

WINDSOR DRAKE

Vertical SaaS Valuations: Q2 2026

MAY 2026

Windsor Drake · Market Intelligence

The Vertical Premium Holds

Vertical SaaS now commands a **25% to 30% premium** over horizontal SaaS at comparable Rule of 40 levels (PitchBook; McKinsey).

- Median vertical SaaS M&A multiple sits near **5.8x EV/Revenue**, against **4.1x** for horizontal peers.
- Workflow depth and proprietary industry data are the moats agentic AI most struggles to displace.
- Vertical SaaS represented **55%** of all SaaS M&A in Q1 2026, up from 49% a year earlier.
- The category has outperformed horizontal software through the 2026 repricing.

Operating Fundamentals

Vertical SaaS retention and unit economics decisively outperform horizontal peers.

- Median vertical SaaS **NRR sits 5 to 10 points above** horizontal peers (Bain Capital Ventures).
- Healthcare practice software runs **2% to 3%** annual churn against 10% to 15% for horizontal CRM.
- Industry-focused SaaS providers are growing close to **2x faster** than horizontal peers (McKinsey).
- Embedded financial products lift revenue per customer by **2x to 5x** (Andreessen Horowitz).

Bifurcation by Industry

Headline averages mask a wide dispersion across the verticals investors will actually underwrite.

- **Healthcare IT** leads near **8.5x** on HIPAA moats and embedded billing rails.
- **Construction and field services** sit near **7.0x to 7.5x** on workflow ownership.
- **Legal tech** trades **5x to 8x**, **restaurants and retail 3x to 6x**.
- Embedded-finance-enabled platforms trade **7.0x to 9.5x**, a clear premium tier.

Macroeconomic Backdrop

Monetary policy is stable; the SaaS repricing is idiosyncratic, not a cost-of-capital event.

- Fed funds range holds at **3.50% to 3.75%** after the April 2026 hold (Federal Reserve).
- An 8 to 4 FOMC dissent is the widest since 1992, signalling a more contested path.
- The March dot plot still implies one further 2026 cut, easing the cost of capital.
- A stable discount rate confirms a structural, not cyclical, software reset.

Sponsor-Led Consolidation

Private equity has become the dominant force in vertical SaaS, deploying record capital into roll-ups.

- **Thoma Bravo / Olo** (\$2.0B) announced at a **65% premium** in mid-2025.
- **Cotiviti / Edifecs** (\$3.1B) in healthcare closed in 2025.
- Vista Equity has deployed **\$12.4B** into vertical SaaS roll-ups through 2024.
- Sponsors led close to **57%** of Q1 2026 SaaS transactions, near record share.

AI Defence in Verticals

Industry-specific data depth makes vertical SaaS the most defensible software category in the agentic shift.

- Vertical AI agents are **40%+** of enterprise AI deployments planned for 2026 (Gartner; McKinsey).
- Proprietary workflow data and regulatory context are the moat a horizontal agent cannot bridge.
- Acquirers pay up for vertical platforms that own the system of record for an entire industry.
- AI now appears in close to **half** of all 2025 software M&A, up from one in four a year earlier.

Sources: S&P Global Market Intelligence; Bain & Company; BCG; SEC filings. See appendix.

Embedded Finance Re-Rating

Embedded financial products are now the principal monetisation lever for vertical platforms.

- US embedded-finance revenue is on track for **~\$51B** in 2026, up from \$21B in 2021 (Bain).
- Embedded payments retain customers at **2.5x** the rate of standalone providers (BCG / Adyen).
- **Toast** earns **~84%** of revenue from financial services; **Shopify Merchant Solutions** is **~79%** of revenue.
- BCG sizes the North America and Europe embedded-finance revenue pool at **~\$185B**.

Private Capital Pressure

Record dry powder is competing for a thin supply of defensible vertical assets.

- About **\$3.7T** of global PE dry powder is seeking deployment (S&P Global).
- Bain estimates **\$1.3T** of that is buyout-specific, and the bulk is aging 2022-23 vintages.
- Sponsor exits from a five-year-plus hold cycle are forcing a parallel wave of strategic sales.
- Vertical SaaS is **2 to 3x** faster growing than horizontal SaaS, sharpening competition for assets.

1. Own Your Vertical

Workflow depth and proprietary industry data are the moats acquirers will pay for in 2026, and they are the moats agentic AI most struggles to displace.

- Vertical platforms command a **25 to 30%** premium over horizontal peers.
- Position as the system of record for an entire industry, not a point tool.

2. NRR Above 120% Is the Bar

Net revenue retention is the single biggest driver of multiple expansion in 2026; a ten-point gain can lift valuation by 20 to 30%.

- Healthcare practice software runs **2 to 3%** annual churn against 10 to 15% for horizontal CRM.
- Vertical SaaS NRR sits **5 to 10 points** above horizontal peers.

3. Choose the Right Buyer

Strategic software incumbents, vertical platforms and PE roll-ups each underwrite a different thesis; map gaps to each before launching a process.

- Strategics account for **62%** of lower-middle-market SaaS deals (SEG).
- Sponsors led **~57%** of Q1 2026 SaaS transactions, a near record.

4. Embedded Finance Compounds Value

Layering payments, lending and capital products on top of subscription revenue is the clearest valuation lever available to a vertical platform.

- Embedded financial products lift revenue per customer by **2x to 5x**.
- Mature platforms now earn the **majority of revenue** from financial services.

5. Rule of 40 Still Gates Premiums

Roughly 20% of public SaaS companies clear the threshold; those that do trade at meaningfully higher multiples than the median.

- Top-quartile performers command **50% to 100%** premiums over peers.
- Companies above 50 and NRR over 120% consistently transact at **7x+** revenue.

6. Process Discipline Matters

With process lead times of 12 to 18 months and record dry powder chasing a thin supply of defensible assets, the prepared seller captures the scarcity premium.

- Audit-ready financials, documented APIs and a defensible data room are gating.
- Map specific capability gaps for each of your top five acquirers.

Founder FAQs: Vertical SaaS Valuations & Strategy

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The questions vertical SaaS founders ask most, answered against the Q2 2026 market.

Q1 What is the right valuation metric for a vertical SaaS business?

Use **EV/Revenue** for high-growth platforms with strong NRR, and **EV/EBITDA** for mature, profitable verticals where cash flow drives the conversation. Software revenue at 70 to 80% gross margin is not comparable to payments revenue at lower margin; price the mix on its components.

Q3 Does the Rule of 40 still matter for vertical SaaS?

Yes, more than ever. Only about **20%** of public SaaS companies clear the threshold. Those that do, with NRR above 120%, trade at **7x+** revenue against roughly 2x to 4x for the broader cohort. The market is pricing the score more aggressively as growth and profit balance becomes the primary filter.

Q5 Public vs private valuations, where does my round sit?

Public software repriced sharply: the median EV/Revenue multiple fell from **6.2x** at year-end 2024 to **3.3x** at March 2026 (PitchBook). Private marks have reset more slowly, producing an unusual inversion where private averages now screen above public. Public comparables anchor late-stage private pricing for non-AI assets.

Q7 Is the IPO window a viable alternative to M&A?

It has reopened selectively. **ServiceTitan** listed in December 2024 at roughly \$9B and validated dominant vertical software; **Figma** listed in July 2025 near \$68B. The tape rewards scale, demonstrated profitability and a credible AI position. For most vertical assets a dual-track process preserves optionality and manufactures competitive tension.

Q2 What are the multiple ranges by vertical right now?

Healthcare IT leads at **5x to 12x revenue** (median ~8.5x). **Construction** trades **3x to 7x** (median ~7.5x). **Legal tech** sits **4x to 8x**, **restaurants and hospitality** **3x to 6x**, and **field services** near **7.0x**. Embedded-finance-enabled platforms trade **7x to 9.5x** revenue.

Q4 How much does embedded finance lift my multiple?

Embedded financial products lift revenue per customer by **2x to 5x** (Andreessen Horowitz) and platforms that integrate payments retain customers at **2.5x** the rate of standalone providers (BCG / Adyen). At maturity, financial services can become the majority of revenue: Toast at **~84%**, Shopify Merchant Solutions at **~79%**.

Q6 Who are the most active buyers today?

Software incumbents and **vertical platforms** (Toast, ServiceTitan, Procore) acquiring adjacent workflow capability; **PE platforms** running buy-and-builds on fragmented verticals; and **strategic acquirers** in regulated industries (healthcare, financial services) buying AI and data depth. Strategic buyers are about **92%** of all software M&A volume.

