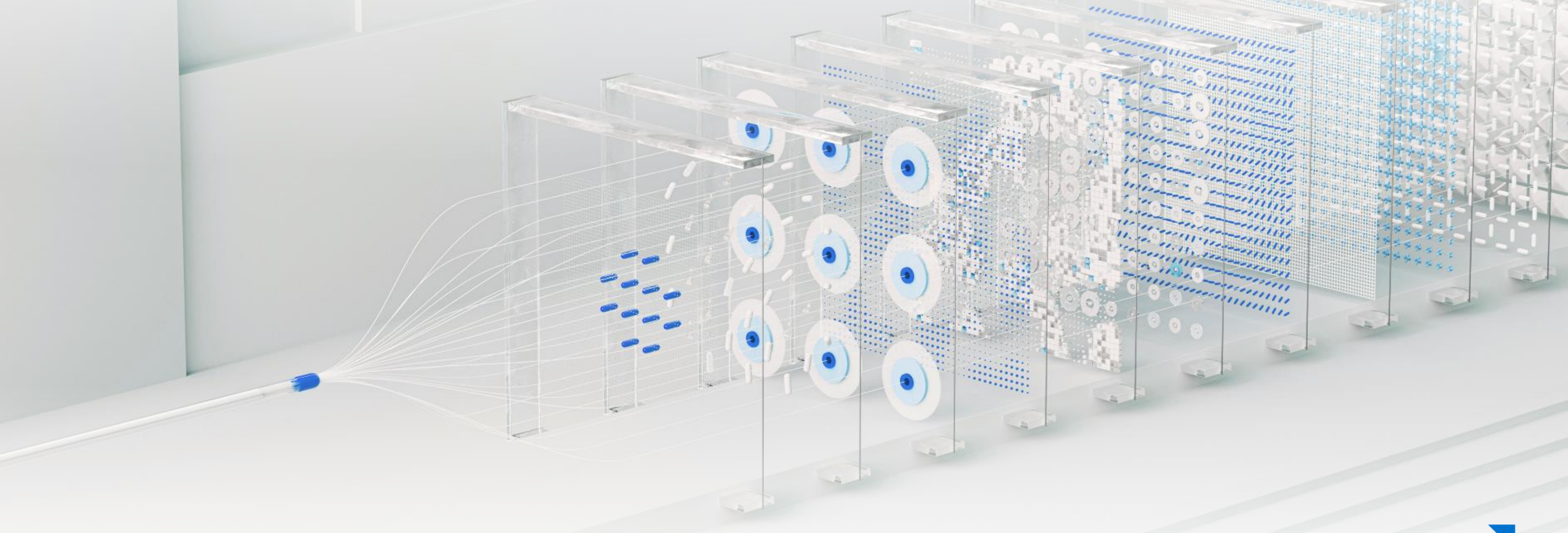
DECEMBER 2025

Battery Ventures

THE STATE OF AI REPORT



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Market Overview

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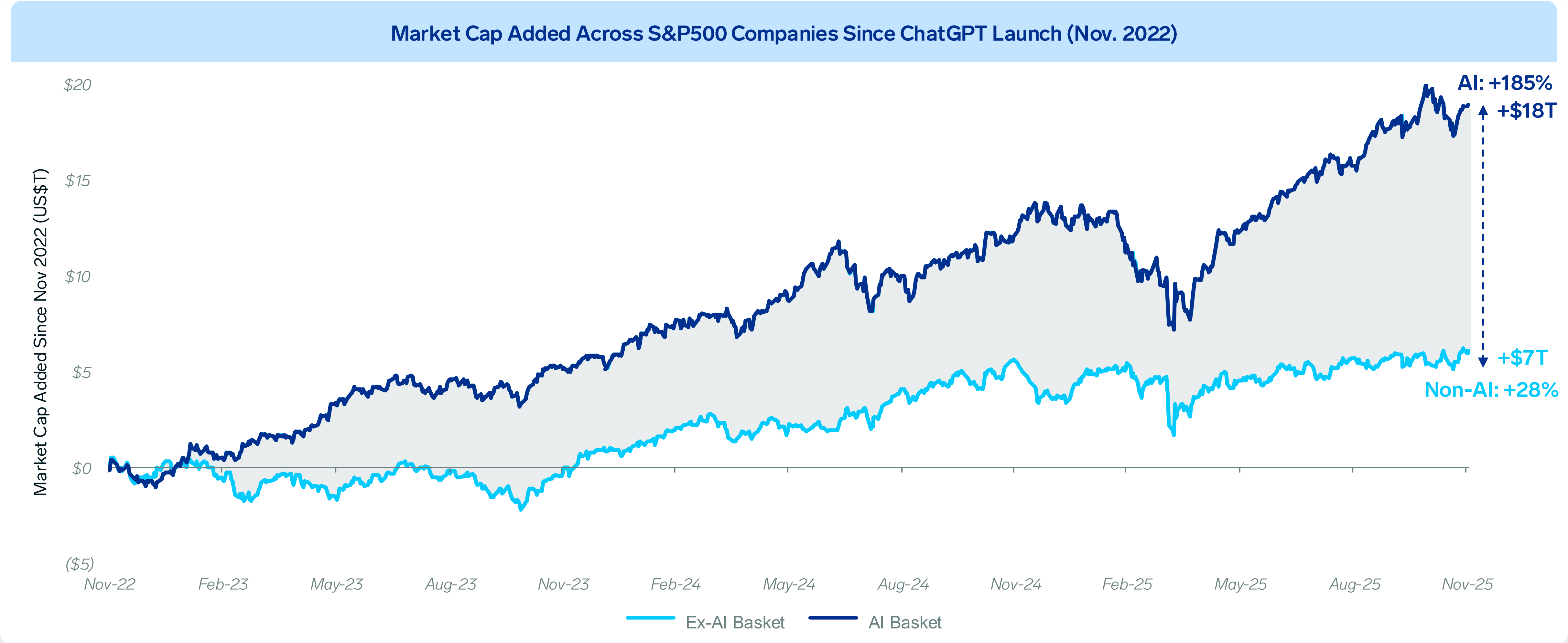
