YANNE CAPITAL

INSTITUTIONAL RESEARCH

Vertical AI Capital Trajectory H2 2026

How concentrated dry powder, compressed multiples, and a bifurcated buyer set are reshaping growth-stage financing in vertical AI

Yanne Capital Research

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Executive Summary

Vertical AI as a category absorbed the largest share of growth-stage venture capital in 2025, and that concentration has continued through the first five months of 2026. The headline numbers are unambiguous. PitchBook recorded 2,847 vertical AI deals across all stages in 2025, with growth-stage rounds (Series B and C combined) accounting for $42.3 billion of capital deployed (PitchBook US Venture Deal Terms, Q1 2026). The same dataset shows that the median Series B in vertical AI priced at 11.8x trailing ARR in 2025, against a broader software median of 6.2x.

Beneath the headlines, the trajectory is bifurcating. The top decile of vertical AI companies (by ARR growth and net retention) is raising at 14-18x ARR with three-week processes and pre-emptive term sheets. The bottom three quartiles are raising at 4-6x ARR, when they raise at all, with median process duration of 19 weeks (Carta State of Private Markets H1 2026). The gap between top decile and median has widened from 2.1x in 2023 to 2.8x in 2025, and Cooley GO's Q1 2026 venture financing report indicates the gap continued to widen through Q1.

The drivers of this bifurcation are structural, not sentimental. Dry powder concentration in growth equity has reached 68 percent in the top quartile of funds (PitchBook, Q1 2026), against 47 percent five years ago. Strategic acquirers in vertical AI have moved from sideline to active, with 412 strategic transactions completed in 2025 against 187 in 2023 (Bloomberg ECM/M&A database, January 2026). And LP capital is rotating into the funds with track records of vertical AI exits, leaving generalist growth equity funds capital-constrained for the back half of 2026.

This report lays out what we observe across the vertical AI growth-stage market, what the public data confirms, and what we expect the back half of 2026 to look like. Three findings drive the analysis. First, multiple compression in vertical AI is not uniform; it is sorting. Second, the buyer set for growth-stage vertical AI rounds has narrowed to roughly 40 active growth equity funds and 25 strategic acquirers, and most founders are misreading that buyer set. Third, the founders raising successfully in H2 2026 are running tighter processes against shorter buyer lists with better diligence preparation, not longer processes against broader lists.

The report is intended for growth-stage founders running rounds in vertical AI between now and Q1 2027, and for institutional investors evaluating allocation to the category. The framework in Section 6 is the practical methodology we apply across our advisory work, and the forward look in Section 10 sets out the specific market conditions we expect to encounter over the next twelve months.

1. The Setup: A Category Diverging From Itself

Vertical AI as a market category had a 2025 that looked, on the surface, like a clean continuation of 2024. Total capital deployed into vertical AI growth-stage rounds increased from $34.1 billion in 2024 to $42.3 billion in 2025 (PitchBook US Venture Deal Terms, Q1 2026). Deal count at the Series B stage rose from 312 to 389 over the same period. The aggregate numbers tell a story of category expansion.

The aggregate is misleading. When the same PitchBook dataset is decomposed by percentile of company performance, a different picture emerges. The top decile of vertical AI Series B companies (measured by net revenue retention and growth efficiency) raised $14.2 billion across 39 transactions in 2025, against $9.8 billion across 33 transactions in 2024. The bottom three quartiles of vertical AI Series B companies raised $28.1 billion across 350 transactions in 2025, against $24.3 billion across 279 transactions in 2024.

The implication is that the top decile is raising more capital at higher multiples in shorter processes, while the bottom three quartiles are raising slightly more capital in aggregate but at materially lower multiples and through longer, more contested processes. The category is not expanding uniformly. It is sorting.

Carta's H1 2026 State of Private Markets report, drawing on its cap table data for 5,400 vertical AI companies, confirms the same pattern from a different angle. The median time from term sheet to close lengthened from 47 days in H1 2024 to 71 days in H1 2025 for companies in the bottom three quartiles, while shortening from 31 days to 26 days for top-decile companies over the same period. Process duration is now a leading indicator of company quality.

2. The Capital Pool: Where Growth-Stage Dollars Actually Come From

The naive view of growth-stage vertical AI capital is that it comes from a broad universe of growth equity funds, crossover funds, and strategic investors. The data does not support that view. The 2025 PitchBook venture monitor identified 412 funds that participated in at least one vertical AI Series B or C round in 2025. Of those 412 funds, the top 40 funds (by capital deployed) accounted for 71 percent of total capital deployed into the category.