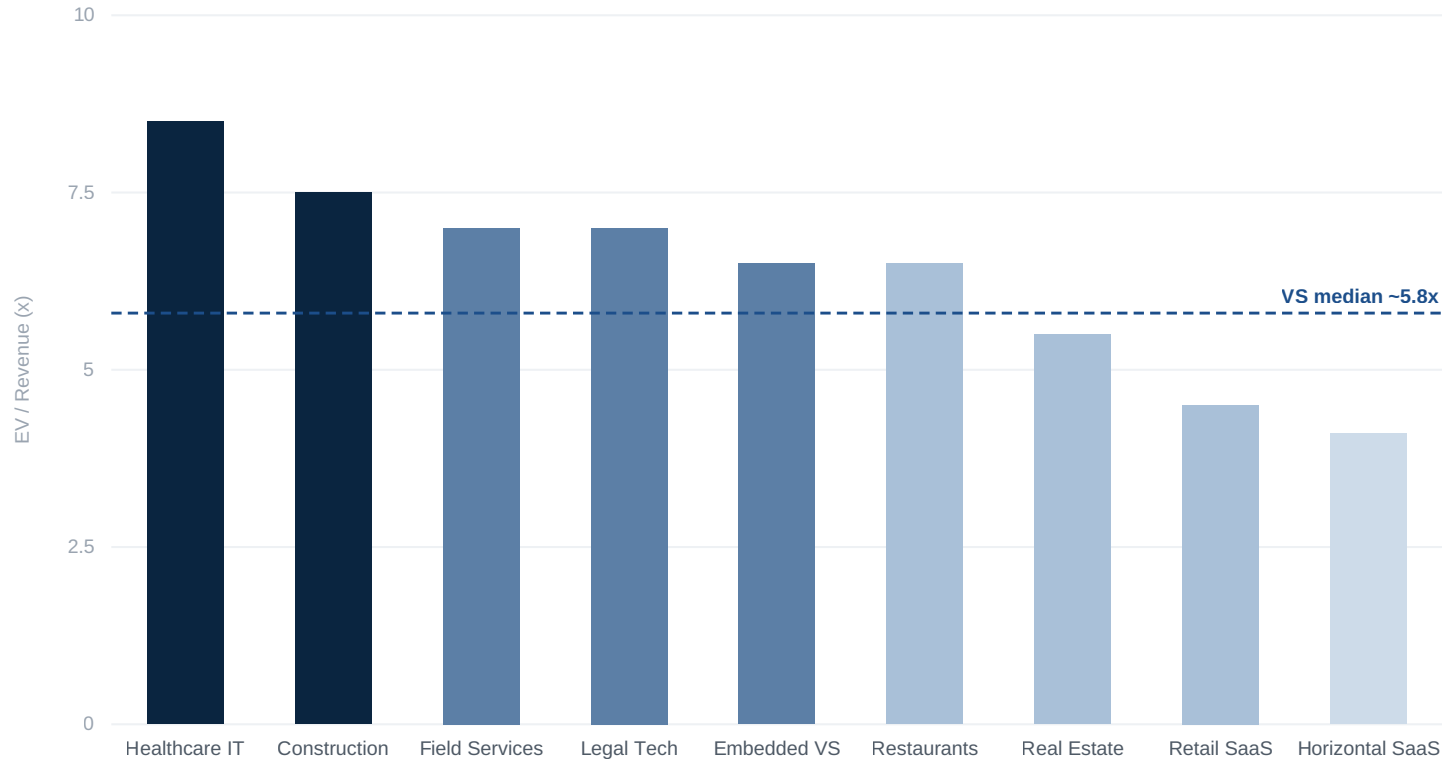
Q8 How do we maximise our multiple in 2026?

Clear the **Rule of 40**, sustain **NRR above 120%**, prove **AI-native operations** with hard ROI, and quantify the **embedded-finance attach** rate. Expect **earn-outs** of 12 to 24 months on AI-exposed revenue. Strategic narrative and synergy math, presented pre-LOI, are what move headline multiples on mature assets.

Q2 2026 Vertical SaaS Valuation Landscape

Healthcare and construction lead on workflow depth; restaurants and legal trade at a more cyclical clip.

Median EV / Revenue Multiple by Vertical (x)



Vertical premium intact: vertical SaaS trades at a median **5.8x** EV/Revenue against **4.1x** for horizontal peers, a **~41% premium** that workflow depth and regulatory complexity continue to underwrite.

VERTICAL SaaS MEDIAN

~5.8x

Median EV/Revenue across 2025-26 vertical SaaS M&A and public benchmarks.

VERTICAL PREMIUM

+41%

Vertical SaaS commands a ~25% to 30% premium at comparable Rule of 40 levels.

EMBEDDED FINANCE LIFT

2-5x

Embedded financial products lift revenue per customer by 2x to 5x at maturity.

Key Driver

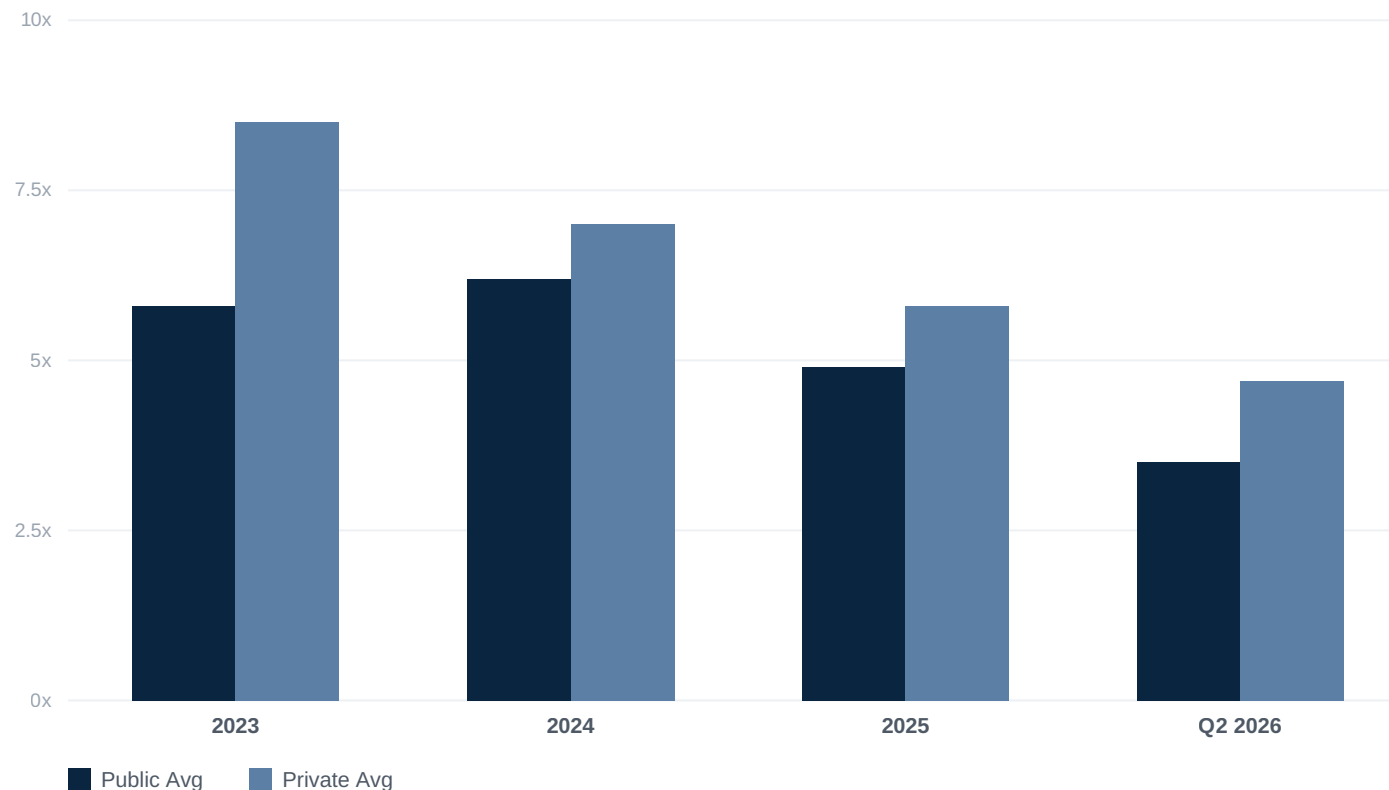
Workflow ownership, proprietary industry data and embedded monetisation are the three levers that explain almost all of the vertical premium; the platforms that combine all three trade at a clear ceiling.

Public vs Private Vertical SaaS Convergence

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Public software repriced sharply in early 2026; private marks have reset more slowly, producing an unusual inversion.

Average EV / Revenue Multiple, Vertical SaaS (x)



PUBLIC MEDIAN

~3.3x

Broad SaaS public median EV/Revenue at 31 March 2026 (PitchBook).

VERTICAL SAAS PUBLIC MEDIAN

~4.5x

Vertical SaaS holds a clear premium even after the public repricing.

PRIVATE PREMIUM

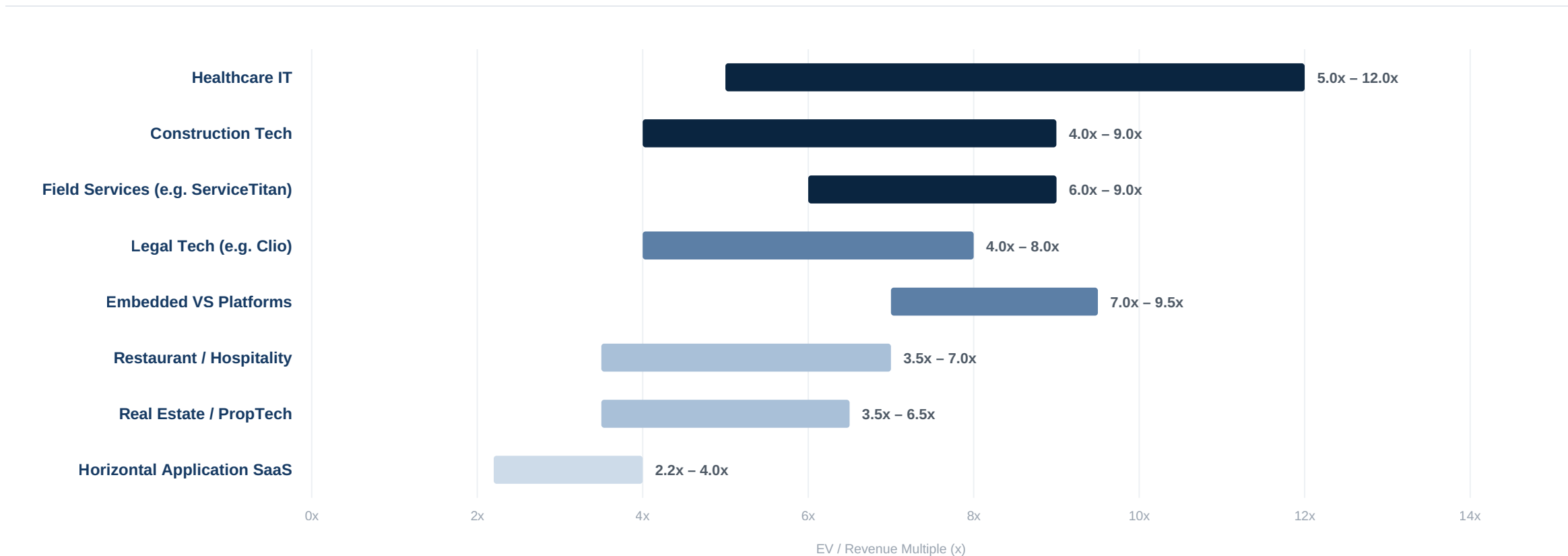
~1.2x

Reflects lagged private marks more than fundamental optionality; reckoning ahead.