AI is driving public-market value creation

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.

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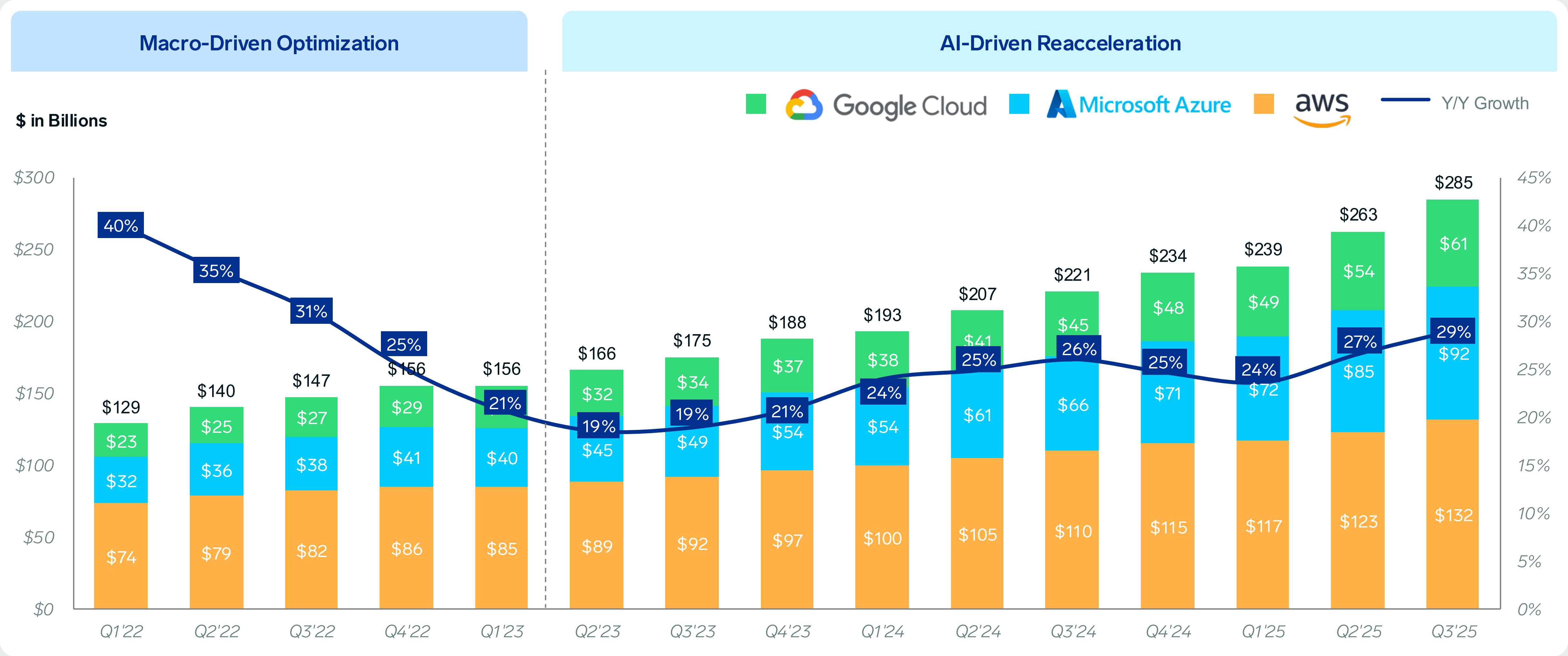
Cloud providers are entering a new growth cycle driven by AI demand