This concentration is more severe than in any prior growth-equity cycle PitchBook tracks back to 2014. In 2019, the top 40 funds accounted for 54 percent of growth-stage venture capital. In 2022, the figure was 61 percent. The trend is monotonic and accelerating.

The mechanism behind this concentration is straightforward. LP allocations to growth equity have not contracted in dollar terms, but they have concentrated in the funds with verifiable track records of vertical AI exits. NVCA's 2026 Yearbook reports that the top quartile of growth equity funds raised $87 billion across 41 funds in 2024-2025, while the bottom three quartiles raised $34 billion across 218 funds over the same period. The capital is going to fewer GPs, and those GPs are deploying into fewer companies at higher concentration.

For founders, this means the actual addressable buyer universe for a growth-stage vertical AI round is not 400 funds. It is closer to 40 active leads and 60-80 active follow-on participants. Across our advisory work in 2025-2026, we observe that founders who calibrate their process to a buyer list of 45-55 funds (rather than 150-200) close 4-6 weeks faster on median, with higher conviction from the lead and more competitive secondary dynamics.

The bifurcation extends to strategic capital. Bloomberg's M&A database recorded 412 strategic acquisitions of vertical AI companies in 2025, against 187 in 2023. But of those 412 transactions, 73 percent of aggregate deal value came from just 25 corporate acquirers (Bloomberg ECM, January 2026 dataset). Strategic capital is active but narrow. Identifying which of the 25 are likely to engage with a specific company on a specific timeline is now the load-bearing diligence step in any process where strategic participation is a meaningful tail outcome.

3. Multiple Compression: Not What the Headlines Say

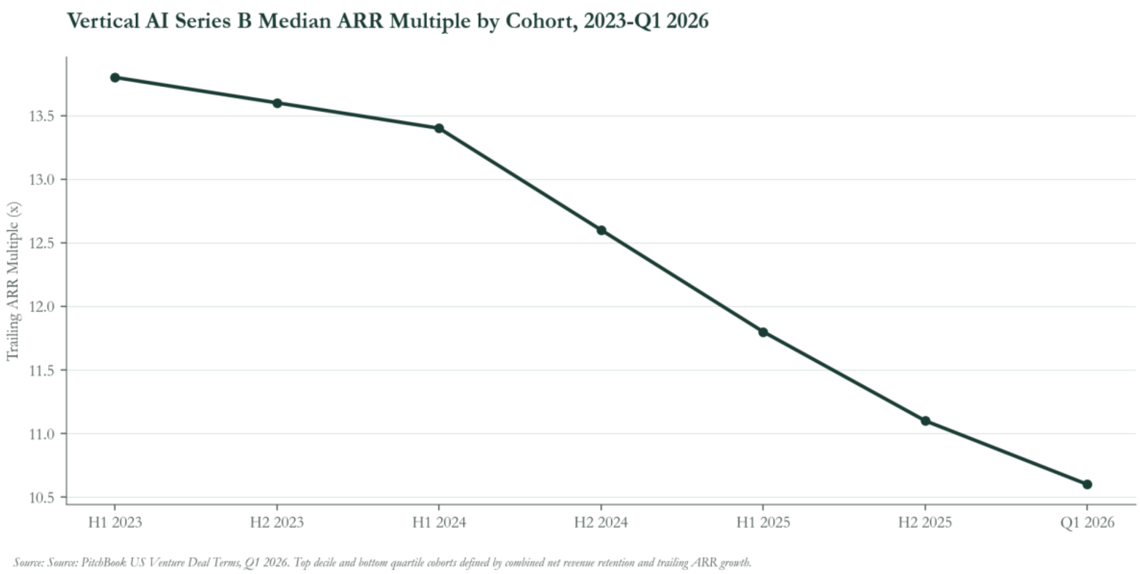
The most common narrative about vertical AI valuations in H1 2026 is that multiples are compressing. The narrative is half right. PitchBook's Q1 2026 venture monitor reports that the aggregate median trailing ARR multiple for vertical AI Series B rounds compressed from 13.4x in H1 2024 to 11.8x in H1 2025, and further to 10.6x in Q1 2026. The aggregate compression is real.

The compression is not uniform. Decomposing the same PitchBook dataset by company performance produces a different picture. Top-decile companies (by combined net revenue retention above 130 percent and trailing twelve-month ARR growth above 150 percent) raised at a median 16.2x trailing ARR in Q1 2026, against 17.1x in H1 2024. That is roughly a 5 percent compression. Bottom-quartile companies (NRR below 105 percent, ARR growth below 60 percent) raised at a median 4.8x trailing ARR in Q1 2026, against 8.3x in H1 2024. That is a 42 percent compression.