Inverted convergence: the headline private premium of about 1.2x reflects sticky private marks rather than fundamental scarcity; public comparables now anchor late-stage private rounds and pre-LOI conversations.

Exit Valuation Multiples by Vertical

Healthcare IT and construction anchor the premium tier; horizontal and seat-priced peers trade at a clear discount.

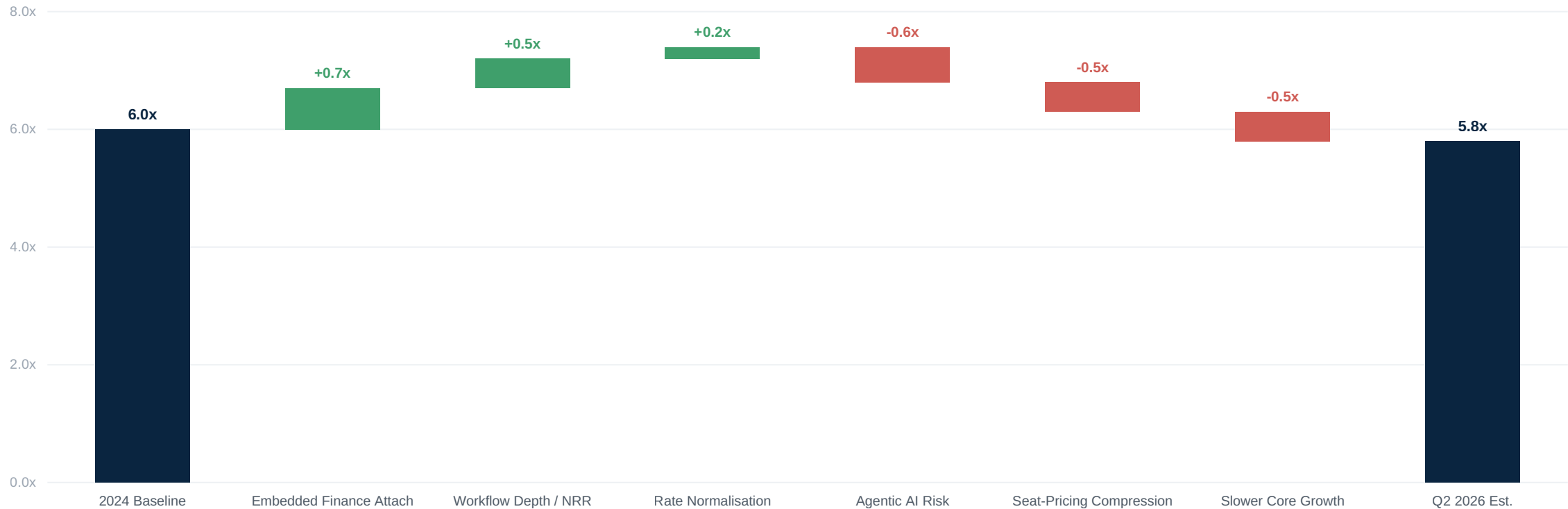


KEY OBSERVATION

The clearest premium accrues to platforms that combine workflow ownership, proprietary data and embedded monetisation. Healthcare IT and infrastructure-grade field service platforms anchor the top of the table; pure-play horizontal SaaS sits a full multiple turn below the vertical median.

Valuation Multiple Drivers: Expansion vs Compression

Embedded monetisation and vertical depth expand the multiple; agentic AI risk and slower seat growth partially compress it.



NET COMPRESSION OF -0.2X

Embedded finance and vertical depth nearly offset the broader agentic-AI software reset. Vertical SaaS has compressed roughly 0.2 of a multiple turn year-on-year against close to 1.0 turn for horizontal SaaS, evidence of the defensive premium at work.

Capital Markets: IPO Window & Listing Benchmarks

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Selectively open: scale and demonstrated profitability gate access for vertical software issuers.

ServiceTitan (Nasdaq)

Listed December 2024 at \$71 for a roughly **\$9B** valuation, the defining recent vertical SaaS IPO.

- Revenue approaching \$1B with 25% growth on listing.
- Validated dominant field-service software, then re-rated through 2025.
- Demonstrated investor appetite for vertical platforms with embedded fintech.
- Reopened the public window for category-leader vertical SaaS.

Figma (NYSE)

Listed July 2025 at a roughly **\$68B** valuation, peaked above \$187 before re-rating.

- Standout of the 2025 IPO class even after a sharp pullback.
- Repriced the standalone product platform thesis under agentic AI risk.
- A read on appetite for dominant horizontal design software, not vertical.
- The window rewards scaled, profitable issuers above \$200M ARR.

2025 IPO Class, Discriminating Tape

Most 2025 software IPOs now trade below their issue price.

- Only **3 of 13** 2025 software IPOs sit above water (SaaStr aggregation).
- Post-listing volatility underlines a selective, discriminating window.
- Companies without scale, profitability and AI exposure see cooler receptions.
- Most vertical assets should run a dual-track to preserve optionality.

2026 Pipeline

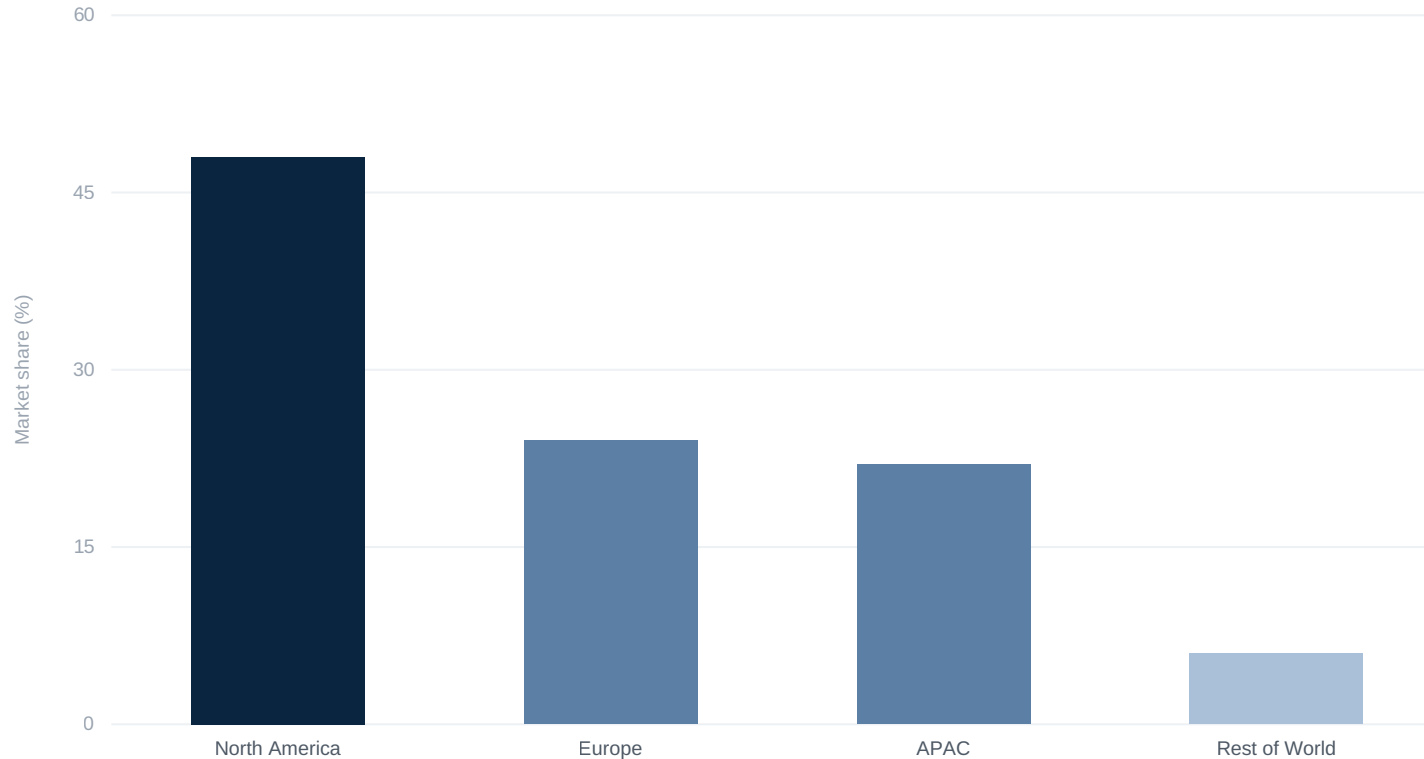
The 2026 pipeline is among the deepest in a decade.