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

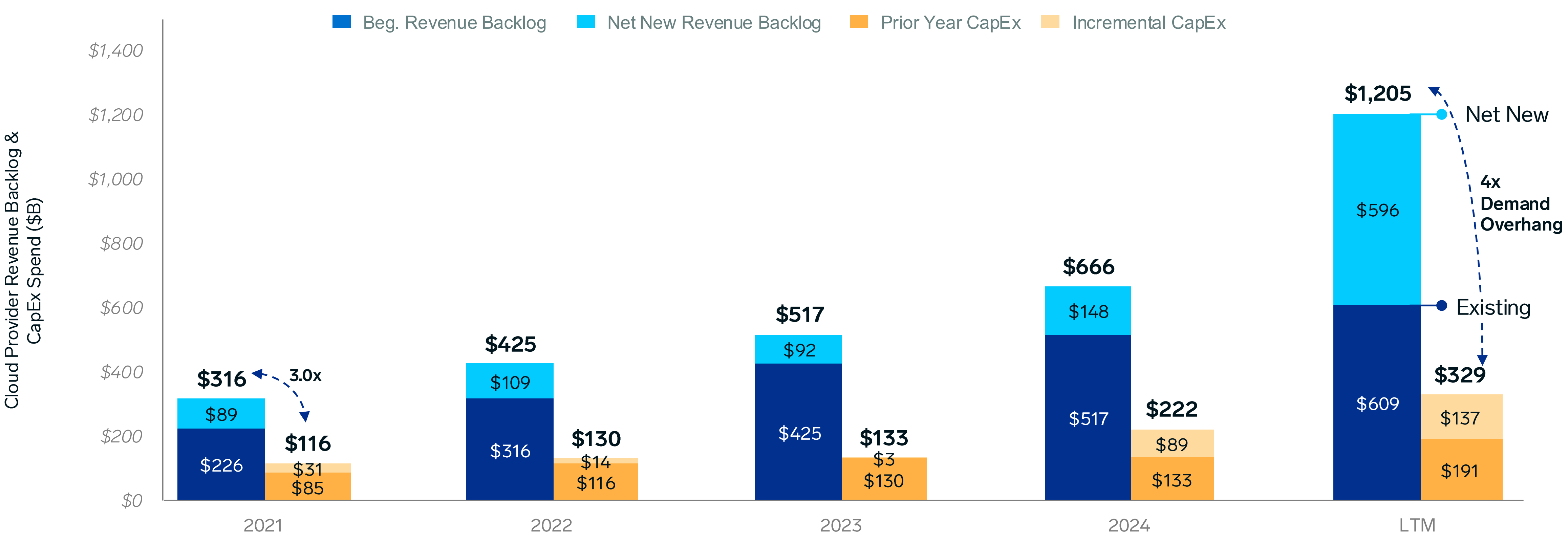


Note: Growth rates reflect FX-adjusted figures (i.e., not constant currency).
Sources: Company filings, Wall Street research

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



Note: Revenue Backlog represents Remaining Purchase Obligations (RPO). Cloud providers represents AWS, GCP, Azure, and Oracle.
Sources: Company filings, Wall Street research.

