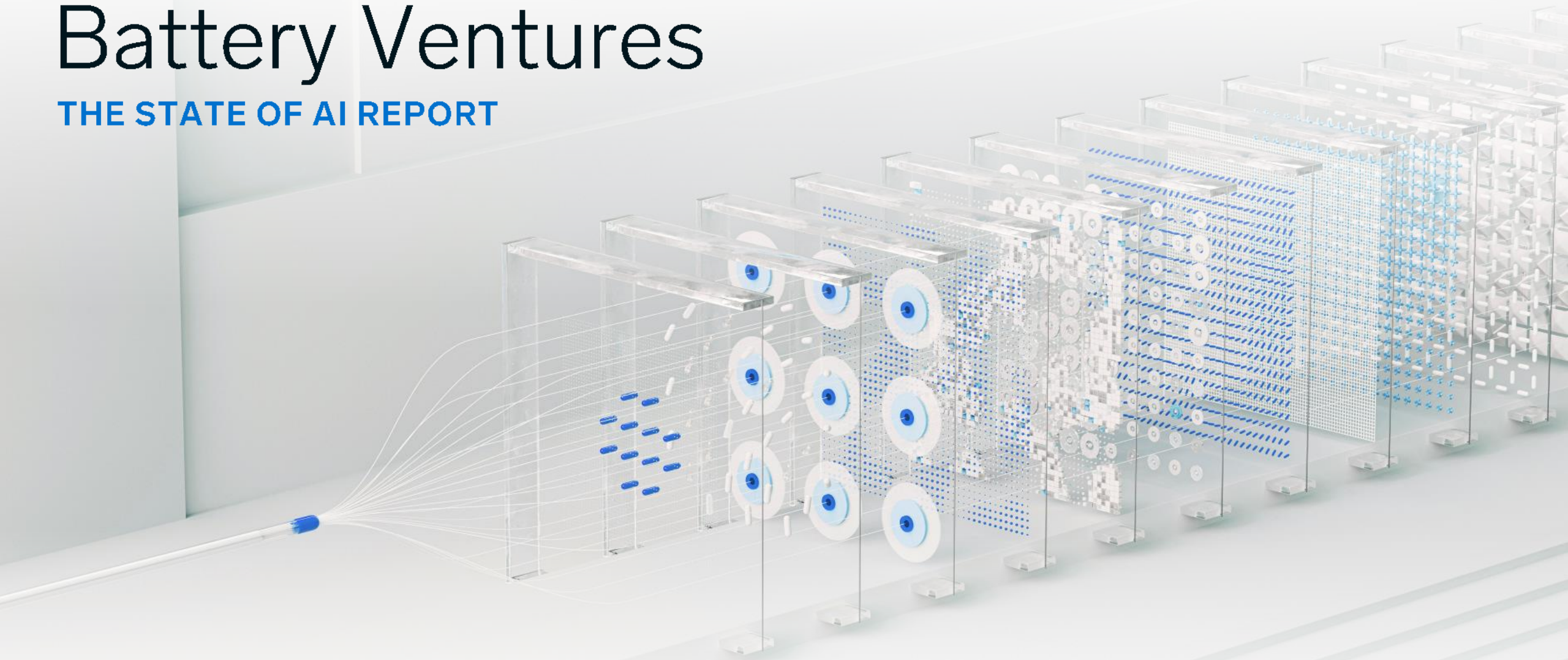


DECEMBER 2025

Battery Ventures

THE STATE OF AI REPORT



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Battery 

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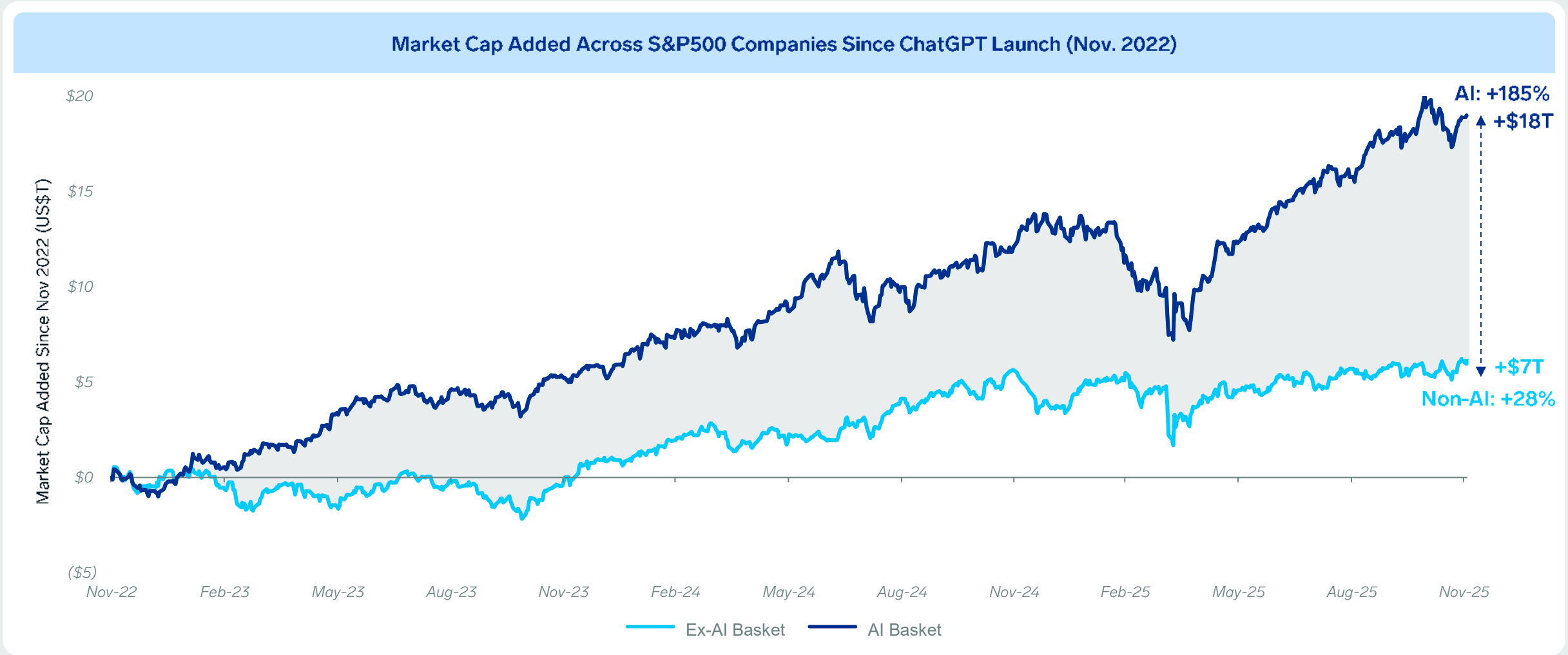


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Market Overview

AI is driving public-market value creation

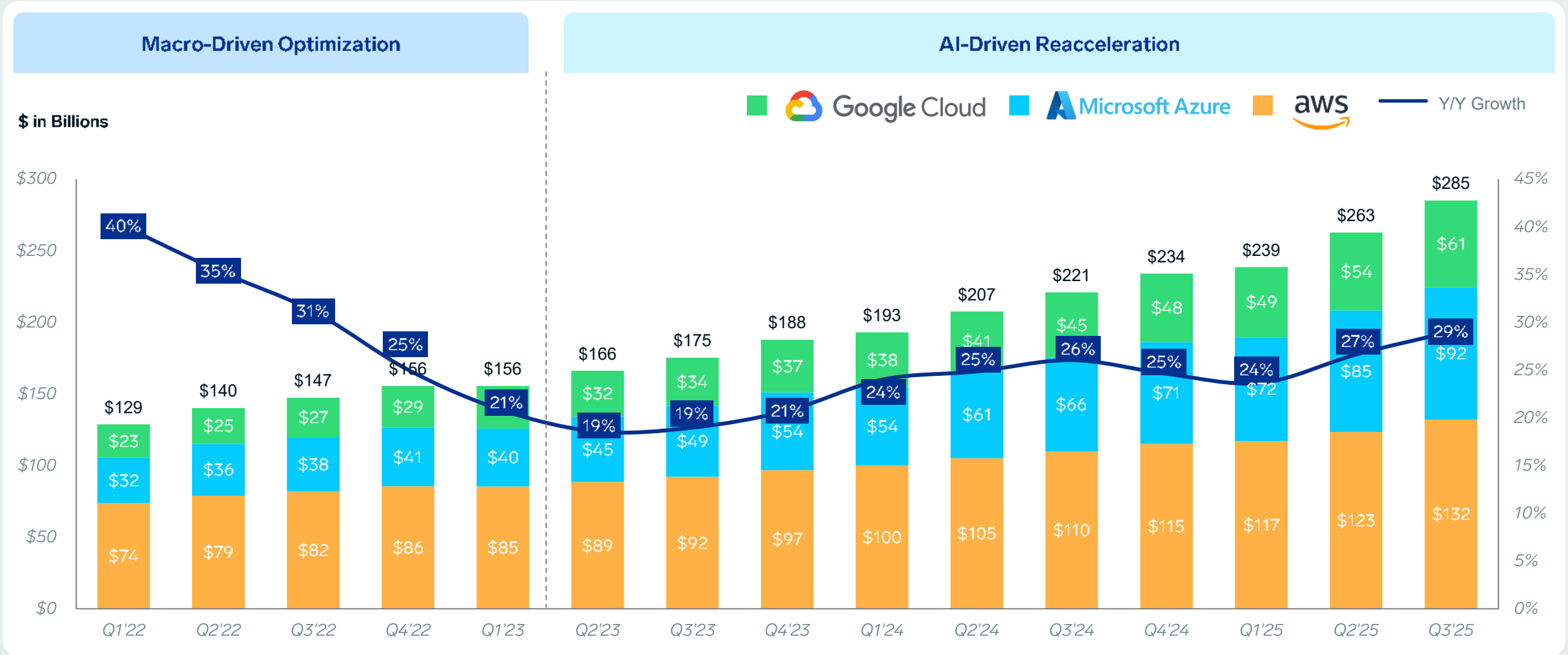
AI companies represent 50% of S&P 500 value, and since Nov. 2022 have added ~\$18T in market cap, accounting for ~75% of all gains.



Note: AI Basket represents a selected set of public companies across key segments of the AI value chain, including AI Power & Industrials (utilities, cooling, electrical systems), AI Hardware & Infrastructure (GPUs, CPUs, servers, edge devices), AI Cloud (cloud providers and model platforms), AI Software (enterprise, analytics, security), and AI Components (memory, storage, analog, sensors, manufacturing tools). Ticker list reflects major S&P 500 AI-exposed companies based on Battery Ventures analysis. Market data as of 12/15/2025.
Sources: CapIQ, Company filings.