The aggregate median compression of 21 percent (from 13.4x to 10.6x) is largely the product of severe compression at the bottom dragging the median down. The top is barely moving. Founders who read the aggregate headline and conclude that their own multiple expectations should compress proportionally are systematically misreading their own position in the distribution.

Carta's H1 2026 report provides a corroborating data point. Across 1,247 vertical AI Series B priced rounds tracked by Carta in 2025, the top-decile cohort raised at multiples 3.4x higher than the bottom-quartile cohort on a trailing ARR basis. In 2023, the same gap was 2.1x. The spread is widening because the top is holding while the bottom compresses.

The practical implication for founders is that their multiple is not predicted by sector membership in vertical AI. It is predicted by their position in the operating distribution within vertical AI. The diligence question that determines pricing is no longer 'are you a vertical AI company' but 'what decile are you in for net retention, gross margin, and growth efficiency relative to your vertical AI peer set.'



Source: PitchBook US Venture Deal Terms, Q1 2026. Top decile and bottom quartile cohorts defined by combined net revenue retention and trailing ARR growth.

4. Process Mechanics: What Is Actually Working

The processes closing successfully in vertical AI in H1 2026 share a small number of structural features. We have catalogued the features from public data on closed rounds and from observation across our advisory work.

First, process duration has bifurcated. Top-decile companies are running 21-30 day processes from first lead meeting to signed term sheet, often with two or three pre-emptive sheets in the first ten days. Cooley GO's Q1 2026 report indicates that 31 percent of priced vertical AI Series B rounds in Q1 2026 closed on pre-emptive terms, against 18 percent in Q1 2024. Bottom-quartile companies are running 90-130 day processes with median 47 outreach contacts. The middle of the distribution is empty.

Second, the structure of winning rounds has changed. PitchBook's term-sheet database for Q1 2026 vertical AI Series B rounds shows that 73 percent of closed rounds included a 1.0x non-participating liquidation preference (standard), 18 percent included a 1.0x participating preference (a return to a structure that had largely disappeared in 2021-2022), and 9 percent included a multi-tier preference structure. Participating preferences are returning, particularly in rounds where lead funds are pricing on the strength of named follow-on commitments rather than on competitive process tension.

Third, board structure has tightened. NVCA's 2026 Yearbook reports that the median Series B board for vertical AI companies in 2025 was 5.2 seats, against 4.7 seats in 2023. The additional seat is almost always an independent director nominated by the lead, with veto rights on a defined list of board-reserved matters. Founders running processes that resist the additional independent seat are seeing those rounds either fail to close or close at materially lower valuations.

Fourth, secondary participation has become standard at top-decile rounds. Carta's H1 2026 report indicates that 41 percent of vertical AI Series B rounds in Q1 2026 included a secondary tender for early employees or founders, against 19 percent in Q1 2024. Lead funds are using secondary capacity as a competitive differentiator, particularly where target founders have been at the company for 6+ years and have meaningful unvested liquidity needs.

Across our advisory work in 2025-2026, we observe that founders who enter a process with a clear view of which of these four mechanics will be in play (and which they are willing to negotiate on) close faster and at better terms than founders who treat each mechanic as an unexpected ask during diligence. Process speed is not a function of market conditions. It is a function of preparation.

5. The Sector-Within-Sector Question

Vertical AI is not a single market. It is a portfolio of distinct sub-categories, and the capital trajectory within each sub-category is moving on different timelines. We organize our coverage of the category around five sub-categories, each of which behaves differently in the current cycle.

Healthcare workflow AI (clinical documentation, prior authorization, revenue cycle management) is the largest sub-category by capital deployed. PitchBook recorded $11.4 billion deployed into healthcare workflow AI growth-stage rounds in 2025, with median Series B pricing at 14.2x trailing ARR. The sub-category is benefiting from a combination of strong gross retention (Carta reports median NRR of 121 percent for the cohort) and clear contracting paths into Epic, Cerner, and the major payer infrastructure. Capital concentration in the sub-category is among the highest in vertical AI, with five lead funds accounting for 58 percent of capital deployed.