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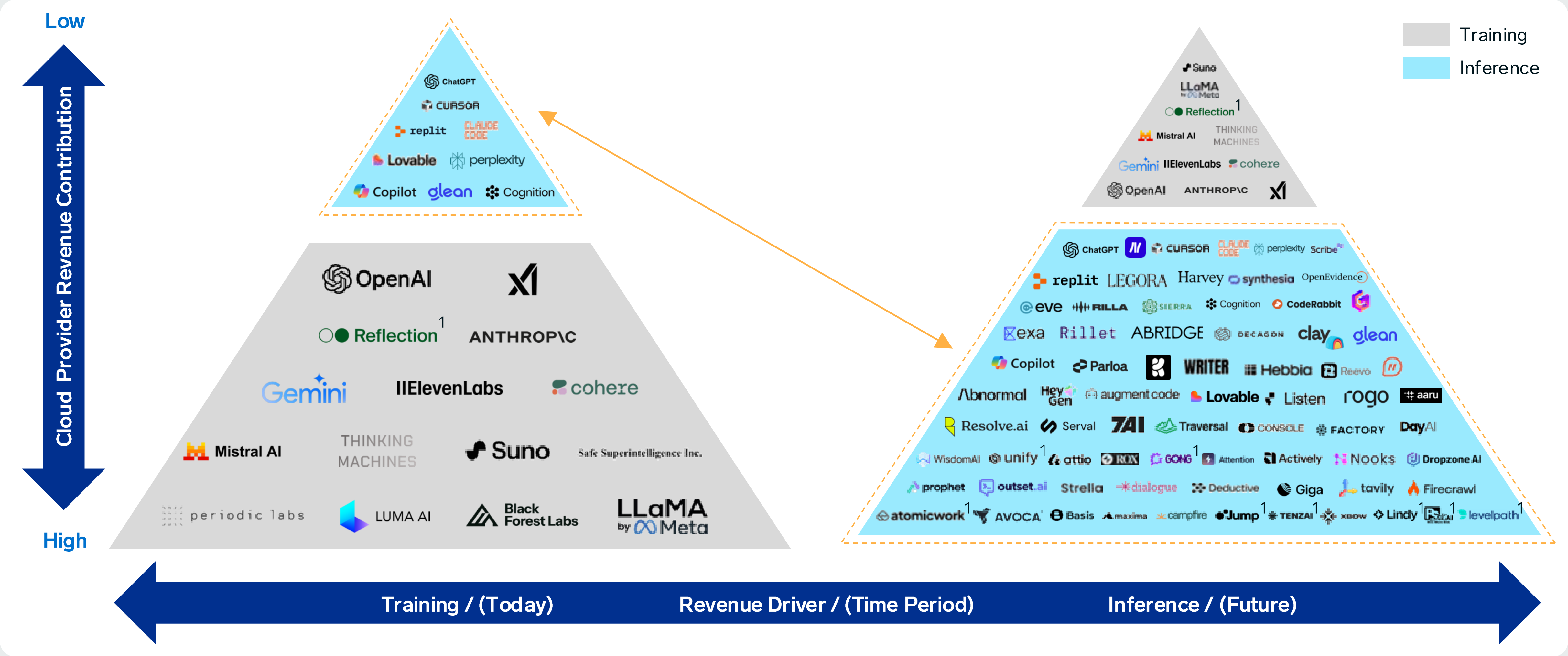
However, cloud provider revenue is shifting from training to inference

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



Note: 1. Denotes a past or current Battery company. For a full list of all Battery investments, please click here.

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A new infrastructure layer is taking shape