Cloud providers are entering a new growth cycle driven by AI demand

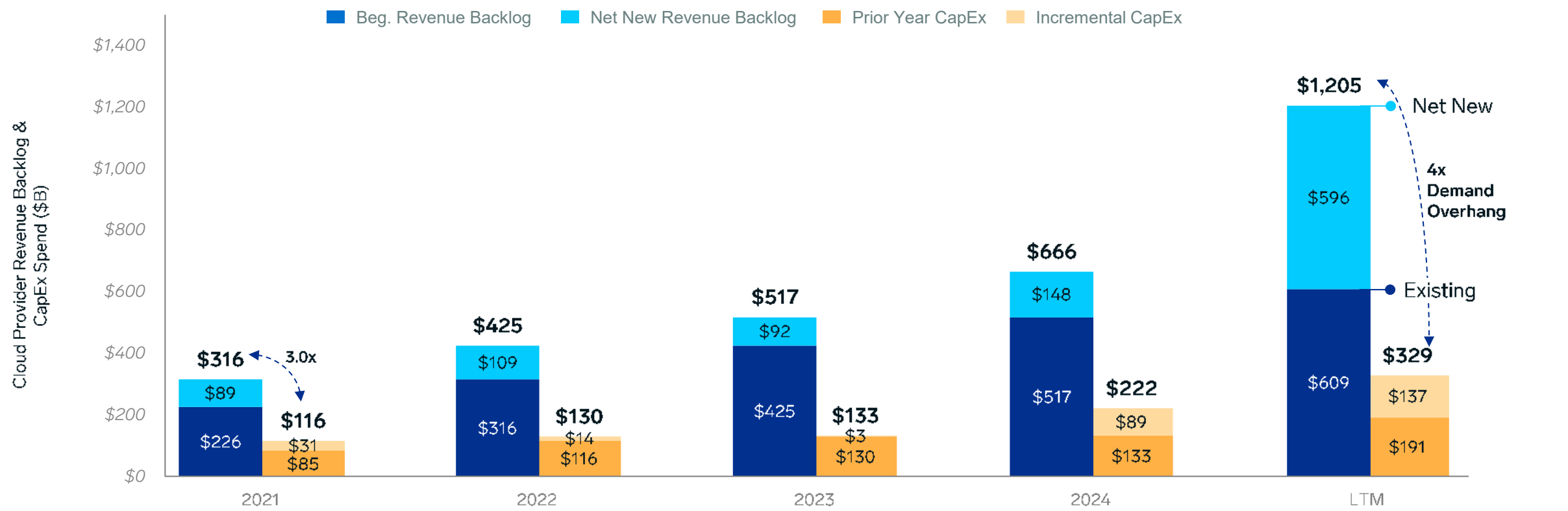
Cloud provider growth is reaccelerating at \$285B of run-rate revenue as new AI workloads come online



Explosive AI demand continues to outpace available infrastructure capacity

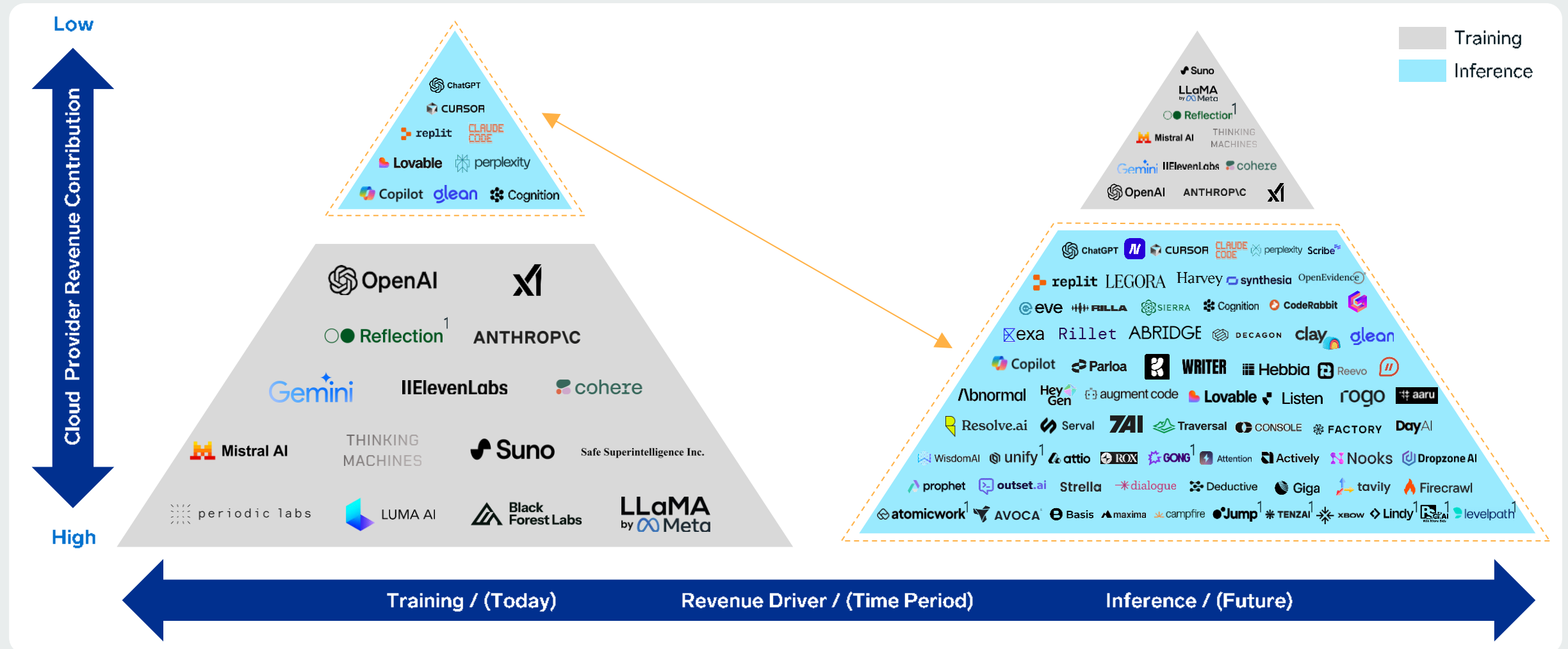
Despite investing \$329B in CapEx in the last 12 months, cloud providers remain capacity-constrained with \$1.2T of backlog, resulting in 4x demand overhang

Cloud Provider Revenue Backlog vs. CapEx





























However, cloud provider revenue is shifting from training to inference

AI cloud revenue is still training-heavy, but the next wave of agentic applications will shift the center of gravity to inference



A new infrastructure layer is taking shape

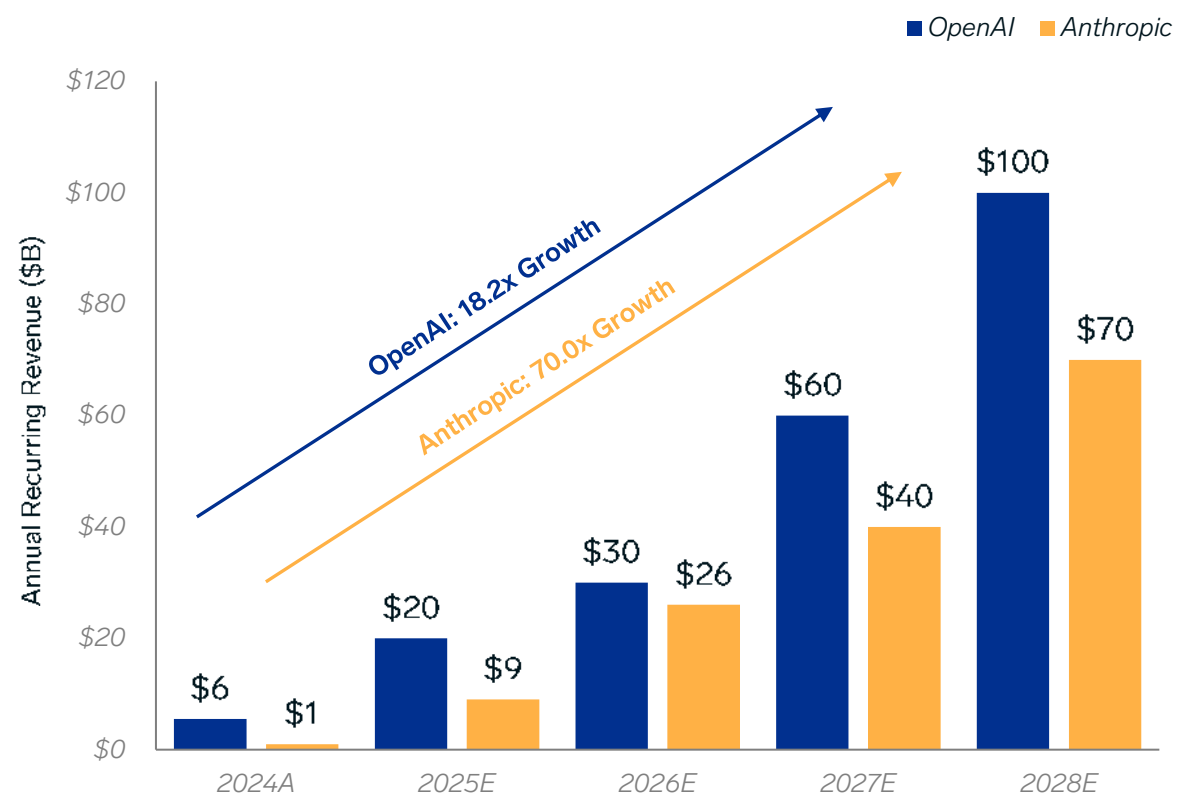
The next era of infrastructure expands beyond scaling storage and compute to scaling intelligence

	Cloud Era Incumbents	AI-Native Challengers
Dev Tools and Collaboration	 GitHub  GitLab  ATlassian	 CURSOR  CLAUDE CODE  Linear  Cognition Codex CLI  Lovable
Data and Analytics	 snowflake  elastic  mongoDB.	 databricks ¹  supabase ClickHouse ¹
Cloud Infrastructure	 aws  Google Cloud  Microsoft Azure	 baseten together.ai  fal  Fireworks AI  CoreWeave
Networking and Silicon	 AMD  NVIDIA. ARISTA JUNIPER NETWORKS	 nexthop.ai ¹  groq™  SambaNova®  Rivos