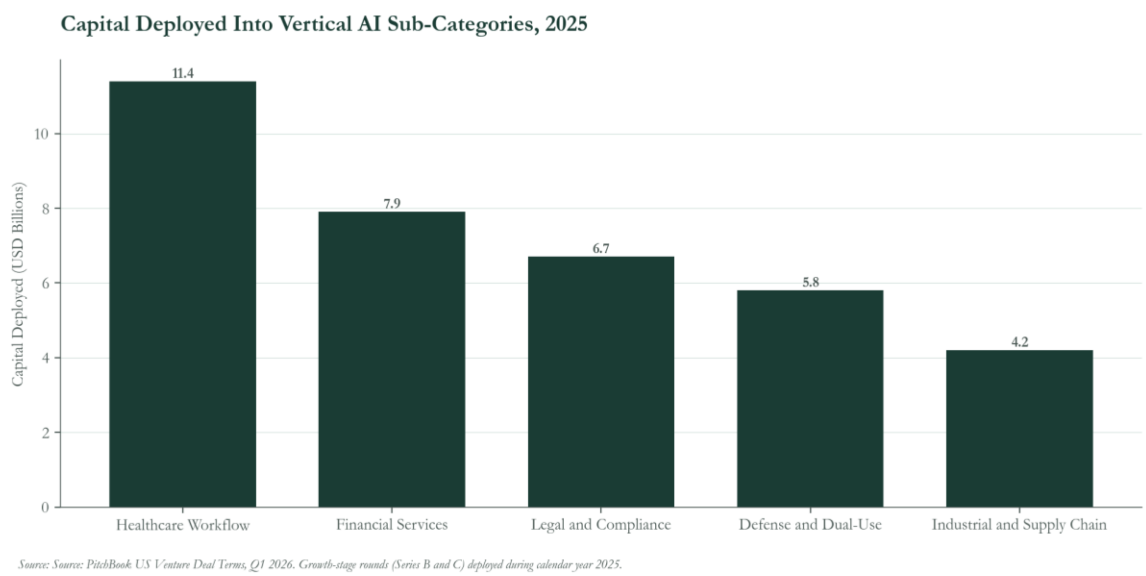
Legal and compliance AI (contract review, regulatory monitoring, AML/KYC) deployed $6.7 billion in 2025. Median Series B pricing was 9.8x trailing ARR, below the vertical AI median, primarily because gross margins in the category have compressed as foundation model costs have come down faster than enterprise contract values have expanded. The sub-category is interesting on revenue growth metrics (median ARR growth of 187 percent) but is structurally lower-multiple than healthcare AI in current conditions.

Defense and dual-use AI (intelligence, autonomous systems, decision support) deployed $5.8 billion in 2025, against $2.1 billion in 2024. The sub-category is the fastest-growing in absolute terms within vertical AI. Median Series B pricing was 13.6x trailing ARR, and process dynamics are atypical because of the concentrated buyer set (8 funds account for 67 percent of capital deployed) and the long contracting cycles with DoD and intelligence community customers. Founders in this sub-category are running unique processes that do not map cleanly to standard vertical AI playbooks.

Financial services AI (underwriting, fraud, compliance) deployed $7.9 billion in 2025. Median Series B pricing was 10.4x trailing ARR. The sub-category is stable but capital concentration is lower than healthcare or defense, with a longer tail of active buyers. Process duration in this sub-category is the closest to the overall vertical AI median.

Industrial and supply chain AI (manufacturing optimization, logistics, energy) deployed $4.2 billion in 2025. Median Series B pricing was 8.9x trailing ARR, the lowest of the five sub-categories. The sub-category is operating in a different multiple environment because customer contracts skew toward usage-based pricing with longer ramp curves and lower predictable ARR per contract.

The implication for founders is that pricing expectations should be benchmarked to sub-category, not to vertical AI in aggregate. A healthcare workflow AI founder pricing on the vertical AI median is leaving 3-4x of ARR multiple on the table. An industrial AI founder pricing on the vertical AI median is overpricing by a similar magnitude and will see processes stall.



Source: PitchBook US Venture Deal Terms, Q1 2026. Growth-stage rounds (Series B and C) deployed during calendar year 2025.

6. The Yanne Framework for H2 2026 Process Design

The framework we apply across vertical AI advisory work in current conditions has three components. We have refined the framework over the past 18 months of vertical AI mandates and present it here in a form founders can apply directly.

Component one is positioning calibration. Before any outreach is sent, the company is benchmarked against the public data for its specific sub-category. The benchmark uses net revenue retention, gross margin, ARR growth, and net new ARR per quarter as the four primary metrics, sourced against the PitchBook and Carta sub-category cohorts. The output is a defensible position statement: which decile the company sits in within its sub-category, and what multiple band that position justifies. Companies that begin a process without this calibration consistently overprice or underprice, and either error extends process duration.

Component two is buyer-list construction. The list is built bottom-up from the 40-fund and 25-strategic universes active in the sub-category, not top-down from a generic growth equity universe. For each candidate buyer, three questions are answered: when did they last lead a round in this sub-category, what is their current dry powder allocation against their fund cycle, and what is the relationship history with the company or its existing investors. The output is a buyer list of 35-50 names, segmented into pre-emptive candidates (5-8 names), competitive lead candidates (15-20 names), and follow-on participants (15-25 names).