- More than **800 unicorns** have built balance-sheet discipline through the down cycle.
- AI infrastructure, security and applied-AI software lead the near-term queue.
- Vertical software issuers with embedded finance are positioned for late-2026 windows.
- Tender and secondary markets continue to offer liquidity without listing.

Geographic Valuation Variations

North America commands the innovation premium; Europe trades at a fragmentation discount that US acquirers continue to arbitrage.

Share of Global Vertical SaaS Market by Region (%)



NORTH AMERICA

Premium

About 48% of the global vertical SaaS market and the deepest exit liquidity.

EUROPE

Discount

About 24% share; regulatory moats offer value, but fragmentation persists against US peers.

APAC

Growth

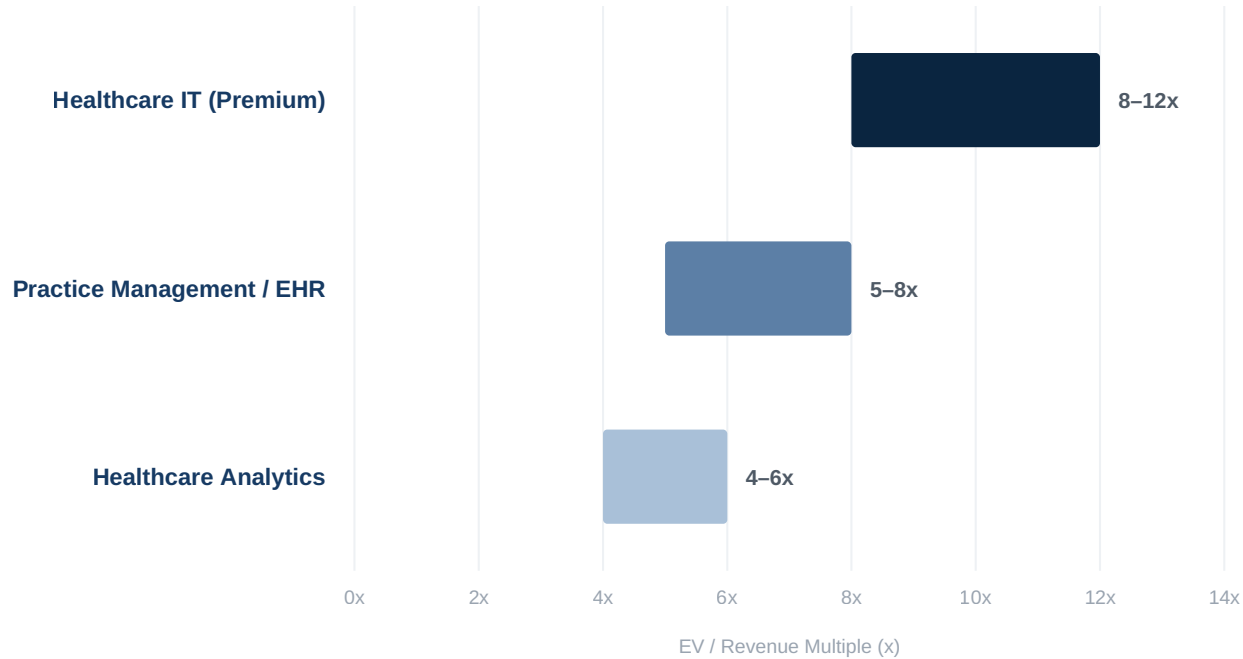
About 22% share, led by super-app and mobile-first ecosystems integrating SMB workflows.

Valuation gap: North American vertical SaaS continues to command the global premium on the strength of deep capital markets, embedded-finance maturity and AI leadership. European vertical platforms hold regulatory moats but trade at a clear fragmentation discount.

Healthcare Vertical SaaS

HIPAA moats, embedded billing rails and value-based-care tailwinds underwrite the highest vertical multiples.

EV / Revenue Multiple Range (x)



Valuation Drivers

Compliance Moats

HIPAA, HITECH and 21st Century Cures Act compliance create near-impenetrable switching barriers; the cost to re-certify a competitor is itself a structural moat.

Embedded Billing & Payments

Patient billing, claims processing and value-based-care reconciliation expand revenue per customer at 40 to 60% gross margin, materially lifting the platform multiple.

Sponsor and Strategic Demand

Healthcare absorbed the largest share of PE capital in 2025 (Bain); strategic buyers including Cotiviti and Veritas-backed platforms continue active capability M&A.

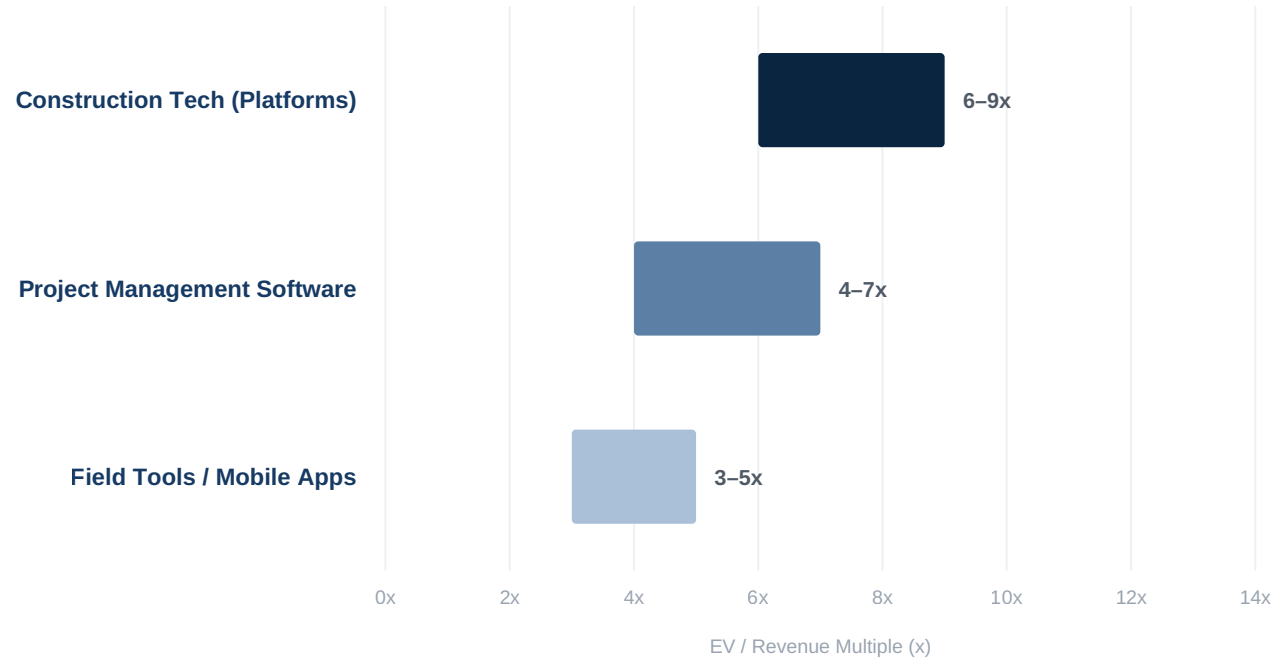
KEY OBSERVATION

Healthcare IT screens as the highest-multiple vertical SaaS subsector, supported by compliance moats, embedded payments rails and a multi-decade shift toward value-based care.

Construction & Building Trades SaaS

Workflow ownership of the construction lifecycle anchors multiples in the 7x to 8x range, with embedded payments compounding value.

EV / Revenue Multiple Range (x)



Valuation Drivers

Operating-System Status

Platforms such as Procore now run the entire construction lifecycle; deep workflow integration drives **NRR above 115%** and underwrites the premium tier.

Embedded Payments Take-Up

Construction payments, lien rights and supplier financing are the next monetisation layer; Procore's acquisition of Levelset set the template for embedded financial workflows.

Sponsor Roll-Up Activity

Sumeru's **\$330M** acquisition of JobNimbus and Procore's bolt-ons of Datagrid and FlyPaper demonstrate continued demand for vertical capability.

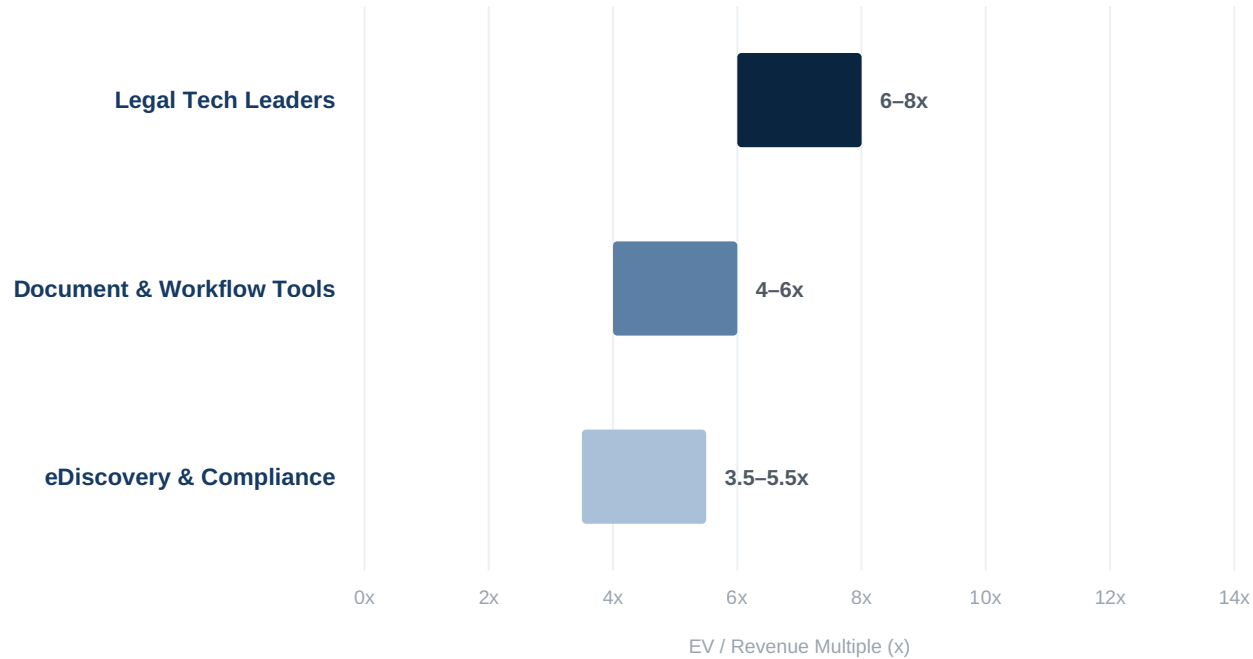
KEY OBSERVATION

Construction SaaS combines fragmented end markets with deep workflow lock-in, an unusually attractive combination for both sponsors running buy-and-builds and strategic acquirers extending the platform.