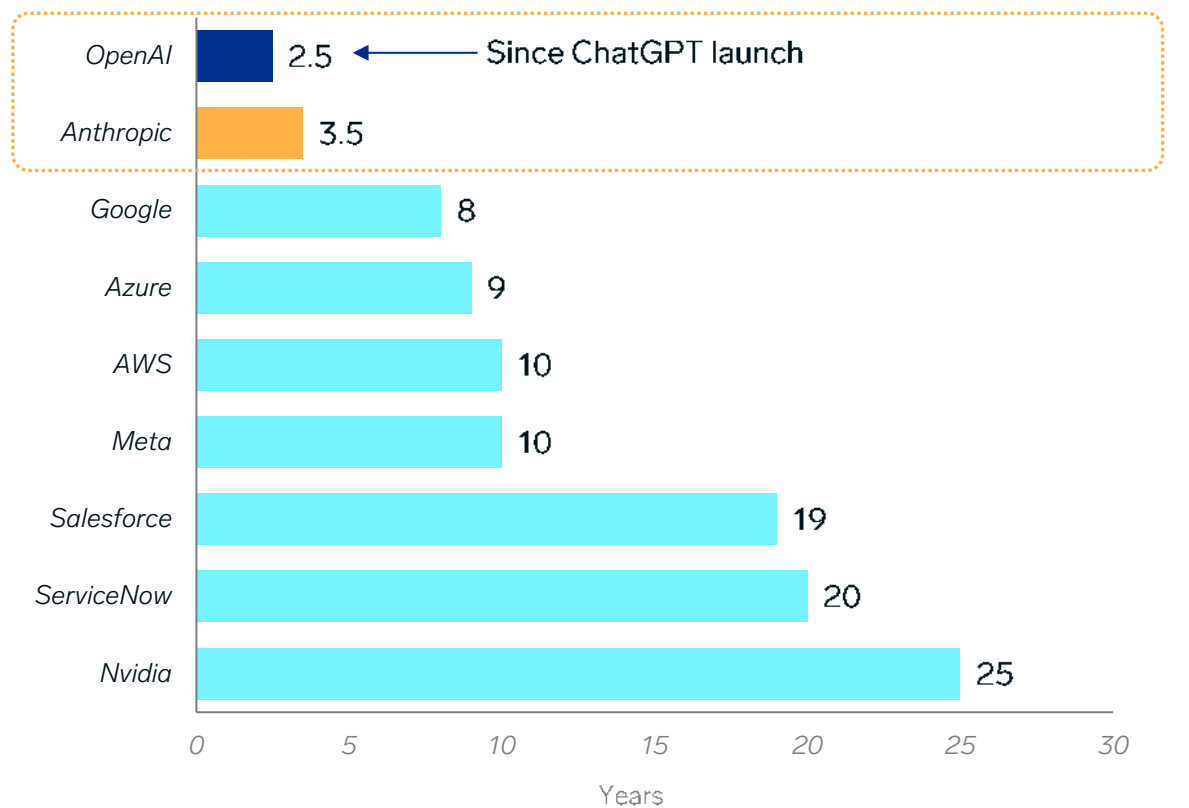
Foundation models are powering the AI wave...

Foundation models are scaling at unprecedented speeds, reaching \$10B of ARR 5x faster than platform incumbents

Foundation Model Growth

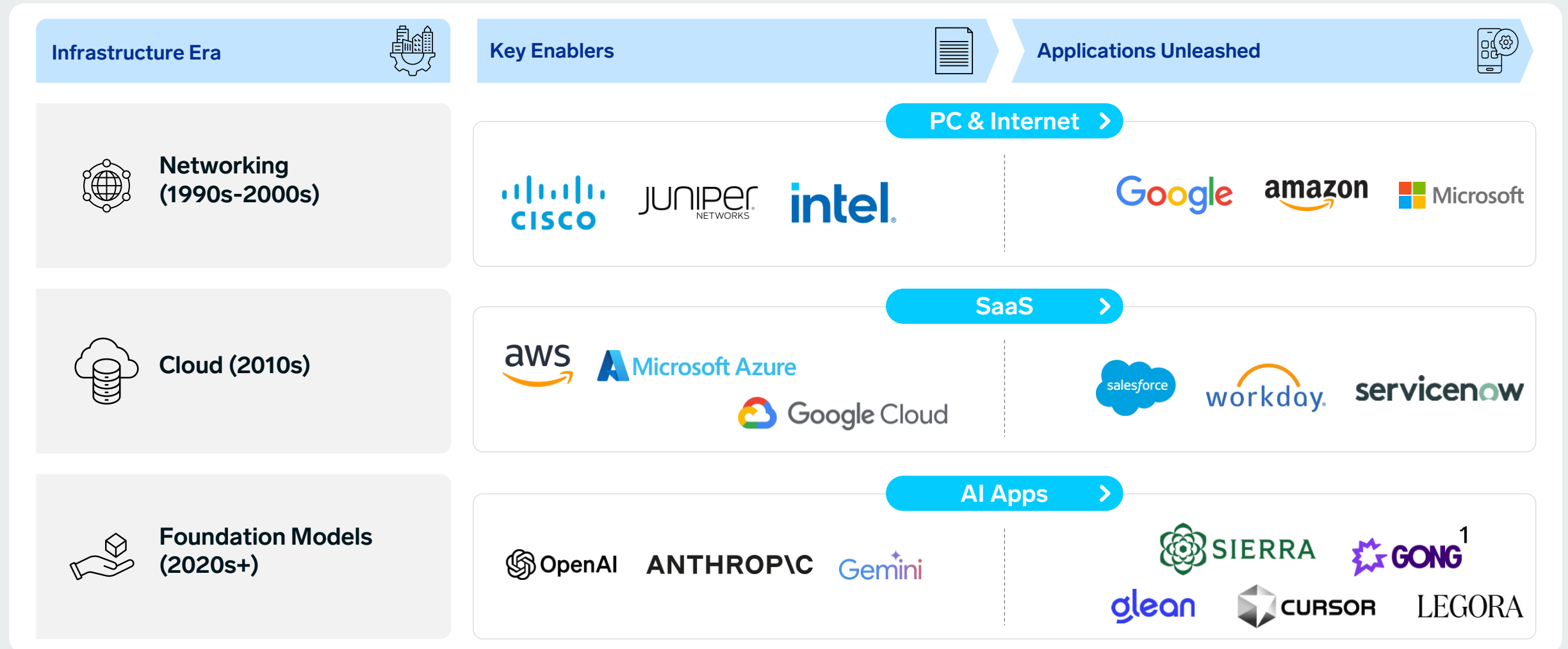


Time to \$10B ARR



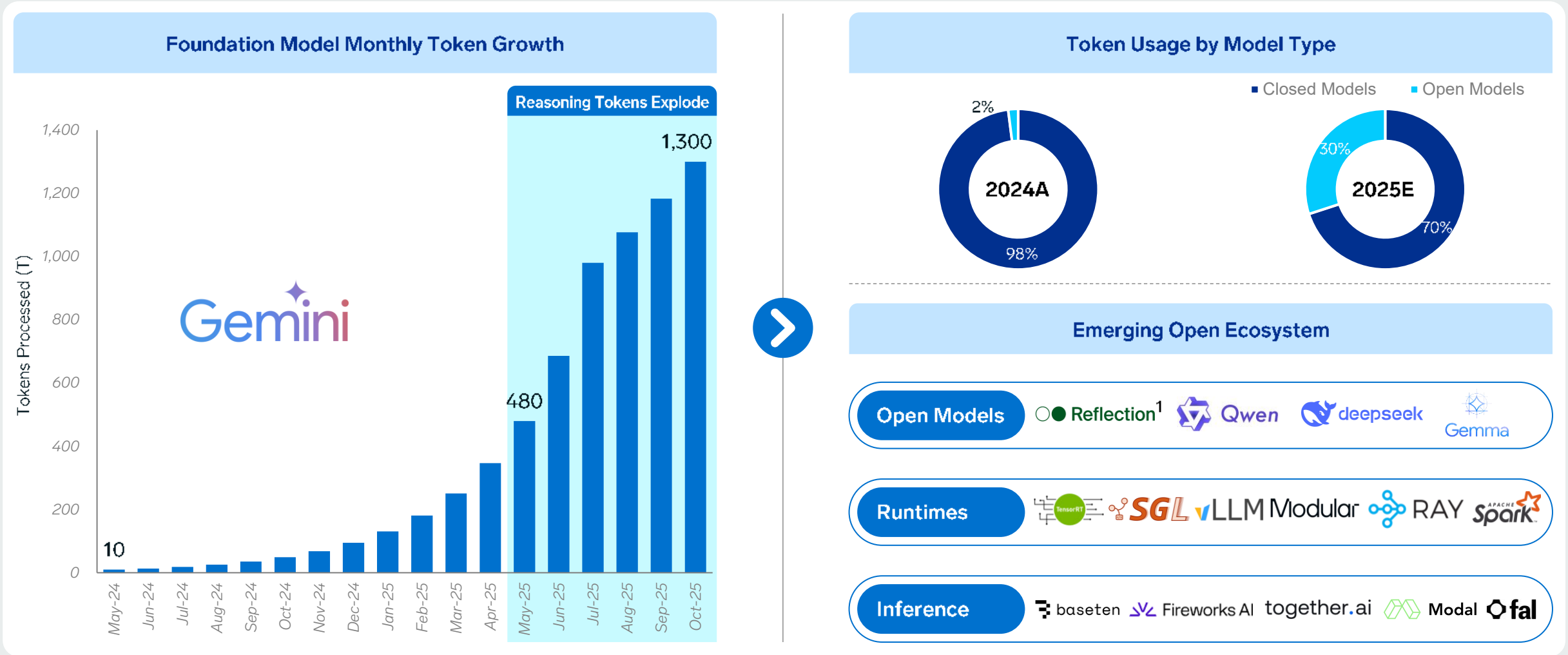
...And are enabling a new class of applications

Just as networking unleashed the internet and the cloud abstracted infrastructure, the agentic future is being built on top of foundation models



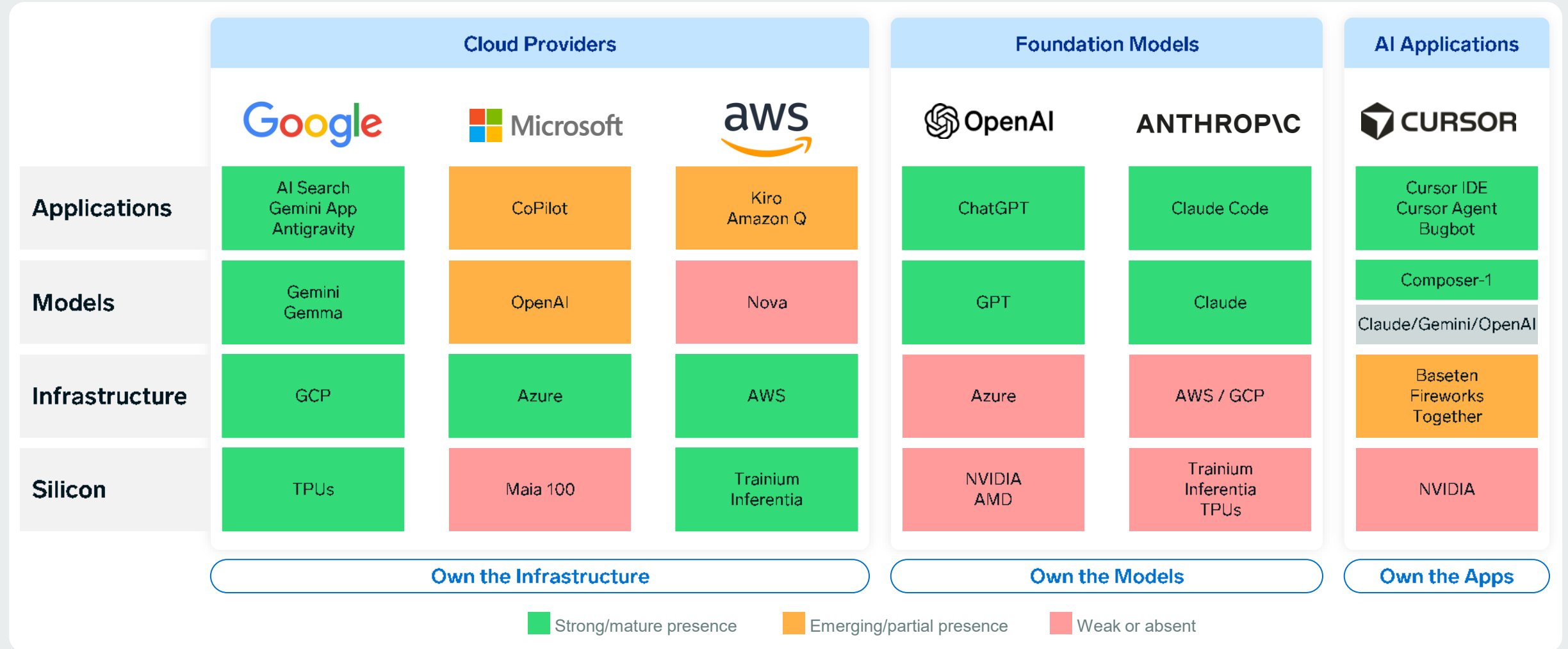
The walled garden of foundation models is being challenged by open alternatives

Open models, runtimes and inference engines are fueling the new generation of intelligent applications



Early leaders are racing to vertically integrate...