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

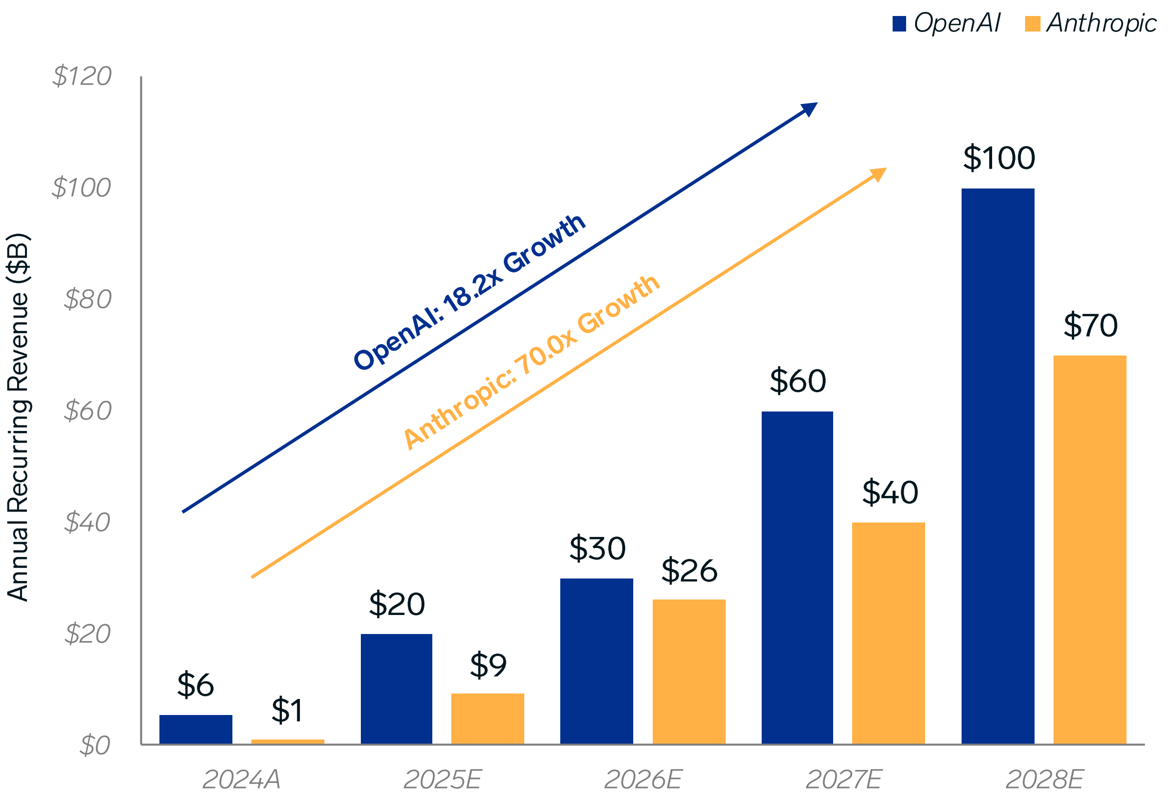
	Cloud Era Incumbents	AI-Native Challengers
Dev Tools and Collaboration	GitHub, GitLab, ATLASSIAN	CURSOR, CLAUDE CODE, Linear, Cognition, Codex CLI, Lovable
Data and Analytics	snowflake, elastic, mongoDB.	databricks[1], supabase, ClickHouse[1]
Cloud Infrastructure	aws, Google Cloud, Microsoft Azure	baseten,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

Note: 1. Denotes a past or current Battery company. For a full list of all Battery investments, please click here.

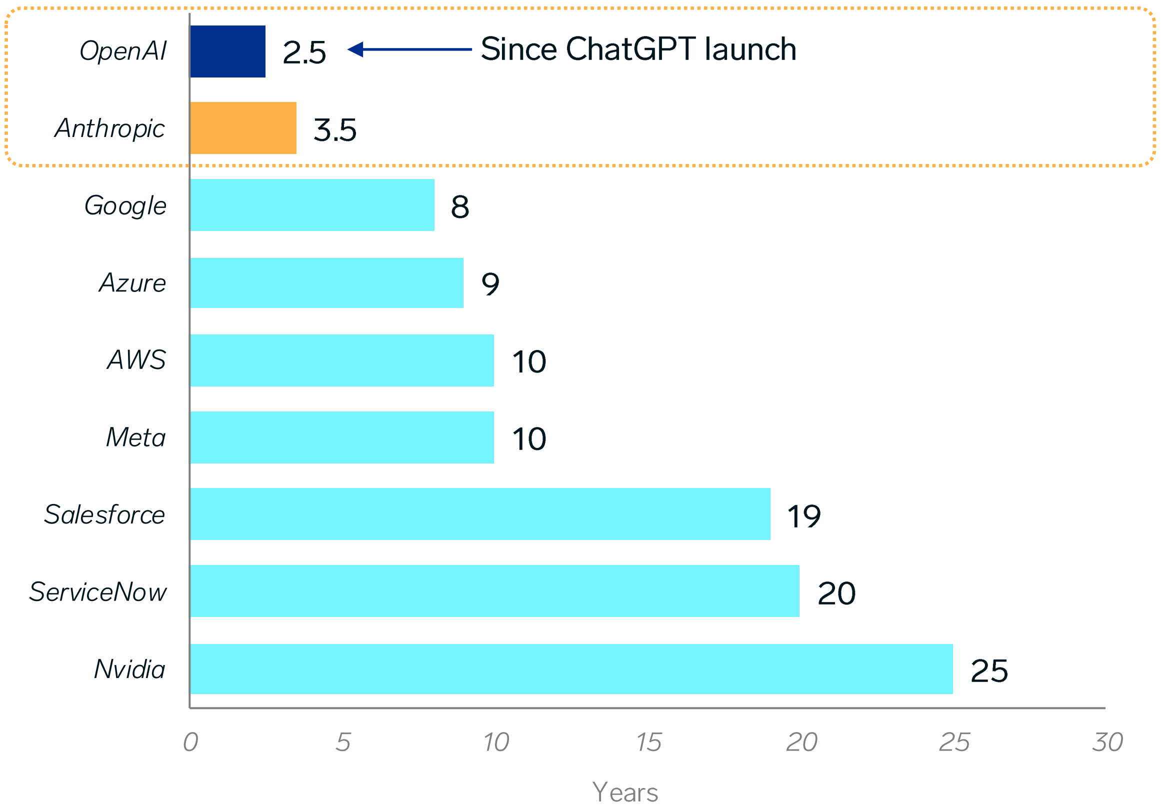
Foundation models are powering the AI wave…