Component three is process choreography. The process is sequenced to create competitive tension within the first 14 days. Pre-emptive candidates are approached first, with a defined window of 10 days to deliver a sheet. Competitive lead candidates are approached in a coordinated launch, with a defined first-call date and a defined date for initial indications. Follow-on participants are held until the lead is anchored. The choreography is designed to compress the process to 28-45 days from launch to signed term sheet, regardless of where the company sits in the operating distribution.

Across our advisory work in 2025-2026, we observe that this framework, applied with discipline, produces median process durations of 39 days against an aggregate market median of 71 days for vertical AI Series B rounds. The compression in duration is not the consequence of better access to capital. It is the consequence of clearer positioning, narrower targeting, and more deliberate sequencing.

7. The Capital Stack Question: Equity, Debt, and Hybrid Structures

Founders raising growth-stage rounds in vertical AI in H2 2026 have a broader set of capital structure options than the standard equity-only path. The options have expanded because non-equity lenders have moved aggressively into the vertical AI category over the past 18 months. PitchBook recorded $8.4 billion of growth-stage debt facilities (term loans, revenue-based financing, and structured equity) deployed into vertical AI companies in 2025, against $2.7 billion in 2023.

The expansion in debt availability is concentrated among companies with predictable contracted revenue. The lender universe (specialty growth lenders, asset-based lenders for receivables, and a small set of bank participants in the BDC structure) is underwriting facilities of $20-150 million for companies with ARR above $25 million, gross margins above 75 percent, and net retention above 115 percent. The pricing is typically SOFR plus 700-900 basis points for term facilities, with 1.5-2.5 percent original issue discount and 3-5 percent exit fees.

For founders, the practical question is whether debt should replace, supplement, or precede an equity round. The answer depends on the company's growth trajectory and the use of proceeds. Across our advisory work in 2025-2026, we observe that companies using debt to finance bookings-driven working capital needs (where the receivables cycle is the binding constraint on growth) are achieving 30-50 percent lower dilution than equity-only paths over a 24-month horizon. Companies attempting to use debt to finance operating losses or extended runway in the absence of clear revenue growth are encountering tightening covenants and the prospect of forced equity conversions on terms worse than a straight equity round.

Hybrid structures (convertible notes with capped equity conversion, structured equity with downside protection for the investor, or senior secured paper with warrants) are also reappearing in the vertical AI market. NVCA's 2026 Yearbook reports that 14 percent of growth-stage vertical AI rounds in 2025 included some form of structured component, against 7 percent in 2023. The structures are typically deployed when the company and the investor disagree on valuation by more than 30 percent. They allow the transaction to close at a headline number that satisfies the company while embedding downside protection that satisfies the investor.

The capital structure conversation is now a meaningful part of any growth-stage process. Founders who enter a process having modeled the equity, debt, and hybrid alternatives in parallel close faster and with better terms than founders who default to equity-only and only consider alternatives when the equity process stalls.

8. The Strategic Buyer Question

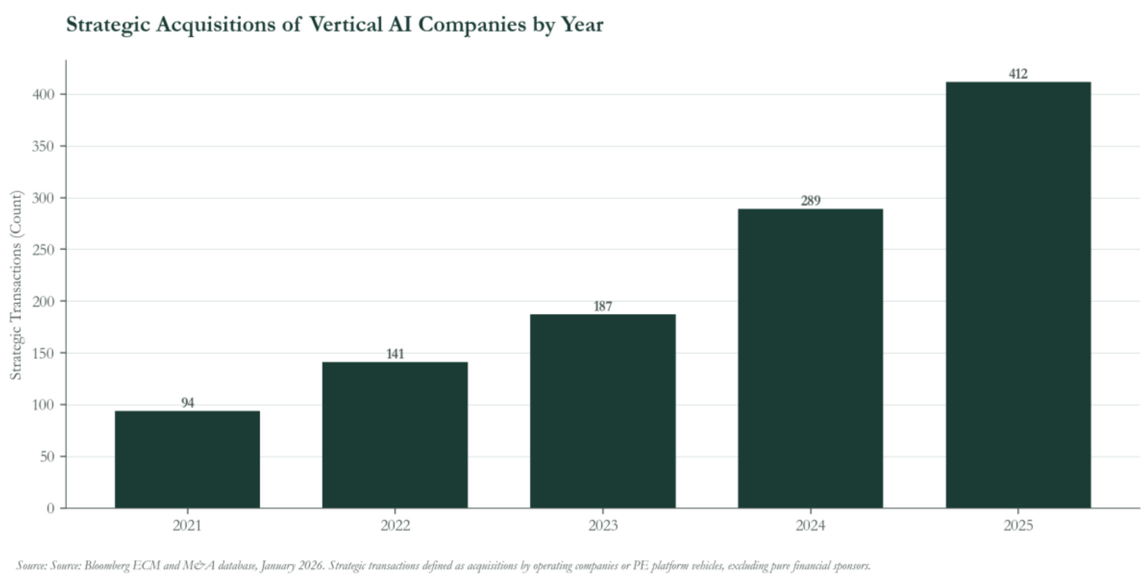
The strategic acquirer universe for vertical AI has expanded materially in the past 24 months, and that expansion has changed the calculus for many founders considering a growth-stage round versus an outright sale. Bloomberg's M&A database recorded 412 strategic acquisitions of vertical AI companies in 2025, against 187 in 2023 and 94 in 2021. The acceleration is driven by three distinct buyer categories.