Players across the stack are moving up and down the value chain to build stronger moats and defensibility



...Which may improve the currently inverted margin structure

While silicon and cloud infrastructure command a majority of the margin today, value is beginning to expand up the stack

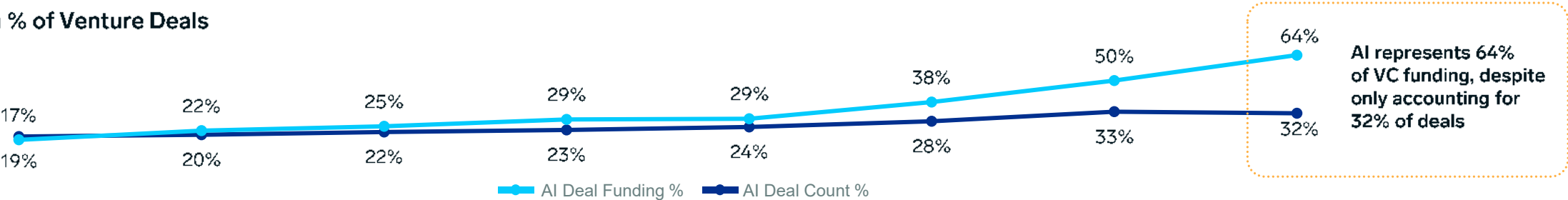
	SaaS Gross Margin	AI Gross Margin	Future Value Capture	Path to AI Margin Expansion Up the Stack
Application	80%+	0% - 30%	↑	<ul style="list-style-type: none">AI margins reflect distribution and market-share captureLong-term pricing shifts toward value-based/outcome pricingCost of intelligence falls via optimization, boosting gross margins
Model Inference	N/A	30% - 60%	↑	<ul style="list-style-type: none">Token cost deflation via smaller, specialized models and open modelsSmarter routing to cheapest effective modelsImproved efficiency techniques such as caching and speculative decodingWorkflow stickiness creates pricing power beyond raw compute
Cloud Infrastructure & Platform	60%	60%	↔	<ul style="list-style-type: none">Scale benefits are offset by intense competitionHigh CapEx requirements limit margin expansion
Chips	45%	75%	↓	<ul style="list-style-type: none">Supply catches up to demand, reducing pricing powerCloud Providers vertically integrate, pressuring incumbent margins

VC funding is concentrated in AI deals

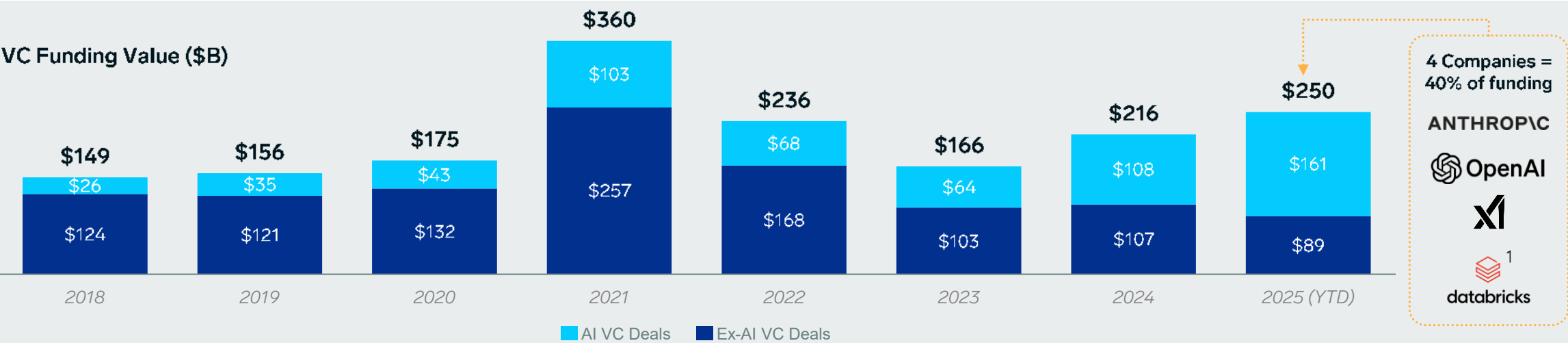
A small number of large-scale AI companies now absorb the majority of venture dollars despite accounting for only one-third of the deal volume

State of VC Funding: AI vs. Non-AI Companies

AI as a % of Venture Deals



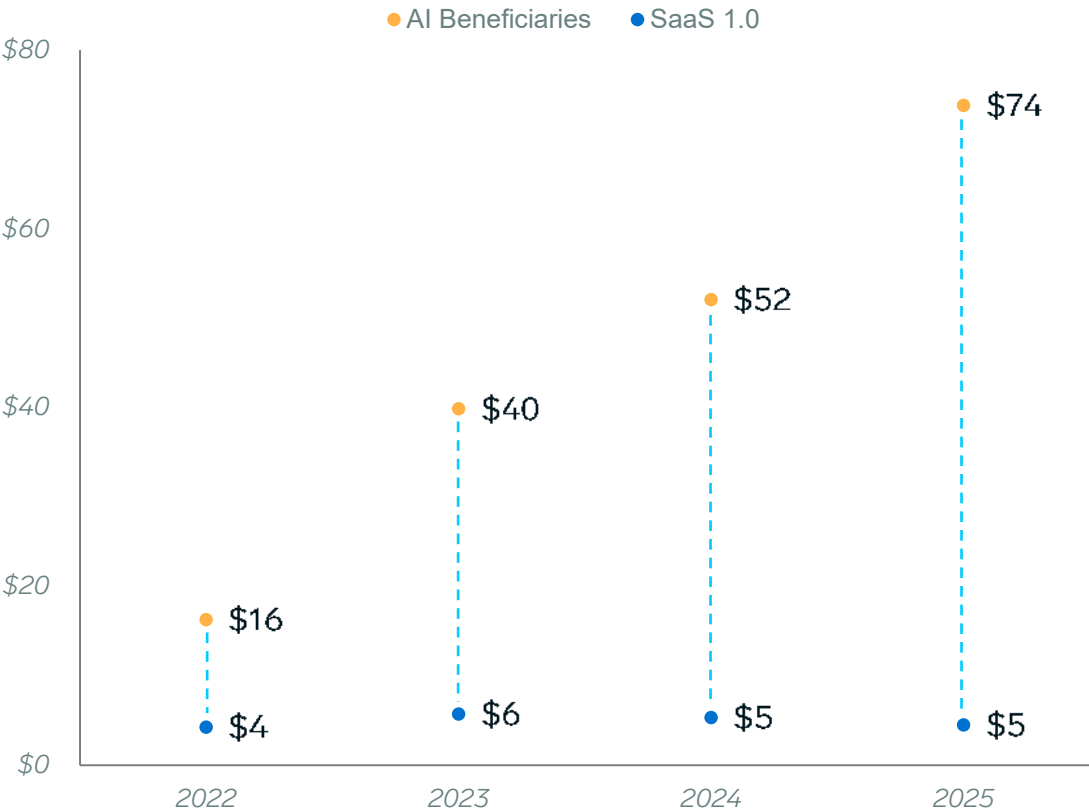
VC Funding Value (\$B)



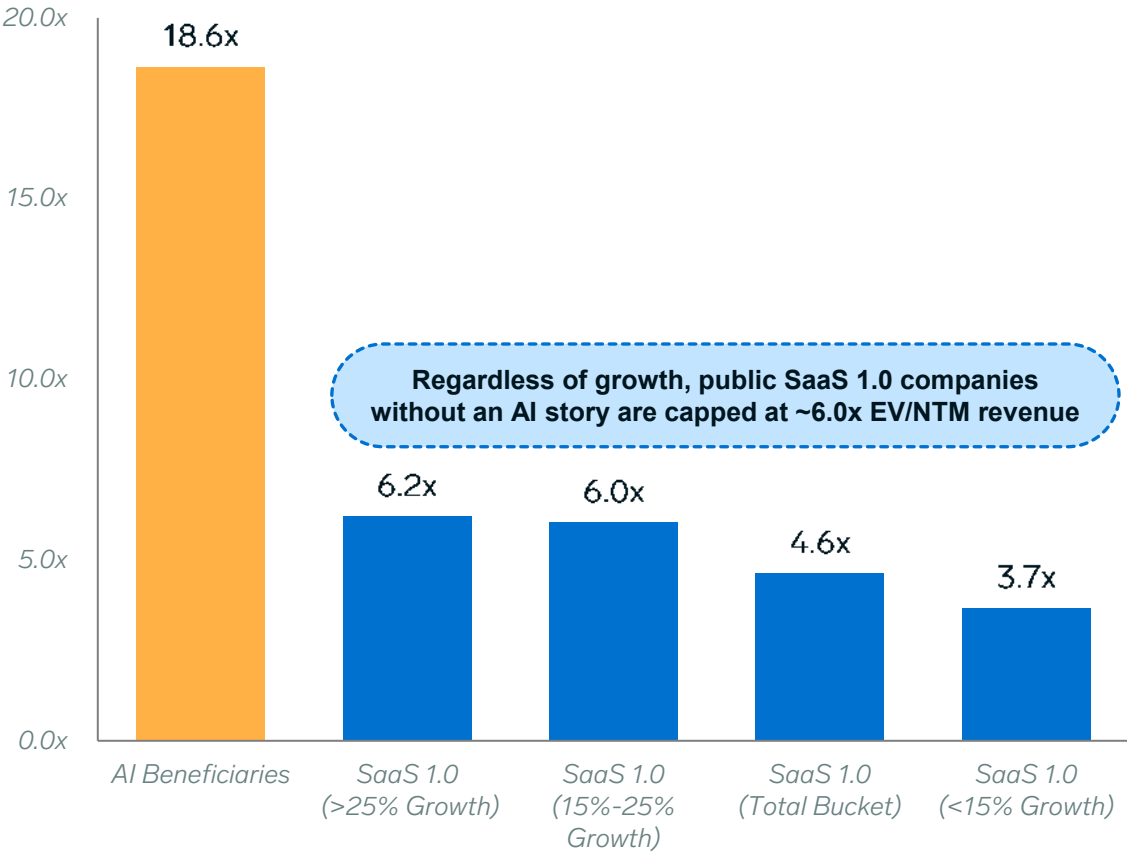
The public market is rewarding early AI beneficiaries