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

Foundation Model Growth



Time to $10B ARR



Note: ARR represents annualized run-rate where ARR is not disclosed.
Sources: The Information, Epoch AI, Company filings.

…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

Infrastructure Era	Key Enablers	Applications Unleashed
Networking (1990s-2000s)	Cisco, Juniper Networks, Intel	**PC & Internet:** Google, amazon, Microsoft
Cloud (2010s)	aws, Microsoft Azure, Google Cloud	**SaaS:** salesforce, workday, servicenow
Foundation Models (2020s+)	OpenAI, ANTHROPIC, Gemini	**AI Apps:** SIERRA, GONG[1], glean, CURSOR, LEGORA

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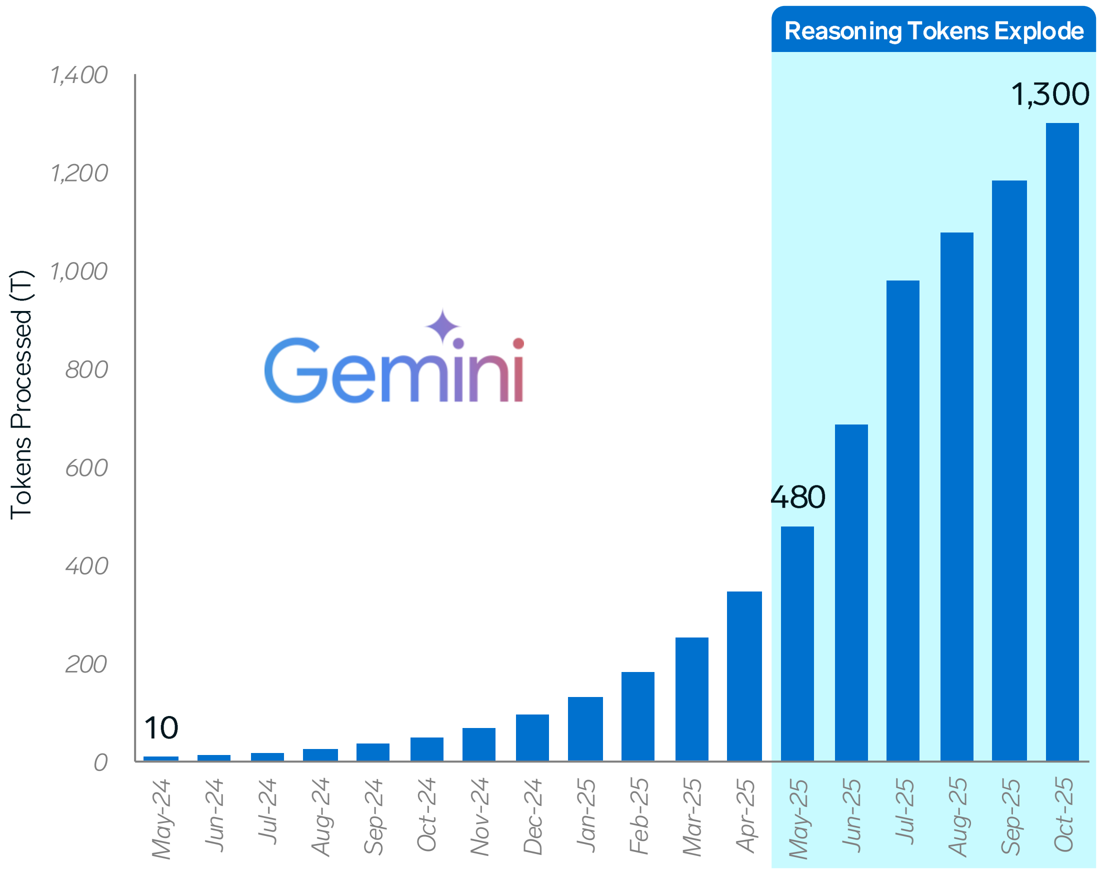
The walled garden of foundation models is being challenged by open alternatives