Legal & Professional Services SaaS

Practice management leaders trade in the 6x to 8x range as embedded payments and AI-driven workflow automation expand the addressable market.

EV / Revenue Multiple Range (x)



Valuation Drivers

AI-Driven Productivity

Thomson Reuters research finds legal professionals expect to free up close to **240 hours per year** through AI tooling, worth roughly \$19,000 per professional.

Embedded Trust Accounting

Legal payments, trust accounting and client billing rails are emerging revenue layers for platforms such as Clio, where embedded financial products lift ARPU materially.

Strategic Buyer Interest

Thomson Reuters, RELX and PE platforms continue to consolidate fragmented legal software; Clio's reported **\$5B** funding valuation in 2025 anchors the upper bound.

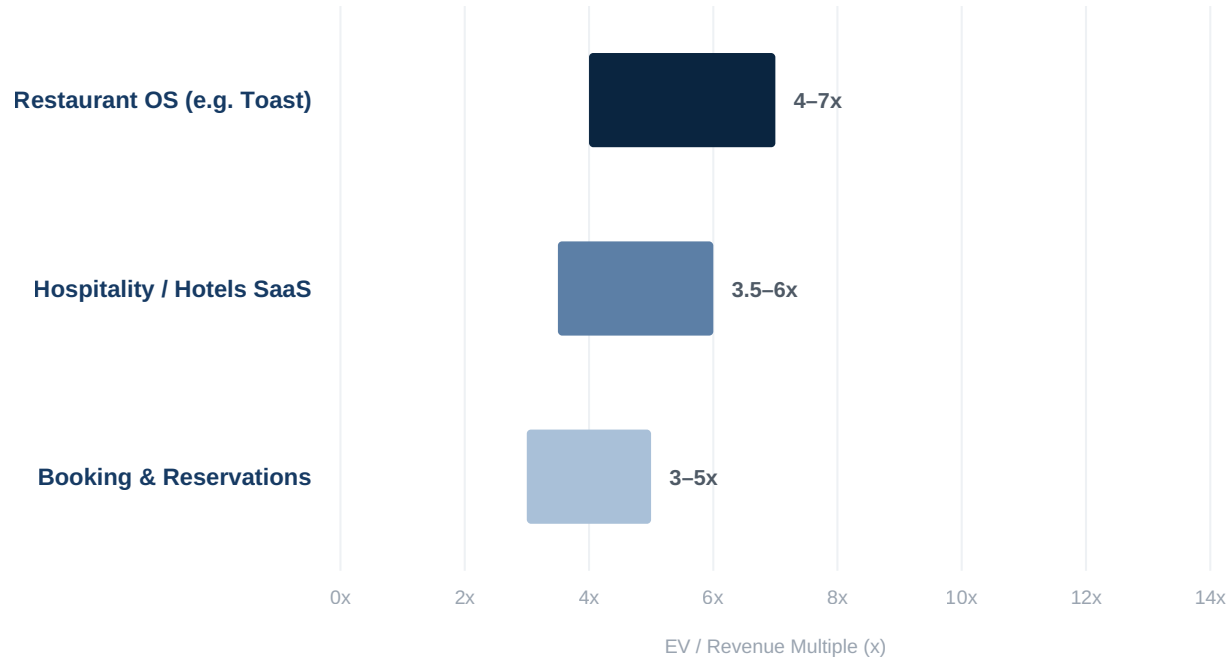
VALUATION DRIVER

Legal tech is an underpenetrated vertical with strong unit economics; the platforms layering AI-native workflows on top of compliance-grade infrastructure command a clear premium.

Restaurant & Hospitality SaaS

Embedded payments dominate the revenue mix, but multiples remain cyclically sensitive to restaurant operating margins.

EV / Revenue Multiple Range (x)



Valuation Drivers

Embedded Payments Dominance

Toast earns roughly **84%** of revenue from financial services; the embedded-payments share has decisively re-rated the restaurant software business model.

Sponsor Take-Privates

Thoma Bravo's acquisition of **Olo** at a **65% premium** (\$2.0B) and TPG's buyout of Sabre Hospitality (\$1.1B) confirm sponsor appetite for cycle-tested restaurant software.

Cyclical Sensitivity

Restaurant SaaS multiples remain more cyclical than healthcare or construction peers; SMB churn and lengthening sales cycles cap the premium tier.

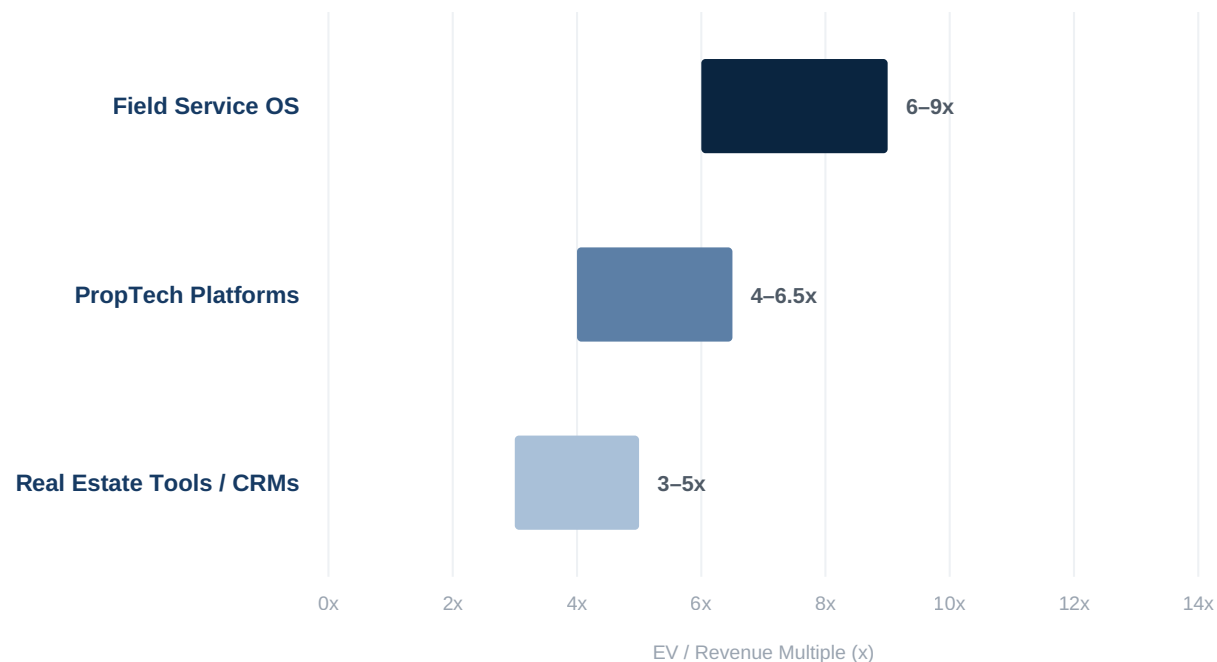
KEY OBSERVATION

Restaurant software is the most embedded-finance-heavy vertical, where the financial-services share of revenue has overtaken the subscription line, creating a different valuation conversation than pure-play SaaS.

Field Services, Real Estate & Property Tech

Field-service operating systems anchor the premium tier; PropTech sits one tier below on more cyclical end-market exposure.

EV / Revenue Multiple Range (x)



Valuation Drivers

Field-Service Premium

ServiceTitan and peers monetise dispatch, billing, payments and capital on top of subscription, delivering the embedded-finance flywheel at scale.

Trades Consolidation

Fragmented end markets across HVAC, plumbing and electrical create a long runway for sponsor-led buy-and-builds underwriting the vertical operating system.

PropTech Cyclical

Property-management and CRE software multiples are recovering with rates and transaction volume; the rebound is uneven across asset classes.