Incumbents are building AI products, buying AI startups and hiring AI talent to capture value in the public market

Median Market Cap (\$B): AI Beneficiaries vs SaaS 1.0

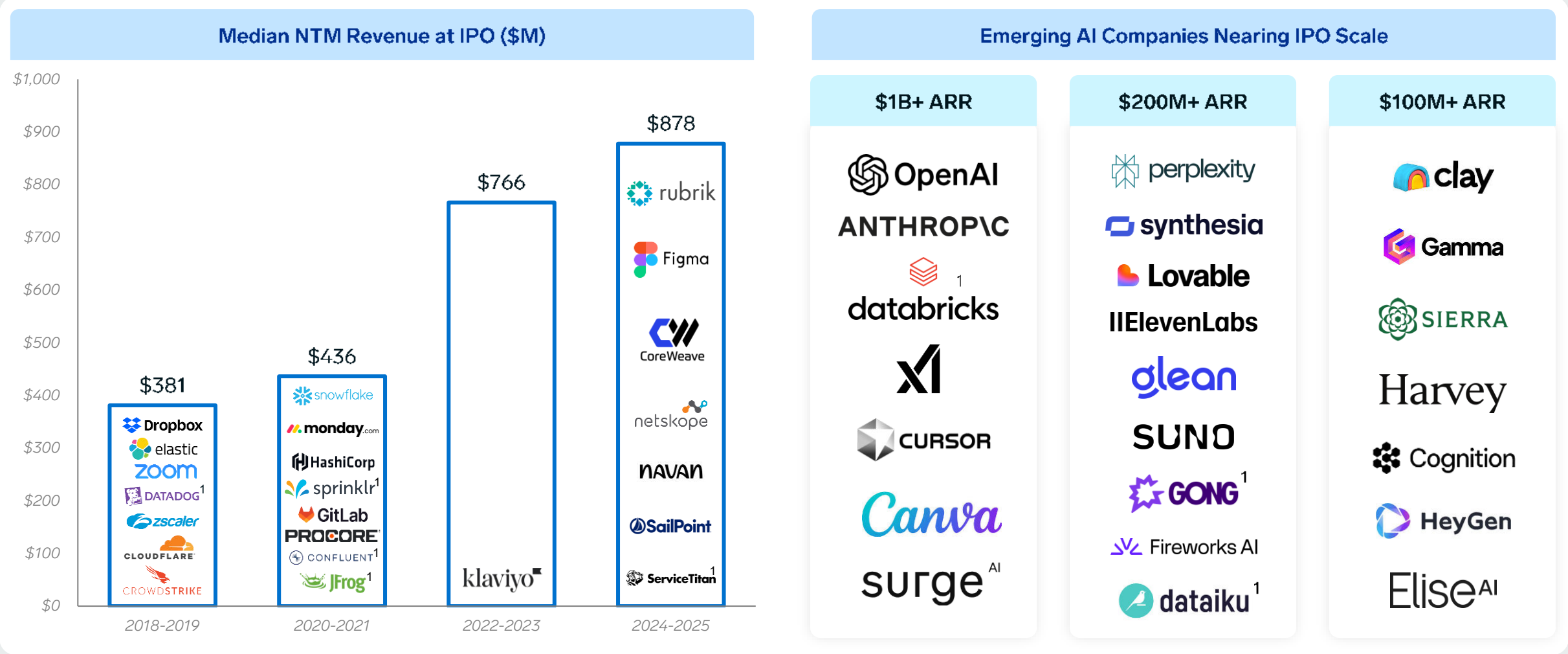


EV/NTM Revenue: AI Beneficiaries vs SaaS 1.0



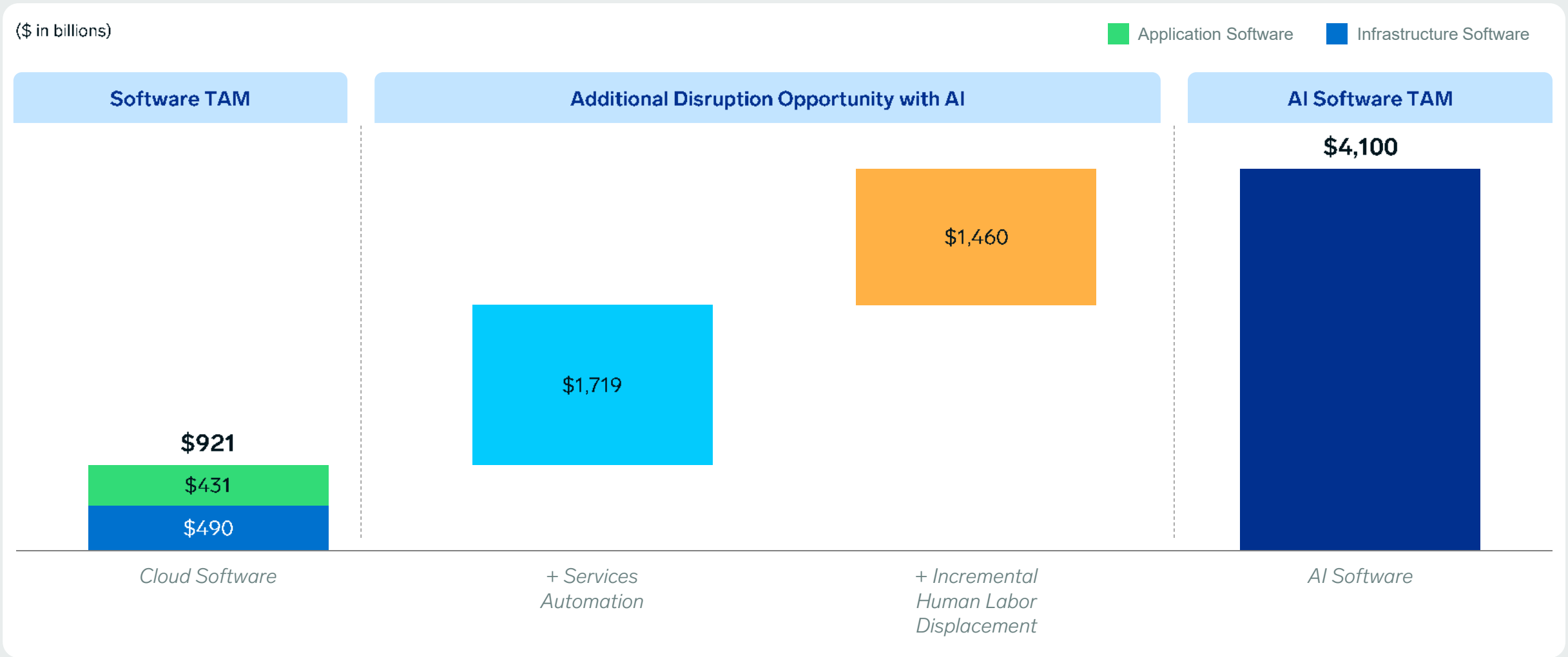
IPO candidates have reached unprecedented scale and growth

AI-native companies are approaching IPO scale, not only replacing legacy software but also capturing spend that once went to services and human labor



AI is on the cusp of unlocking a multi-trillion-dollar market

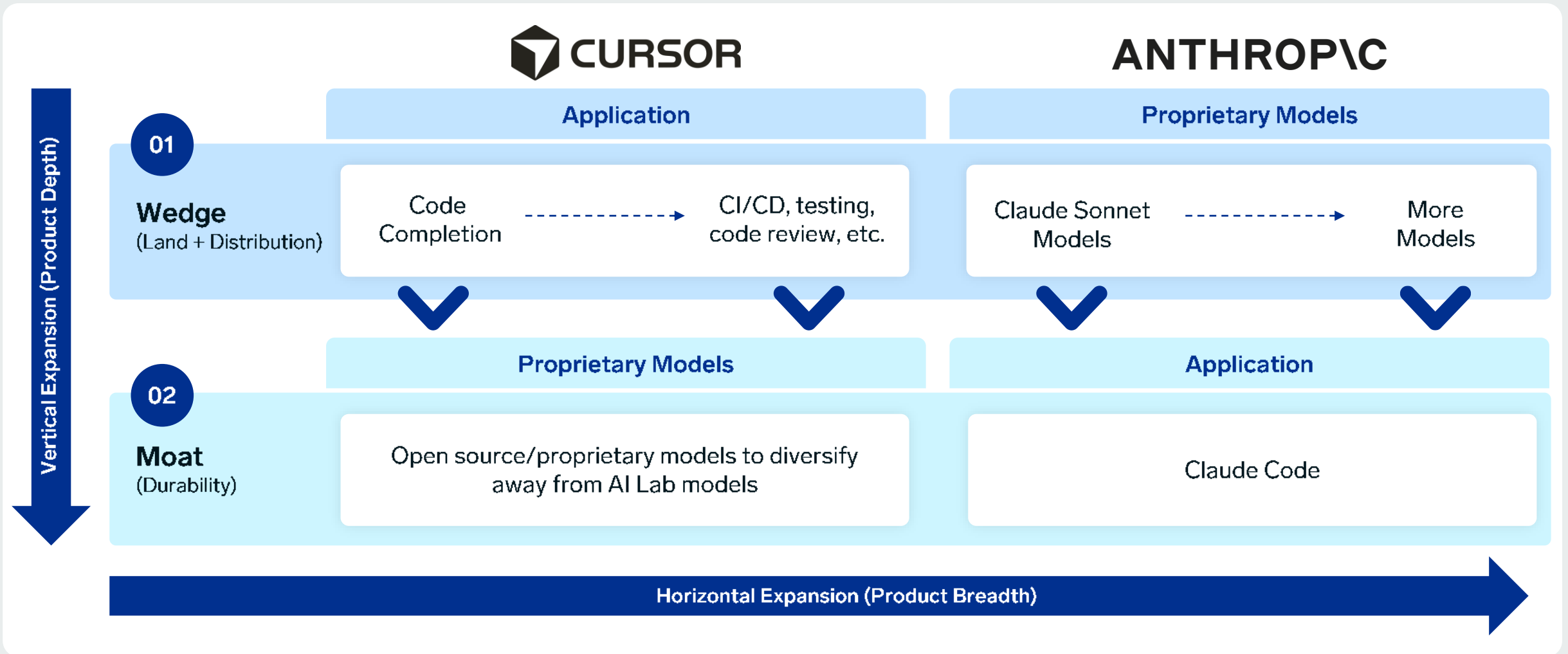
AI outcomes will be larger than those of any prior platform shift