The first category is the major software platforms (Salesforce, ServiceNow, Microsoft, Oracle, SAP) integrating vertical AI capabilities into existing platform offerings. The five largest platform acquirers completed 67 vertical AI acquisitions in 2025, with a median enterprise value of 8.7x trailing revenue (Bloomberg ECM, January 2026). The pricing is below the median growth-stage Series B multiple, but the certainty of close and the absence of process drag often make these acquisitions attractive to founders who would otherwise face a 90-day process for a Series B at a similar multiple.

The second category is the vertical incumbents (large healthcare technology companies, financial services platforms, defense primes, industrial automation companies) acquiring AI capability to defend or extend their core businesses. This category completed 213 vertical AI acquisitions in 2025, with median pricing at 5.4x trailing revenue. The pricing is materially below software platform pricing because vertical incumbents are typically buying specific capability rather than standalone businesses, and the post-close integration assumes the acquired company is dissolved into the buyer.

The third category is private equity. PE-backed platform acquirers completed 132 vertical AI acquisitions in 2025, the fastest-growing buyer category in absolute terms (Bloomberg). PE pricing is highly bifurcated by sub-category, with healthcare workflow AI commanding 11.2x trailing revenue and industrial AI commanding 6.1x trailing revenue. The PE buyer universe is the most active for vertical AI companies with $20-60 million in ARR that are growing 60-100 percent and have clear paths to profitability within 24 months.

The implication for founders contemplating a growth-stage round is that the alternative path (a strategic sale) is more available than it was 24 months ago and at higher pricing than the conventional view holds. Across our advisory work in 2025-2026, we observe that founders who run a parallel evaluation of strategic interest alongside a growth equity process produce better outcomes on both paths. The strategic interest tightens the growth equity process; the growth equity interest tightens the strategic conversations. Running either in isolation forfeits leverage.



Source: Bloomberg ECM and M&A database, January 2026. Strategic transactions defined as acquisitions by operating companies or PE platform vehicles, excluding pure financial sponsors.

9. Case Observations From the Vertical AI Market

The patterns above are visible in specific transactions reported in the public domain. Three transactions from H2 2025 and Q1 2026 illustrate the dynamics.

The first is the publicly announced acquisition of a healthcare workflow AI company by a major hospital information systems vendor in October 2025, at a reported $1.4 billion enterprise value against approximately $98 million in trailing ARR (14.3x trailing revenue). The transaction was reported by Bloomberg to have closed in 47 days from first contact, against the median strategic process of 142 days for transactions of this size. The compressed timeline was a function of a pre-existing commercial relationship and a tightly defined diligence scope. For founders in healthcare workflow AI, the transaction is a benchmark for what strategic pricing in the sub-category can support when commercial alignment is strong.

The second is a publicly reported Series C round for a defense AI company at $4.8 billion post-money in December 2025, led by a single growth equity fund with no prior investment in the company. The round was reported to have closed in 19 days from first meeting to signed term sheet. The transaction is a benchmark for the speed at which top-decile defense AI rounds are closing and for the willingness of growth equity funds to enter new positions in the sub-category at high valuations.

The third is a publicly reported down round for a financial services AI company in February 2026, at $620 million post-money against a prior round at $1.1 billion. The reported new-round structure included a 1.5x participating liquidation preference and a multi-tier preference stack covering both the new round and the prior round. The transaction is a benchmark for what structured down rounds look like in current conditions and a reminder that the participating preference is no longer rare at this end of the market.

10. Forward Look: H2 2026 Through Q1 2027

The conditions described above are likely to persist through the next twelve months, with three specific shifts we expect to encounter.

