.

And the engineers who built that language will not disappear – but their role changes. Writing code was always the fun part. Reading it, maintaining it, reconciling six layers of someone else’s logic – that was the grind. AI handles the grind. The engineer either goes deeper into architecture or takes their intelligence into a domain they actually care about. The interpretation layer falls away for them too. And they will not just use the tools the way the engineers designed them. They will reprioritize, because to them, how the thing works for the person using it has always been the point.

We believe the individual who does the work is the economy – everything else is infrastructure. And when the tools finally get out of the way – when the person who sees the thing can simply build the thing – what comes next will not look like what came before. It will look like what we always meant to build.

If any of this resonates, or if you see it differently, I would welcome the conversation.

Jamie Nissen
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