Operational Best Practices

Pick the right entry wedge and expand into adjacent products and verticals

A targeted land motion with quick time-to-value unlocks distribution while product depth and breadth create durable moats



Align your KPIs to the modern AI operating metrics

As AI software shifts from tools that assist work to agents that autonomously complete it, company metrics must evolve as well, capturing not just revenue growth and efficiency but also product usage, customer value, and unit economics

SaaS 1.0		Commentary	AI-Native	
Metric	Target		Metric	Target
ARR Growth	2x – 3x	AI businesses are growing faster than SaaS 1.0 as immediate productivity gains and faster adoption cycles compress what used to take years into months.	ARR Growth	5x – 10x
		Early-stage AI companies often trade growth and distribution for margins, which makes validating long-term scalable unit economics essential.	Gross Margin	20%-40%
NDR	130%+	Gross retention is critical in AI because churn signals experimentation, while strong retention shows real adoption and product stickiness.	Gross Retention	80%+
Magic #	0.8x+	Value is no longer tied to seats or licenses. Real usage is the clearest measure of whether customers are consistently realizing value.	Usage	DAU/WAU/MAU
Burn Ratio	< 3x	Magic number and burn ratio still matter because they validate whether the business can scale efficiently.	Magic #	1.0x+
			Burn Ratio	< 2.0x

Benchmark your GTM to a more efficient post-AI framework

AI is reshaping GTM by driving higher productivity, faster ramps and fundamentally better unit economics

	Pre-AI	Post-AI
Rep Quota	\$1.0M - \$1.2M	\$1.2M - \$1.5M
Quota Measurement Period	Annually/Quarterly	Annually/Quarterly/Monthly
Ramp Time	9-12 months	6-9 months
Conversion Rate (Oppty -> Close)	20% - 30%	40% - 50%
Attainment Targets	70% attainment/25% time selling	80% attainment/50% time selling
Team Structure	AE:SE 2:1 AE:SDR 3:1	AE:SE 3:1 AE:SDR 5:1
CAC Payback	12-18 months	<12 months
LTV:CAC	3:1	4:1
S&M % of Revenue	50% - 60%	30% - 40%

Unlock a new era of demand generation with AI powered strategies

AI is unlocking a new growth blueprint for modern demand generation

AI in Demand Generation

New data and intent signals to surface higher quality leads



Agents for deeper account research and automated plays and sequences



Personalized engagement: right person, right message, right time



Always-on agents to qualify inbound

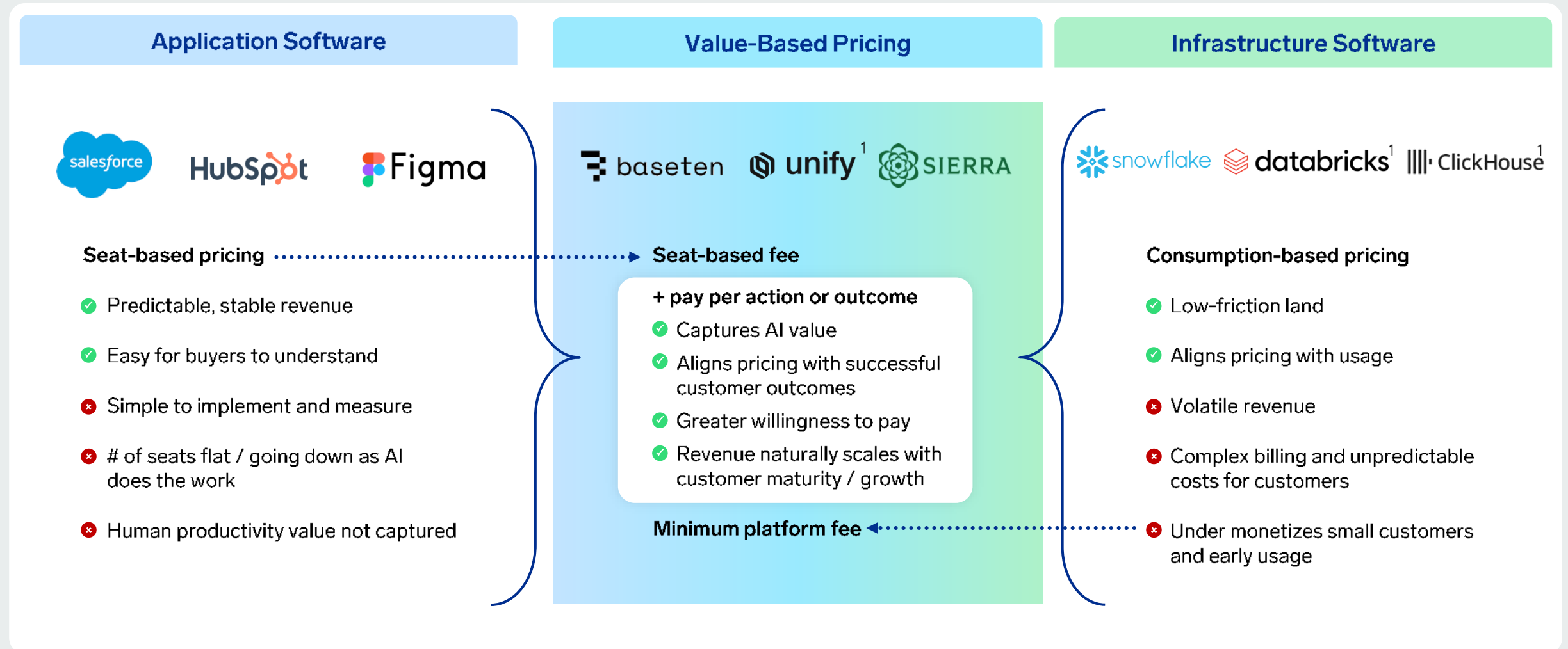


AI-Powered ICP Targeting and Qualification

1. Multi-dimensional segmentation: Blend first-party and third-party signals, including firmographics, growth rate, web traffic, product usage and technographics to generate higher-quality, higher-intent leads.
2. ICP learned from real wins: Models train on closed-won deals to score account fit and intent, instead of relying on static personas.
3. Every win triggers a lookalike loop: When a deal closes, agents find and enrich lookalike accounts, identify key buyers, and hand reps a prioritized list with research and messaging.
4. Agents cover every step of the demand-gen funnel: build and audit pipeline, score, engage and route leads, analyze closed-lost reasons and update CRM fields automatically, allowing reps to focus on closing deals.

Price for value and outcomes

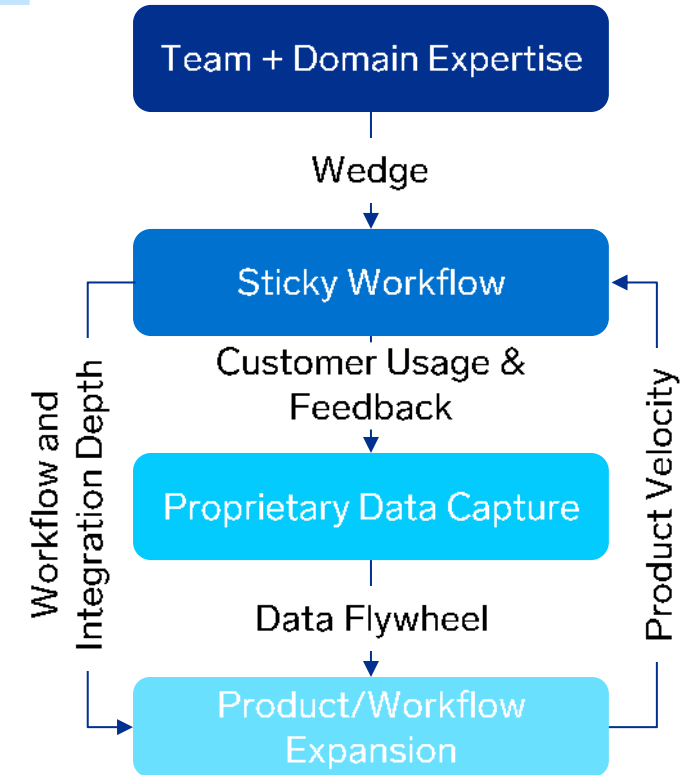
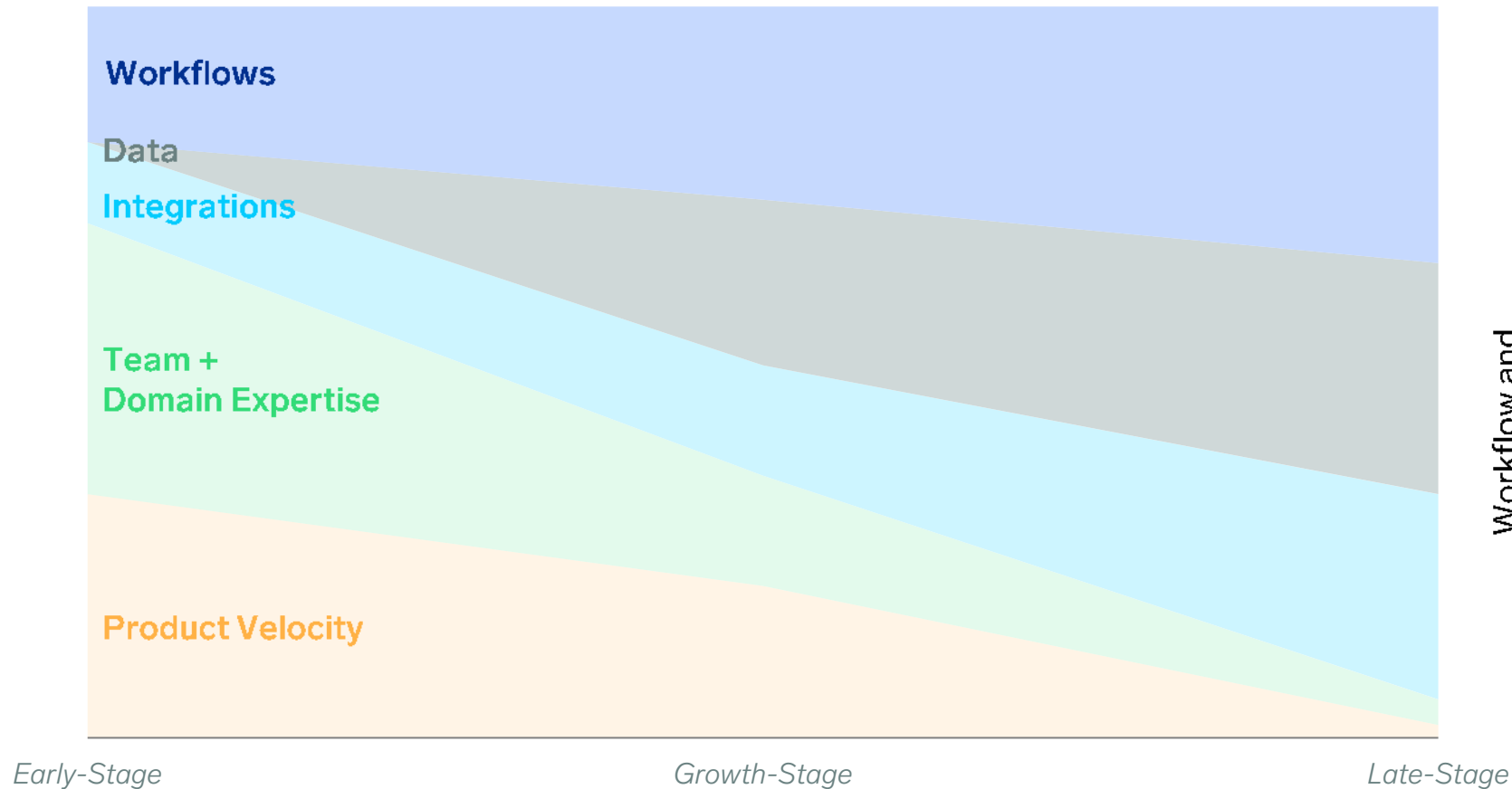
As AI products continue to drive greater human productivity, application and infrastructure companies are adopting value-based pricing to align customer spend with successful business outcomes