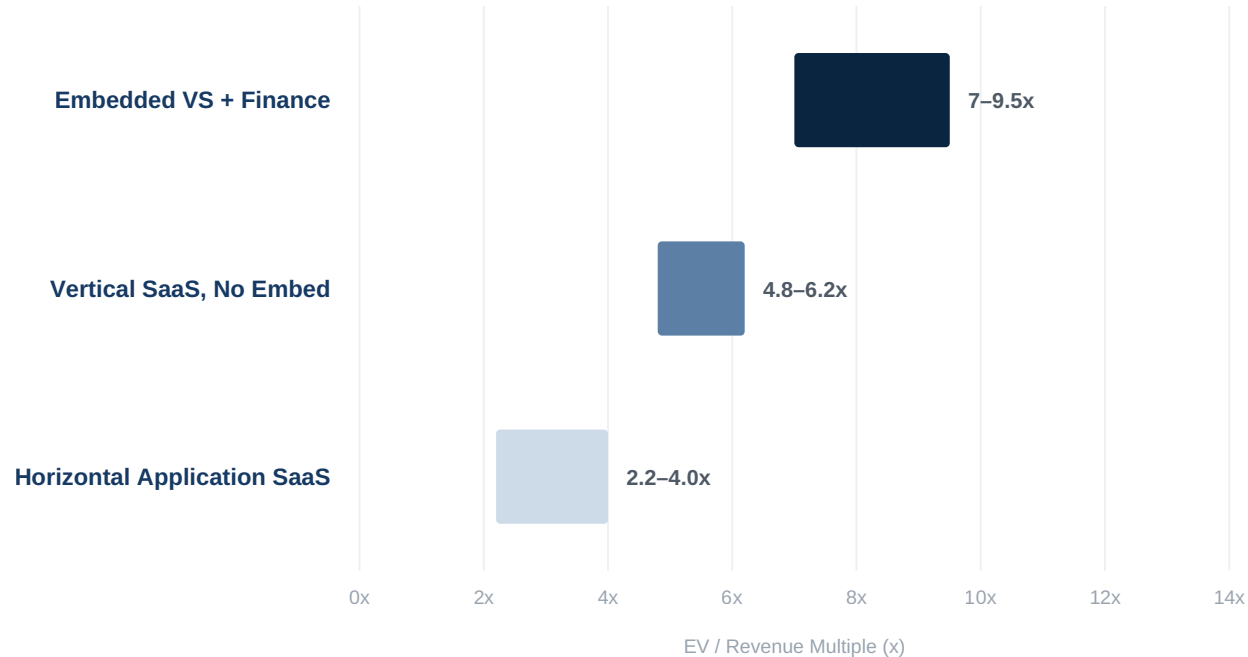
VALUATION DRIVER

Field-service software is the closest analogue to healthcare in operating-system status and embedded-monetisation depth; PropTech offers the largest cyclical-recovery torque among the verticals covered.

Embedded Finance Monetisation Layer

Vertical SaaS platforms that embed payments, lending and capital trade 7x to 9.5x revenue, a clear premium to non-embedded peers.

EV / Revenue Multiple Range (x)



Valuation Drivers

Revenue Per Customer Uplift

Embedded financial products lift revenue per customer by **2x to 5x** (Andreessen Horowitz); mature platforms see financial services become the majority of revenue.

Retention Premium

Embedded payments retain customers at **2.5x** the rate of standalone providers (BCG / Adyen), directly lifting NRR and lengthening payback.

Market Opportunity

BCG sizes the North America and Europe embedded-finance revenue pool at **~\$185B**, of which only about \$32B has been captured. Headroom is real.

KEY DRIVER

Embedded finance is the clearest valuation lever a vertical platform controls. The 7.0x to 9.5x band reflects software-plus-finance economics that legacy ERP and horizontal peers cannot replicate.

Comparable Transaction Analysis Framework

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A rigorous quality-of-revenue filter rather than broad industry codes.

1. Select Peer Set

Identify genuinely comparable assets by vertical, embedded-finance attach, recurring-revenue mix and NRR, never by broad sector labels alone.

2. Normalise Metrics

Adjust KPIs to a pro-forma basis: standardise software vs payments revenue, normalise growth for M&A, and reconcile net versus gross retention.

3. Adjust for Structure

Account for deal-specific terms (earn-outs, stock-versus-cash mix and control premiums) that pull headline valuation away from underlying economic value.

55

TRACKED TRANSACTIONS

2019–26

EXIT INDEX COVERAGE

Proprietary Transaction Index

Calibration draws on Windsor Drake's proprietary index of **55 verified and reported software and fintech transactions (2019–2026)**, a living comparable-set database refreshed each quarter.

Quality-of-Revenue Filter

Peer selection prioritises recurring versus re-occurring revenue, software gross-margin profile, embedded-finance attach rate, and customer-concentration risk.

Rule of 40 Premium Adjustment

A specific premium layer is applied for top-decile efficiency performers (Rule of 40 above 50, NRR above 120%); offsetting discounts are applied for heavy earn-out components.

Control Premium Calibration

Indications include a control-premium layer, typically **20% to 30%**, where cost and revenue synergies can be concretely underwritten.

Strategic Acquirer Mapping by Vertical

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Software incumbents acquire workflow depth; PE runs roll-ups; financial-services strategics buy distribution and data.

Vertical	Software Incumbents	Private Equity	Industry Strategics
Healthcare IT	MODERATE Workflow and AI tooling adjacencies, often via partnership-first.	HIGH Cotiviti, KKR and Veritas continue platform roll-ups.	HIGH Payers and providers acquire data and analytics depth.
Construction	HIGH Procore and Autodesk extend the construction OS via bolt-ons.	HIGH Sumeru, Vista and Bain Capital buy and build.	LOW Industry strategics underweight; rely on software partners.
Legal Tech	HIGH Thomson Reuters and RELX consolidate practice management.	HIGH Hg, Insight and Vista active across legal software.	LOW Industry strategics largely absent; software-first market.
Restaurants	MODERATE Toast and Olo extend embedded payments into adjacent verticals.	HIGH Thoma Bravo / Olo and TPG / Sabre define the playbook.	MODERATE Networks and processors buy distribution into SMBs.
Field Services	HIGH ServiceTitan and Workiz extend across trades.	HIGH Prime buy-and-build target for sponsors.	LOW Industry strategics underweight; software partners lead.
Real Estate	MODERATE Selective adjacencies for property-management platforms.	HIGH Sponsors active in fragmented PropTech segments.	MODERATE REITs and brokerages selectively acquire data and analytics.

High Activity / Priority Target

Moderate / Opportunistic

Low Activity / Niche Only

Software Incumbents as Buyers

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Vertical platforms are running their own M&A programmes to extend the operating-system footprint.

Strategic Motives: Buy vs Build

The internal build cycle for AI-native workflows and embedded finance is too slow to counter agentic disruptors. That gap is compelling software incumbents to acquire modern stacks outright, treating M&A as defensive modernisation rather than expansion.

Acquisition Patterns

Clear preference for bolt-on technology deals under \$1B, often preceded by a strategic partnership that de-risks integration. Capability matters more than scale; identifiable synergies anchor pricing.

<\$1B

PREFERRED BOLT-ON SIZE

Buy

OVER BUILD, ON AI

Operating-System Extension

Procore, Toast and ServiceTitan each treat M&A as a way to extend the platform into adjacent workflows, embedded finance and AI-native operations.

AI Capability Acquisitions

AI now appears in close to **half** of all 2025 software M&A, up from one in four in 2024; vertical incumbents are concentrating on agentic workflow tooling.

Federated Integration

Vertical incumbents preserve the target's product autonomy and engineering culture, overlaying enterprise security, compliance and go-to-market.

Embedded Finance Bolt-Ons

Acquisitions of payments rails, lending platforms and capital products are now standard playbook moves for any platform above \$200M ARR.

Private Equity Acquisition Patterns

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Record dry powder is creating intense deployment pressure on efficient, cash-generative vertical assets.

Deployment Pressure

With roughly **\$3.7T** of global dry powder, of which Bain estimates about **\$1.3T** is buyout-specific, sponsors face acute pressure to transact. Vertical SaaS deal share of SaaS M&A rose from 49% in Q1 2025 to **55%** in Q1 2026.

Public-to-Private Thesis

Repriced vertical SaaS public comparables remain prime targets. Thoma Bravo's take-private of Olo at a **65% premium** (\$2.0B) is the template; Hg's \$6.4B take-private of OneStream signalled appetite at the upper end of the market.

~\$3.7T

GLOBAL DRY POWDER

55%

Q1 26 VERTICAL SHARE

Ideal Target Profile

Sponsors prioritise **Rule of 40** adherence, recurring-revenue mix above 80%, low churn, and a clear embedded-finance attach roadmap, the profile that supports leverage capacity.

Value-Creation Playbook

Pricing optimisation, payments and lending attach, AI-driven margin expansion, and buy-and-build consolidation of fragmented vertical end markets.

Aging-Portfolio Catalyst

A majority of 2022-23 vintage capital is now past two years old, intensifying deployment pressure and accelerating the secondary-buyout cycle.

Roll-Up Activity

Vista alone has deployed **\$12.4B** into vertical SaaS roll-ups through 2024. Add-on acquisitions account for about **72%** of PE software volume.

Competitive Moats Driving Premium Valuations

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Multiples above 8x revenue are reserved for vertical platforms with demonstrable structural defensibility.

Workflow Depth

ASSET VALUE: HIGHEST

System of record for an entire industry

- Owning the daily operating system creates near-impenetrable switching costs.
- Healthcare practice software sees **2 to 3%** churn against 10 to 15% in horizontal CRM.
- Workflow integration is the moat agentic AI most struggles to displace.
- **Action:** anchor on critical workflows, then expand into adjacent ones.

Proprietary Industry Data

DATA VALUE: HIGH

Asset that improves with scale

- Vertical platforms accumulate datasets a horizontal agent cannot replicate.
- Powers unique benchmarking, underwriting and AI features for the industry.
- Compounds in value as the install base and historical depth grow.
- **Action:** deepen first-party data capture across every customer touchpoint.

Embedded Finance

MONETISATION VALUE: HIGHEST

Software-plus-finance economics

- Embedded payments, lending and capital lift revenue per customer **2x to 5x**.
- Mature platforms generate the majority of revenue from financial services.
- Retention rises **2.5x** versus standalone payment providers.
- **Action:** map payments, lending and capital products against the industry workflow.