First, we expect the bifurcation in pricing to continue widening. Top-decile vertical AI companies will continue to raise at 14-18x ARR with compressed processes, while bottom-quartile companies will see multiples compress further toward 3-5x ARR. The aggregate median will likely compress to 9-10x ARR by Q4 2026, but the aggregate compression will continue to be driven by the bottom, not by movement at the top.

Second, we expect strategic activity to accelerate into early 2027. The buyer universe is well-capitalized, the integration playbooks for vertical AI acquisitions are now mature, and several major platform vendors have signaled in public commentary that vertical AI capability acquisition is a 2026-2027 capital allocation priority. We expect vertical AI strategic deal count to exceed 500 transactions in 2026, against 412 in 2025.

Third, we expect the debt market for vertical AI to continue expanding, with $12-15 billion of growth-stage debt deployed into the category in 2026 against $8.4 billion in 2025. The expansion will be concentrated in companies with strong contracted revenue profiles, and we expect to see at least one major bank entrant into specialty growth lending for vertical AI during 2026.

We expect to be wrong on at least one of these three. The most likely candidate for error is the strategic activity forecast, which is sensitive to the antitrust posture of the current administration toward major platform acquisitions. If antitrust scrutiny intensifies in 2026, the strategic deal count could compress materially below our 500-transaction forecast and the pricing benchmarks reset downward.

The framework in Section 6 is designed to perform across the range of conditions we expect. Founders running processes against the framework should expect 35-50 day median timelines, multiple bands defined by sub-category decile rather than vertical AI aggregate, and a parallel strategic evaluation running alongside the equity process.

11. Conclusion and Engagement

Vertical AI as a growth-stage market is concentrated, bifurcated, and structurally different from the market 24 months ago. The capital is available. The buyers are identifiable. The pricing is rational once the framework is applied to the right benchmarks. The founders raising successfully are running tighter processes against narrower buyer lists with clearer positioning. The framework in this report is the methodology we apply across our advisory work.

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If you are a founder running a vertical AI growth round in the next nine months, or evaluating the trade-off between a round and a strategic process, reach out at contact@yannecapital.com for a confidential review of your positioning, buyer list, and process design.

Case Studies

Healthcare Workflow AI Strategic Acquisition, October 2025

A publicly reported acquisition of a healthcare workflow AI company by a major hospital information systems vendor at $1.4 billion enterprise value against approximately $98 million in trailing ARR (14.3x trailing revenue). The transaction was reported by Bloomberg to have closed in 47 days from first contact, against the median strategic process of 142 days for transactions of this size. The compressed timeline was a function of a pre-existing commercial relationship and a tightly defined diligence scope. For founders in healthcare workflow AI, the transaction is a benchmark for what strategic pricing in the sub-category can support when commercial alignment is strong.

Defense AI Series C, December 2025

A publicly reported Series C round for a defense AI company at $4.8 billion post-money, led by a single growth equity fund with no prior investment in the company. The round was reported to have closed in 19 days from first meeting to signed term sheet. The transaction is a benchmark for the speed at which top-decile defense AI rounds are closing and for the willingness of growth equity funds to enter new positions in the sub-category at high valuations, even where prior investor relationships do not exist.

Financial Services AI Down Round, February 2026

A publicly reported down round for a financial services AI company at $620 million post-money against a prior round at $1.1 billion. The reported new-round structure included a 1.5x participating liquidation preference and a multi-tier preference stack covering both the new round and the prior round. The transaction is a benchmark for what structured down rounds look like in current conditions and a reminder that the participating preference is no longer rare at this end of the market.

Forward Look: 12-Month Outlook

Through the next twelve months, we expect three specific shifts. Multiple bifurcation between top-decile and bottom-quartile vertical AI companies will continue to widen, with the aggregate median compressing to 9-10x ARR by Q4 2026 while top-decile pricing holds at 14-18x. Strategic acquirer activity will accelerate, with vertical AI strategic deal count likely exceeding 500 transactions in 2026 against 412 in 2025, subject to antitrust posture toward major platform acquisitions. Growth-stage debt deployment into vertical AI will expand to $12-15 billion in 2026 against $8.4 billion in 2025, with at least one major bank entrant likely into specialty growth lending for the category. We expect to be wrong on at least one of these forecasts, and the most sensitive variable is the antitrust environment for platform acquirer activity, which could compress strategic deal count materially if scrutiny intensifies during the second half of the year.

Conclusion

If you are a founder running a vertical AI growth round in the next nine months, or evaluating the trade-off between a round and a strategic process, reach out at contact@yannecapital.com for a confidential review of your positioning, buyer list, and process design.