Build enduring moats

Moats aren't static, and AI startups must continue to deepen them as they scale—or risk erosion

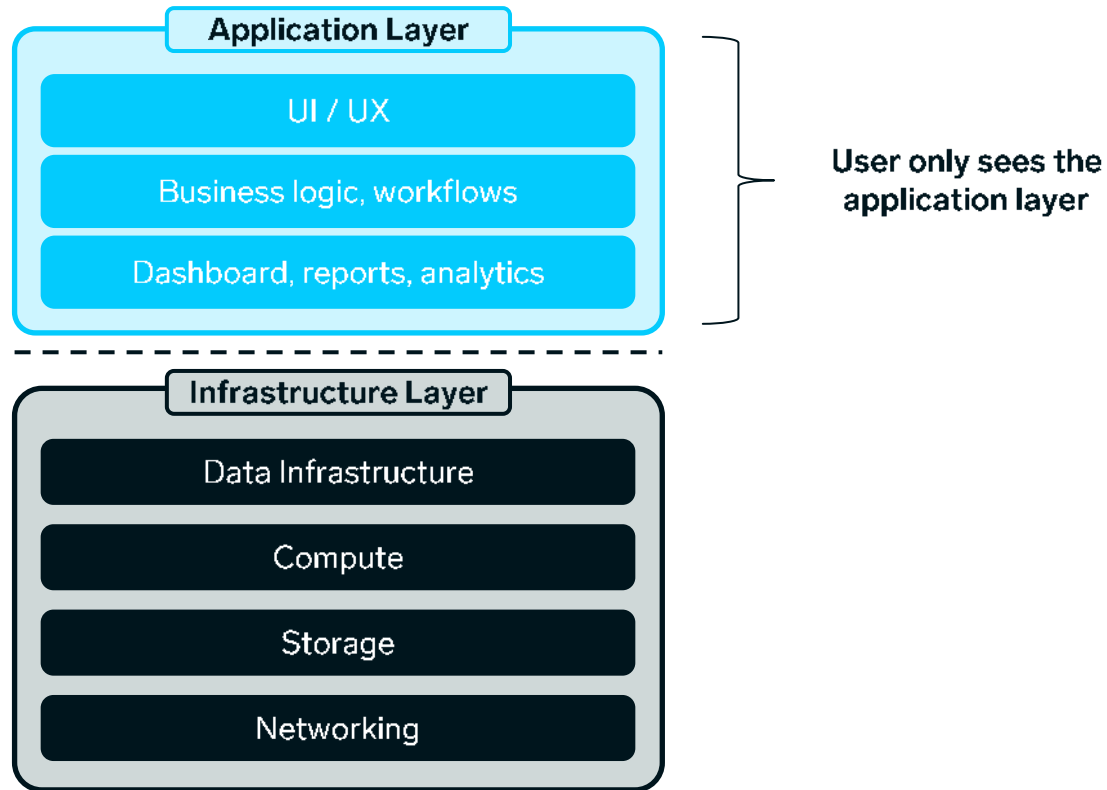
Moat Importance by Company Stage



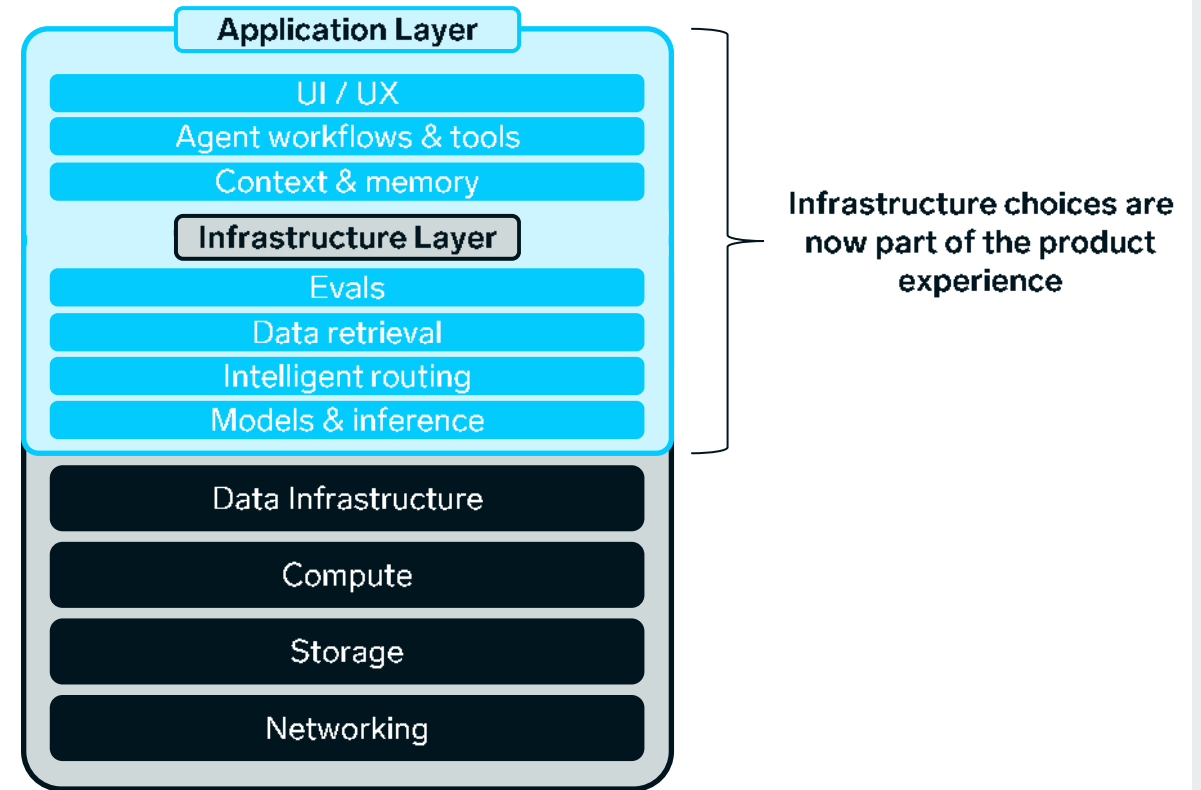
Deliver best-in-class product experiences with tightly coupled infra and apps

In SaaS 1.0, infrastructure lived behind the product, but in AI-native products it becomes the product experience

SaaS 1.0 – Infrastructure Behind the Scenes



AI Native – Infrastructure as the Core Product Experience



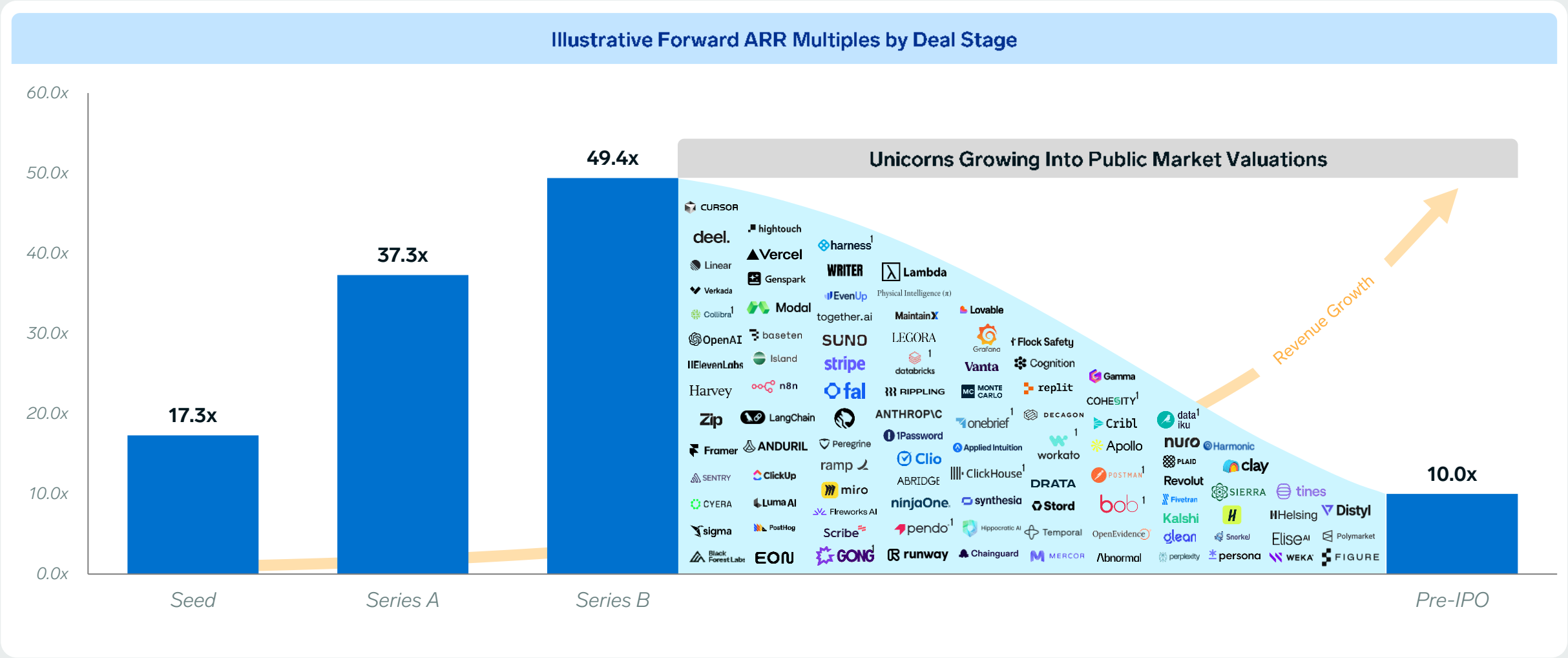
Rewire your org chart for intelligence

In AI-native orgs, every function becomes technical as teams build and maintain AI systems that influence product and user value