Regulatory Complexity

BARRIER VALUE: HIGH

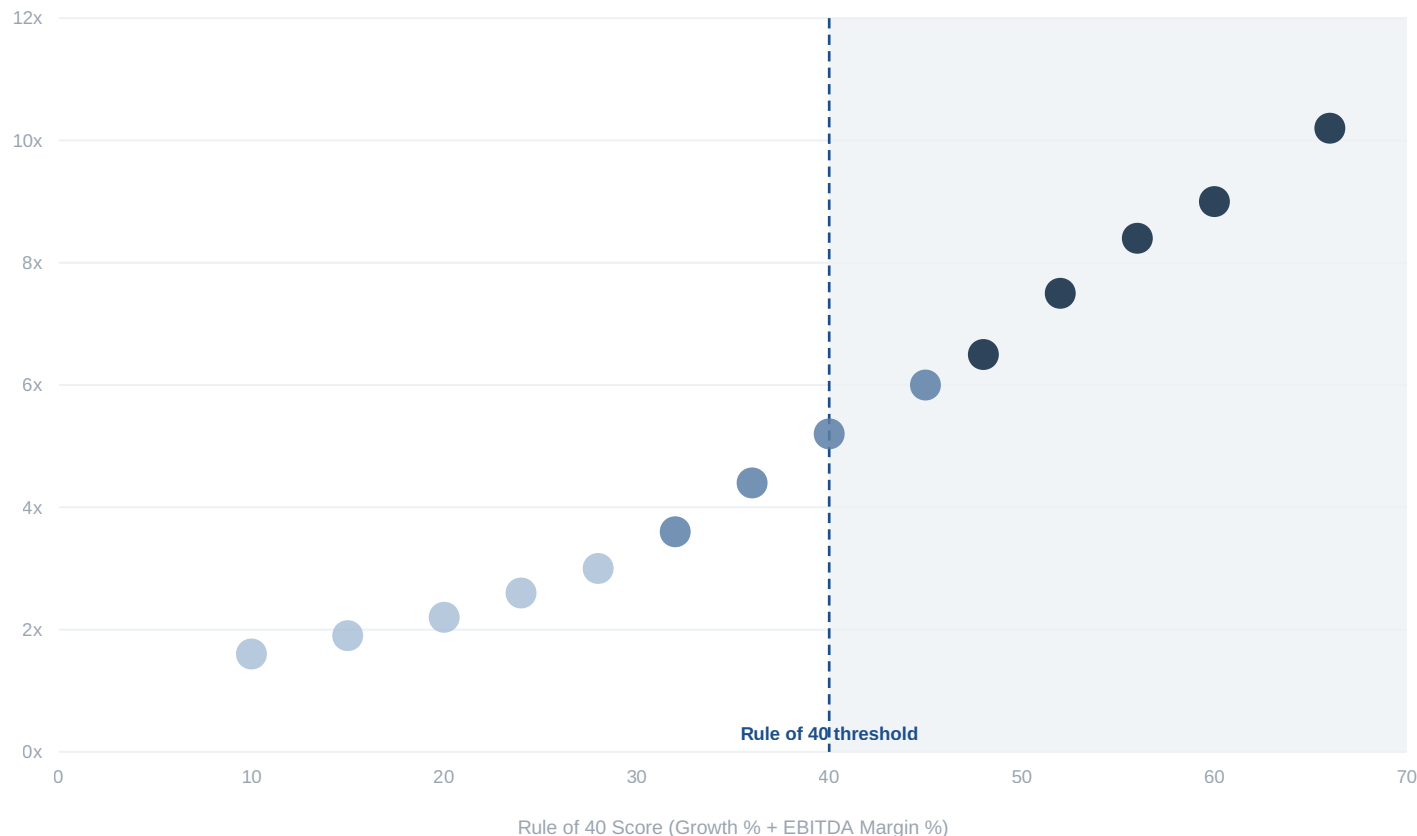
Compliance as competitive moat

- HIPAA, trust accounting and lien-rights compliance raise the cost of entry.
- Compliance-by-design becomes a structural barrier for any new entrant.
- Particularly powerful in healthcare, legal and financial-services verticals.
- **Action:** invest in compliance infrastructure early; it is durable, not a tax.

Rule of 40 Performance Distribution

Clearing the Rule of 40 unlocks a 50% to 100% valuation premium; sub-scale performers face deep discounts.

EV / Revenue Multiple vs Rule of 40 Score



TOP QUARTILE (SCORE >50)

7.5x+

Scaled vertical winners; the primary targets for premium strategic M&A.

RULE OF 40 MET (40 TO 50)

5.0–7.0x

Credible growth and profit balance; viable IPO-ready candidates.

BELOW THRESHOLD (<40)

2–4.5x

Transition and value-trap zones; vulnerable to sponsor-led roll-ups.

Only about 20% of public SaaS companies currently clear the Rule of 40 (SaaS Metrics Standard Board). The score remains the single best predictor of a premium multiple, and the market is pricing the metric harder each quarter.

Cross-Border M&A Considerations

WINDSOR DRAKE

Jurisdictional divergence is the primary risk, and the primary arbitrage, in vertical SaaS M&A.

Regulatory Regimes

Heightened scrutiny of healthcare data, payments licensing and AI deployment (EU AI Act, CFIUS and FDI review) materially complicates tech-stack integration and lengthens approval timelines for cross-border vertical SaaS deals.

Currency & WACC Impact

US acquirers continue to leverage a strong dollar and premium domestic multiples to buy discounted European vertical assets; managing divergent regional rate environments is central to debt-financed deals.

12–18mo

CROSS-BORDER CYCLE

+30–50%

LONGER CLEARANCE

Extended Timelines

Cross-border clearance for vertical SaaS now runs 30 to 50% longer than domestic transactions; ensure runway to withstand delay without losing leverage.

Milestone-Tied Earn-Outs

Regulatory earn-outs unlock tranches of consideration on specific license transfers, data-sovereignty approvals or compliance certifications.

Tax & Structure Efficiency

Establish efficient holding structures early; optimise repatriation and IP transfer pricing well before LOI discussions begin.

Dual-Track & Local Partners

Run IPO readiness alongside the M&A process for competitive tension, and retain local management to navigate post-close regulatory nuance.

Exit Valuation Optimisation Strategies

WINDSOR DRAKE

Four levers that systematically de-risk a vertical SaaS asset while amplifying its scarcity value.

1. Embedded Finance Attach

12 TO 18 MONTHS PRE-EXIT

Add the software-plus-finance multiple

- Attach **payments**, then lending, then capital products to the core workflow.
- Target **>30% of revenue** from embedded financial services at scale.
- Document retention uplift versus the unembedded customer cohort.
- Evidence the **2x to 5x** ARPU lift with clean, auditable cohort data.

2. Revenue Quality

PREDICTABILITY

Engineer resilience into the revenue model

- Increase recurring revenue mix to **80%+** of total.
- Improve Net Revenue Retention to **>120%** through cross-sell.
- Reduce concentration so the top 10 accounts sit below 20%.
- Lengthen contract duration to extend revenue visibility.

3. Rule of 40 Efficiency

PREMIUM TIER

Prove scalable profitability

- Reallocate operating expense from low-ROI channels into R&D and AI.
- Deploy AI tooling to decouple headcount from revenue growth.
- Achieve **above 40%** on growth plus EBITDA margin.
- Track the score monthly with board-level visibility.

4. Strategic Narrative

COMPETITIVE TENSION

Frame the asset as a platform enabler

- Position as the operating system for an entire industry, not a point tool.
- Present quantified synergy cases covering revenue and cost.
- Map specific capability gaps for the top five acquirers.
- Run a structured process to manufacture competitive tension.

Positioning for Strategic Acquisition

WINDSOR DRAKE

Strategic value in vertical SaaS is driven by capability fit, integration ease and synergy density.

Capability Fit

Demonstrate unique IP, proprietary industry data and AI-native operations that fill a specific, declared buyer gap, making the buy-versus-build decision self-evident for the acquirer.

Integration Ease

Acquirers pay clear premiums for plug-and-play vertical assets. Minimise critical dependencies, document APIs thoroughly, and present clean, audited financials with payments and software separated.

Synergy Density

Quantify the revenue lift from cross-selling into the acquirer's base, and model the cost synergies from shared infrastructure, to support a higher multiple.

Strategic Buyer Mapping

Run a structured gap analysis of potential acquirers and map your vertical capabilities directly to each buyer's declared strategic deficits.

Proof-of-Integration

Develop technical materials that demonstrate speed-to-value within the acquirer's ecosystem, pre-empting the technical diligence phase.

Synergy Quantification

Explicitly model top-line lift from payments cross-sell and bottom-line impact in the management presentation to anchor the valuation conversation on hard numbers.

Comprehensive VDR Readiness

Build a defensive data room addressing regulatory, IP, payments-licensing and customer-concentration risk before the first buyer engagement.

Timing the Exit: 12-18 Month Roadmap

WINDSOR DRAKE

A full process runs 12 to 18 months end to end. Founders who prepare in the current cycle meet the market while today's alignment of record dry powder, vertical SaaS demand and pricing discipline still holds.