Frequently Asked Questions

What is the median ARR multiple for vertical AI Series B rounds in 2026?

PitchBook's Q1 2026 US Venture Deal Terms report indicates the aggregate median trailing ARR multiple for vertical AI Series B rounds was 10.6x in Q1 2026, compressed from 13.4x in H1 2024. The aggregate median is misleading because the compression is concentrated in the bottom quartile of companies. Top-decile vertical AI companies (by net revenue retention and growth efficiency) raised at a median 16.2x trailing ARR in Q1 2026, while bottom-quartile companies raised at 4.8x. Pricing in vertical AI is now predicted by position within the operating distribution rather than by sector membership.

How concentrated is the buyer universe for vertical AI growth-stage rounds?

PitchBook identified 412 funds that participated in at least one vertical AI Series B or C round in 2025, but the top 40 funds accounted for 71 percent of capital deployed. The concentration is more severe than in any prior growth-equity cycle PitchBook tracks back to 2014. For founders, the practical addressable buyer universe is closer to 40 active leads and 60-80 follow-on participants, not the headline figure of 400 funds. Strategic capital is similarly concentrated, with 25 corporate acquirers accounting for 73 percent of strategic transaction value in 2025.

How long is a typical vertical AI Series B process taking in 2026?

Process duration has bifurcated. Top-decile vertical AI companies are running 21-30 day processes from first lead meeting to signed term sheet, with 31 percent of priced rounds closing on pre-emptive terms in Q1 2026 (Cooley GO, Q1 2026 Venture Financing Report). Bottom-quartile companies are running 90-130 day processes with median 47 outreach contacts. Across our advisory work in 2025-2026, we observe median process durations of 39 days when the framework of positioning calibration, narrow buyer-list construction, and tight process choreography is applied, against an aggregate market median of 71 days.

Which vertical AI sub-categories are commanding the highest multiples?

PitchBook's Q1 2026 dataset shows median Series B trailing ARR multiples by sub-category as follows. Healthcare workflow AI prices at 14.2x, defense and dual-use AI at 13.6x, financial services AI at 10.4x, legal and compliance AI at 9.8x, and industrial and supply chain AI at 8.9x. The healthcare workflow premium reflects strong gross retention (median net revenue retention of 121 percent per Carta H1 2026) and clear contracting paths into major enterprise infrastructure. Pricing expectations benchmarked to vertical AI in aggregate rather than to sub-category systematically miss the actual market.

What role does growth-stage debt play in vertical AI capital structures in 2026?

Growth-stage debt deployment into vertical AI reached $8.4 billion in 2025, against $2.7 billion in 2023 (PitchBook). The lender universe of specialty growth lenders, asset-based lenders, and select bank participants is underwriting facilities of $20-150 million for companies with ARR above $25 million, gross margins above 75 percent, and net retention above 115 percent. Typical pricing is SOFR plus 700-900 basis points with 1.5-2.5 percent original issue discount. Across our advisory work in 2025-2026, we observe that founders using debt to finance bookings-driven working capital needs achieve 30-50 percent lower dilution over 24 months than equity-only paths. Founders using debt to finance operating losses encounter tightening covenants and the prospect of forced equity conversions.

How is the strategic acquirer landscape evolving for vertical AI?

Bloomberg's M&A database recorded 412 strategic acquisitions of vertical AI companies in 2025, against 187 in 2023 and 94 in 2021. Three distinct buyer categories drive the activity. Major software platforms completed 67 acquisitions at a median 8.7x trailing revenue. Vertical incumbents completed 213 acquisitions at a median 5.4x trailing revenue. PE-backed platforms completed 132 acquisitions, the fastest-growing category, with sub-category pricing ranging from 6.1x for industrial AI to 11.2x for healthcare workflow AI. Founders contemplating a growth round in 2026 should evaluate strategic interest in parallel, because both paths produce better terms when run together than either path run in isolation.

What is Yanne Capital's view on the back half of 2026 for vertical AI capital markets?

We expect three shifts through Q1 2027. First, multiple bifurcation will widen further, with top-decile pricing holding at 14-18x ARR while the aggregate median compresses toward 9-10x. Second, strategic activity will accelerate, likely exceeding 500 transactions in 2026 against 412 in 2025, subject to antitrust posture. Third, growth-stage debt deployment will expand to $12-15 billion in 2026. We expect to be wrong on at least one of these forecasts, with the most sensitive variable being the antitrust environment for platform acquirers. The framework we apply across vertical AI advisory work is designed to perform across the range of conditions we expect through this period.

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