SaaS 1.0		The Shift >	AI-Native	
Function	Focus		Function	Focus
Product Manager	Managing roadmaps, user stories, feature backlogs, defining UI/UX workflows	Product	AI PM, Context Engineering	Managing evals, system prompts and design, coding prototypes, steering model and agent behavior
Frontend / Backend Developer	Building deterministic business logic, CRUD APIs/Apps, web services/ UI, and state management	Engineering	Applied AI, Research, Inference Engineer	Building and tuning models, integrating AI system (tools, memory), inference speed and reliability
SDRs / BDRs	Manual pipeline generation, lead qualification, high-volume outbound	Sales / GTM	GTM Engineer	Programmatic lead gen, data enrichment, building automated agents for targeted outbound
Customer Success/Support	Relationship management, expansion, renewals, and churn prevention	CS / Support	Forward Deployed Engineer	Ties together engineering, product and customers to deliver value and expand use cases






Pick the right partners and capital structure

Transitioning from venture-market premiums to public-market discipline is a critical evolution that requires the right long-term partners and capital structure



Navigate strategic partnerships

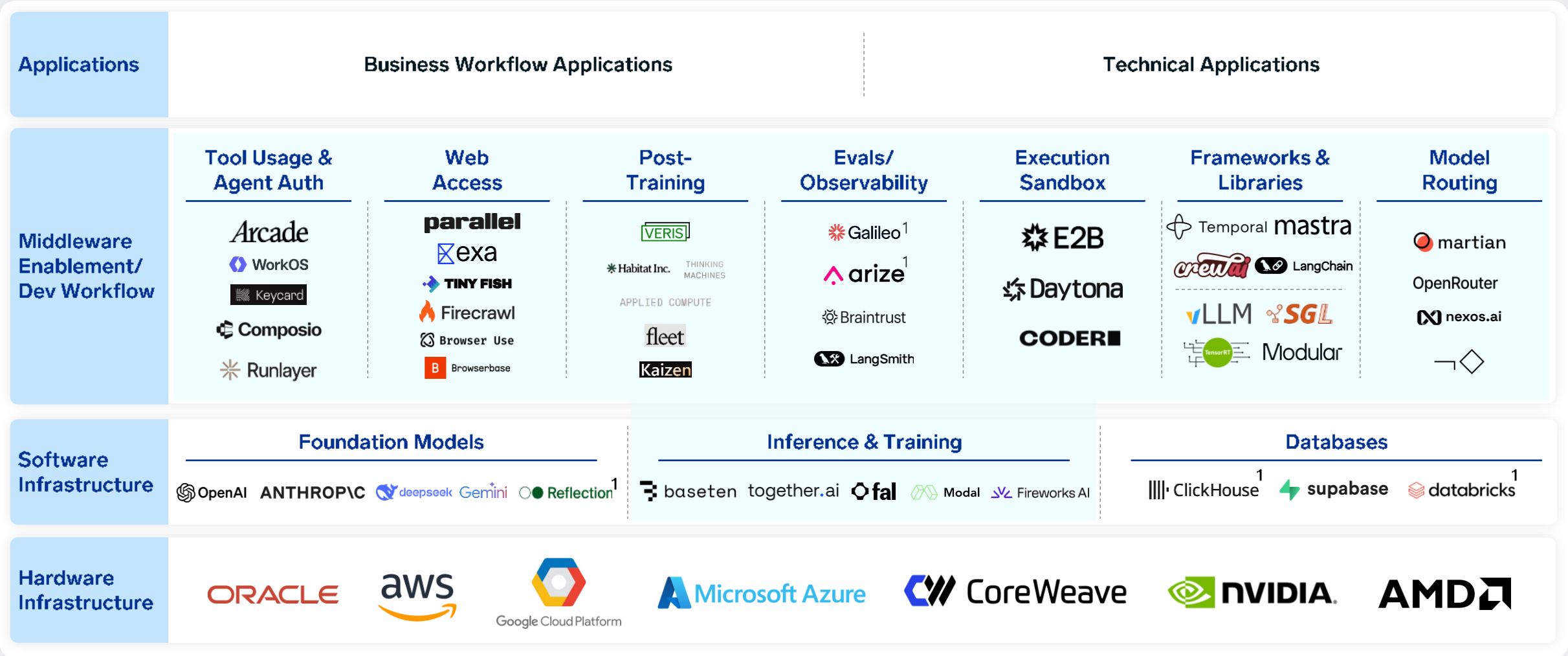
Leverage strategic partners to accelerate distribution, unlock new capital sources and drive product velocity

	Distribution	Capital	Product/Technology
Value	<ul style="list-style-type: none">• Access to a scaled customer base• Credibility and brand validation• Co-marketing/co-selling	<ul style="list-style-type: none">• Balance sheet strength without heavy dilution• Market validation• Greater organizational access	<ul style="list-style-type: none">• Accelerated product development• Access to technical resources• Preferential support and access
Stakeholder	<ul style="list-style-type: none">• GTM	<ul style="list-style-type: none">• Corporate development / finance	<ul style="list-style-type: none">• R&D
Risks	<ul style="list-style-type: none">• Reduced brand ownership• Over-dependence on partner-led deals	<ul style="list-style-type: none">• Perceived loss of independence• Potential negative signaling for future investors and acquirers	<ul style="list-style-type: none">• Platform lock-in• Roadmap dependency• Exposure to partner product competition
Example	 databricks ¹ /  Microsoft	 OpenAI /  Microsoft	ANTHROPIC / 

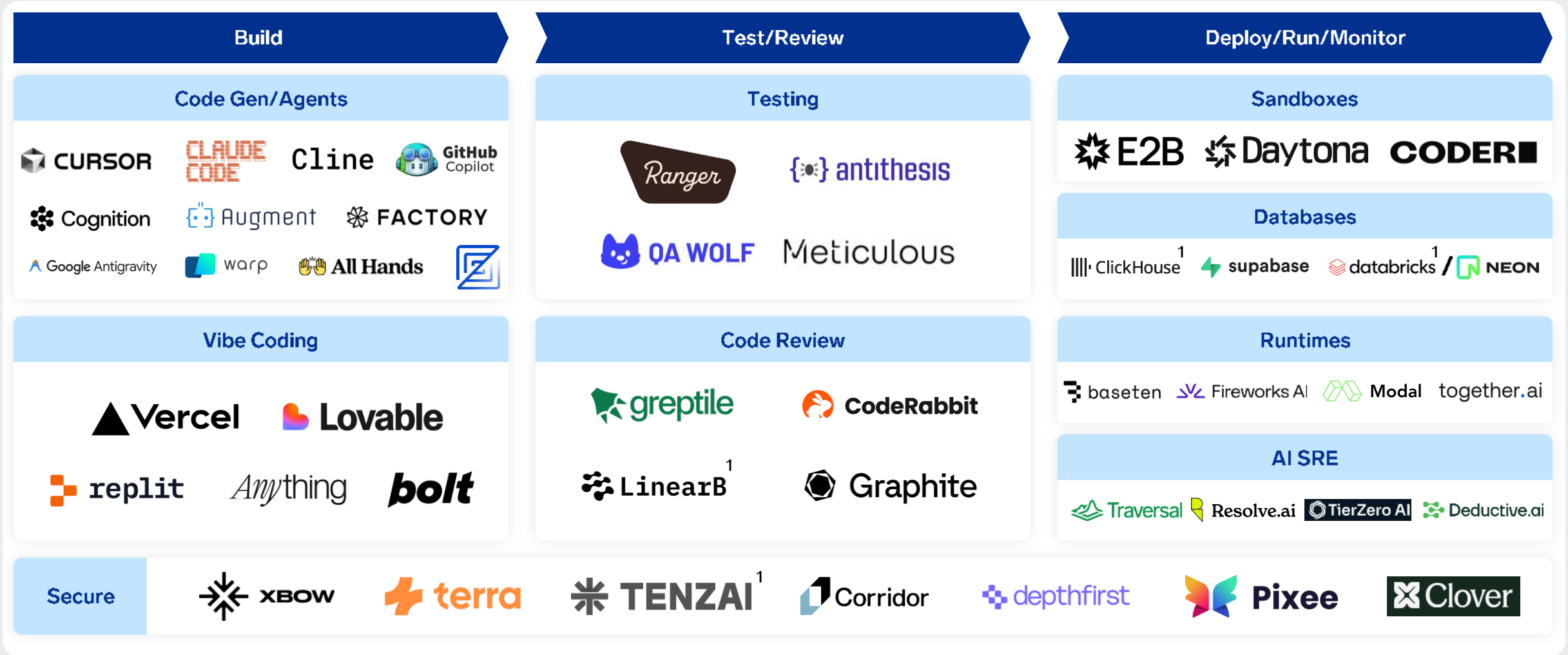
Themes of Interest

An abstract 3D visualization featuring a large, dense cluster of white and blue cubes on the right side, resembling a data structure or a building. To the left, numerous thin, vertical lines extend upwards from a base, each ending in a small colored dot (blue, red, or orange). The background is a light gray, and the overall aesthetic is clean and modern.















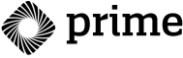

























Runtime AI infrastructure



AI-native software development lifecycle



Securing the agentic attack surface

SOC Automation	Agent Auth	Product Security	Vulnerability Mgmt.	Offensive Security
     	 Keycard  Arcade  WorkOS  Runlayer	 Corridor  depthfirst  Pixee  Clover  prime	 cogent  maze  ZAFRAN	 XBOW  terra  TENZAI ¹
SIEM	Endpoint Security	Identity	Email Security	Training
 Cribl  runreveal  vega  SCANNER Artemis	 KOI ¹  Remedio  HUNTRESS	 Opal Security ¹  ConductorOne  HushSecurity ¹  Astrix  LINX  token  descope	 Abnormal  SUBLIME  AegisAI	 Adaptive  Fable [®]

Vertically integrated AI solutions for key technical personas

ITSM

 **CONSOLE**

 **Serval**

 **atomicwork**¹

 **Risotto**

 **Ravenna**

 **FIXIFY**

servicenow

 **ATLASSIAN**

 **freshworks**

Observability

 **Traversal**

 **Resolve.ai**

 **TierZero AI**

 **Deductive.ai**

 **DATADOG**¹

 **Grafana**

 **dynatrace**

Security Operations Center

ZAI

 **Exaforce**

 **Dropzone AI**

LEGION

 **prophet**

 **CROGL**

 **elastic**

splunk¹

sumo logic¹

Software Development

 **CURSOR**

 **Cognition**

**CLAUDE
CODE**

 **LinearB**¹

 **CodeRabbit**

 **greptile**

 **GitHub**

 **GitLab**

Workflow solutions for business buyers

Sales & Marketing



Customer Support



Legal



Healthcare