Readiness & Hygiene

Q3 2026

- Audit completion to PCAOB standard
- AI governance and data-rights review
- Embedded-finance attach diagnostic
- Clean up the cap table and option pool

KEY MILESTONE

Clean IP and open-source scan



Strategic Positioning

Q4 2026

- Launch dual-track process preparation
- Build the strategic buyer-targeting list
- Draft the CIM and management presentation
- Lock key-employee retention packages

KEY MILESTONE

Retention packages locked



Market Engagement

Q1 2027

- Fireside chats with priority strategics
- Solicit initial indications of interest
- Deliver management presentations
- Open the virtual data room

KEY MILESTONE

Competitive bid tension



Execution & Closing

Q2 2027

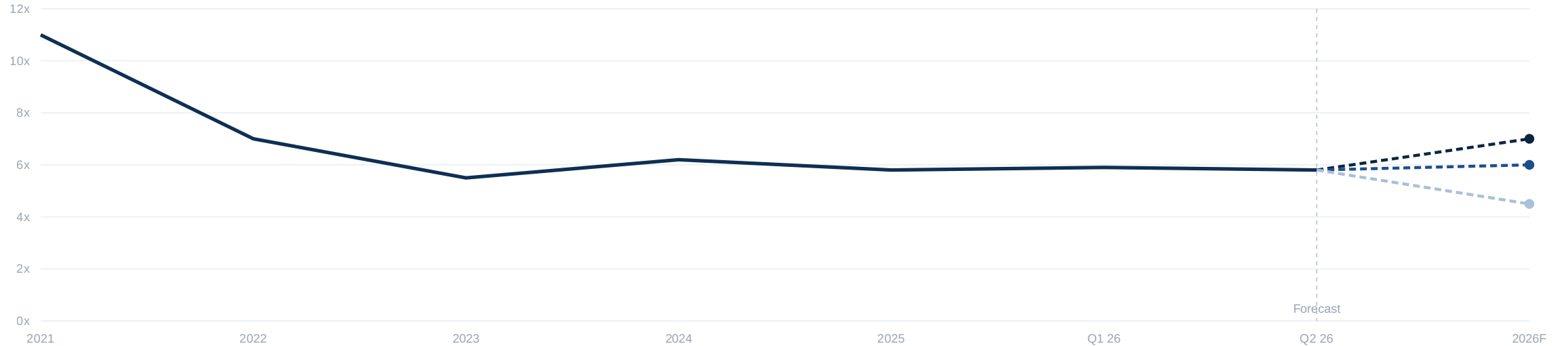
- Definitive agreement negotiation
- Regulatory filings (HSR and CFIUS)
- Confirmatory diligence support
- Closing and integration kickoff

KEY MILESTONE

No-MAC event verification

2026 Vertical SaaS Valuation Forecast Scenarios

With the vertical SaaS median near 5.8x, forward trajectories diverge on embedded-finance adoption and the pace of agentic AI substitution.



BULL CASE

7.0x

Key Drivers

- Embedded finance attach lifts platform economics
- Vertical AI agents accelerate adoption
- Sponsor exits prove premium pricing

STRATEGY: ACCELERATE ATTACH & AI

BASE CASE

6.0x

Key Drivers

- Stable rate path, one further cut
- Mid-single-digit M&A volume growth
- Selective IPO window for category leaders

STRATEGY: BALANCE GROWTH & PROFIT

BEAR CASE

4.5x

Key Drivers

- Agentic AI substitution outruns the re-pivot
- Public marks compress further below trough
- Cyclical end-market weakness hits SMB verticals

STRATEGY: CASH PRESERVATION

Emerging Opportunities & Buyer Trends

WINDSOR DRAKE

Capital is flowing into vertical platforms that combine workflow depth, embedded monetisation and AI-native operations.

Vertical AI Agents

Gartner and McKinsey project over **40%** of enterprise AI deployments in 2026 will be vertical-first. Industry-specific agents that operate on proprietary workflows are the new premium category.

Embedded Capital Products

After payments, the next monetisation layer is lending, working capital, and insurance distribution. Vertical platforms that own the cash-flow data are best positioned to underwrite these products.

AI-Native Vertical Software

Service-as-software start-ups that price by completed outcome rather than per seat are reshaping pricing in healthcare, legal and field services.

Capability Acquisitions

Vertical incumbents are prioritising AI and embedded-finance capability over scale, buying technology to compress the build cycle for agentic workflows.

PE Platform Roll-Ups

Sponsors continue to consolidate fragmented verticals across healthcare, legal, field services and PropTech, with add-ons accounting for ~72% of PE software volume.

Regional Champions Go Global

European and APAC vertical leaders are acquiring North American assets to capture premium valuations and access deeper capital markets.

Market Intelligence

Top-tier forecasts point to a 2026 acceleration in vertical SaaS deal volume. Record dry powder and capability-driven demand are chasing a supply of defensible assets that has not kept pace.

M&A Case Study: Thoma Bravo & Olo

WINDSOR DRAKE

The defining vertical SaaS take-private of the cycle, and the playbook it sets for founders.

The Vertical Take-Private

Thoma Bravo's announced acquisition of **Olo**, the restaurant ordering and payments platform, at **\$10.25 per share** in cash (~\$2.0B), struck at a **65% premium** to the unaffected price in mid-2025, is the defining recent vertical SaaS take-private. The deal confirms that record sponsor dry powder is actively hunting scaled, defensible vertical assets at repriced multiples.

Strategic Rationale

- **Repriced quality:** a profitable, scaled restaurant platform acquired at a multiple last seen during prior disruption scares.
- **Embedded payments runway:** Olo's payments stack offers a clear monetisation lever for the next leg of platform value.
- **Take-private optionality:** a sponsor can accelerate the embedded-finance pivot without quarter-to-quarter public scrutiny.

Implications for Founders

Quality Attracts Capital in Repricings

A market-wide de-rating draws the best-prepared sponsors in, rather than deterring them. Record dry powder is actively hunting scaled, defensible vertical assets at repriced multiples, and the window to choose is narrowing.

Embedded Payments Is the Multiple Lever

The deal underwrote a clear embedded-finance roadmap as a primary value-creation lever. Founders who can evidence payments attach as a credible path to platform economics, pre-LOI, materially move headline pricing.

Platform vs Point Solution

Assets framed as broad **vertical platforms** capable of absorbing bolt-ons trade at clear premiums to narrow point solutions. Integration readiness, clean APIs and modular architecture are themselves valuation levers.

Valuation Methodology: Choosing the Right Metric

WINDSOR DRAKE

The right metric depends on business model, profitability profile and embedded-finance attach.

EV / Revenue

5–12X

High-growth vertical SaaS

- Applied where profitability is suppressed by deliberate growth reinvestment.
- Software revenue at 70 to 80% margin commands the premium tier.
- Rule of 40 score and NRR dictate where in the range an asset sits.
- Best suited to healthcare IT, field services and embedded platforms.

EV / EBITDA

10–22X

Mature & cash-generative

- Essential for mature, profitable vertical platforms.
- Many firms valued on revenue in 2024 are now assessed on EBITDA.
- Margin expansion and payments mix are the key value drivers.
- Captures the cash-flow reality of consolidating segments.

Software vs Payments Split

MIX-DEPENDENT

Decompose the revenue line

- Software revenue at 80% gross margin trades at software multiples.
- Payments revenue at lower margin warrants a separate, lower multiple.
- Toast and Shopify illustrate the importance of decomposed pricing.
- Acquirers price the mix on its components, not the headline number.

Price / Earnings

VARIES

Stable, profitable leaders

- Suited to mature, profitable vertical leaders with steady earnings.
- Focus shifts to recurrence and consistency of net income.
- Long-term earnings CAGR is the principal driver.
- Most relevant once growth has durably normalised.

Appendix: Sources & Methodology (Part 1)

WINDSOR DRAKE

Institution	Report / Source	Date
McKinsey & Company	<i>2025 Technology Outlook; Global Private Markets Report 2026</i>	Mar 2026
McKinsey & Company	<i>2026 M&A Trends: Navigating a Rebounding Market</i>	Feb 2026
Bain & Company	<i>Global Private Equity Report 2026 (Outlook: Gaining Traction)</i>	Feb 2026
Bain & Company	<i>Embedded Finance: Thriving in the New Value Chain</i>	2025
BCG	<i>Moving Embedded Finance from Promise to Practice (with Adyen)</i>	2025
Goldman Sachs	<i>2026 Global M&A Outlook; Technology in 2026</i>	Jan 2026
Morgan Stanley Research	<i>AI Market Trends 2026; Software Sector Notes</i>	2026
S&P Global Market Intelligence	<i>PE Dry Powder Recedes from All-Time Highs; PE Vertical SaaS Deployment</i>	Dec 2025
KPMG	<i>Semiannual IPO and M&A Outlook</i>	2026
PitchBook	<i>Q1 2026 Enterprise SaaS Public Comp Sheet and Valuation Guide</i>	2026
CB Insights	<i>State of SaaS / Vertical SaaS 2026</i>	2026

Appendix: Sources & Methodology (Part 2)

WINDSOR DRAKE

Institution	Report / Source	Date
Bain Capital Ventures	<i>The Current State of Vertical SaaS</i>	2025
Federal Reserve	<i>FOMC Statement (Apr 2026); Summary of Economic Projections (Mar 2026)</i>	2026
Gartner	<i>Enterprise AI Deployment Forecasts; Vertical AI Agents</i>	2026
EY	<i>M&A Outlook 2026 (Deal Barometer); Private Equity Pulse Q1 2026</i>	Jan 2026
Andreessen Horowitz	<i>Embedded Fintech and Vertical SaaS Monetisation Research</i>	2024-25
Thomson Reuters Institute	<i>Future of Professionals Report (Legal)</i>	2025
Olo Inc.	<i>SEC filings; merger agreement disclosures (Thoma Bravo take-private)</i>	2025
ServiceTitan Inc.	<i>S-1 and post-IPO filings</i>	2024-25
Toast, Inc.	<i>10-K and 10-Q filings; financial-services revenue disclosure</i>	2025
Shopify Inc.	<i>10-K and 10-Q filings; Merchant Solutions disclosure</i>	2025-26

VALUATION METHODOLOGY NOTES