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

Foundation Model Monthly Token Growth



Token Usage by Model Type

Emerging Open Ecosystem

Open Models: Reflection[1], Qwen, deepseek, Gemma

Runtimes: TensorRT, SGL, vLLM, Modular, RAY, Apache Spark

Inference: baseten, Fireworks AI, together.ai, Modal, fal

Note: 1. Denotes a past or current Battery company. For a full list of all Battery investments, please click here.
Sources: Company filings, OpenRouter State of AI.

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

	Cloud Providers			Foundation Models		AI Applications
	Google	Microsoft	aws	OpenAI	ANTHROP\C	CURSOR
Applications	AI Search Gemini App Antigravity	CoPilot	Kiro Amazon Q	ChatGPT	Claude Code	Cursor IDE Cursor Agent Bugbot
Models	Gemini Gemma	OpenAI	Nova	GPT	Claude	Composer-1 Claude/Gemini/OpenAI
Infrastructure	GCP	Azure	AWS	Azure	AWS / GCP	Baseten Fireworks Together
Silicon	TPUs	Maia 100	Trainium Inferentia	NVIDIA AMD	Trainium Inferentia TPUs	NVIDIA
	Own the Infrastructure			Own the Models		Own the Apps

Strong/mature presence | Emerging/partial presence | Weak or absent

…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

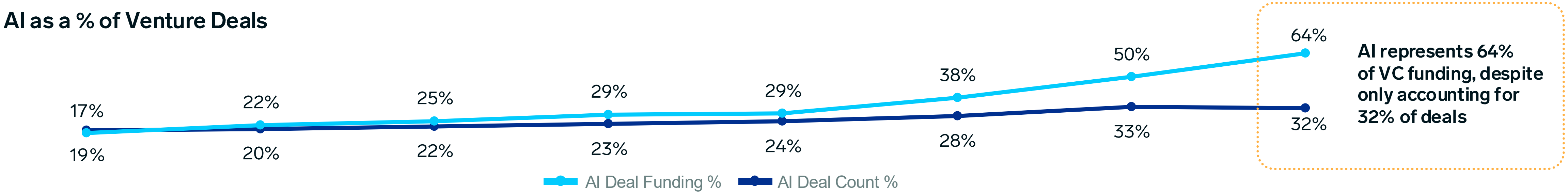
	SaaS Gross Margin	AI Gross Margin	Future Value Capture	Path to AI Margin Expansion Up the Stack
Application	80%+	0% - 30%		• AI margins reflect distribution and market-share capture • Long-term pricing shifts toward value-based/outcome pricing • Cost of intelligence falls via optimization, boosting gross margins
Model Inference	N/A	30% - 60%		• Token cost deflation via smaller, specialized models and open models • Smarter routing to cheapest effective models • Improved efficiency techniques such as caching and speculative decoding • Workflow stickiness creates pricing power beyond raw compute
Cloud Infrastructure & Platform	60%	60%		• Scale benefits are offset by intense competition • High CapEx requirements limit margin expansion
Chips	45%	75%		• Supply catches up to demand, reducing pricing power • Cloud Providers vertically integrate, pressuring incumbent margins

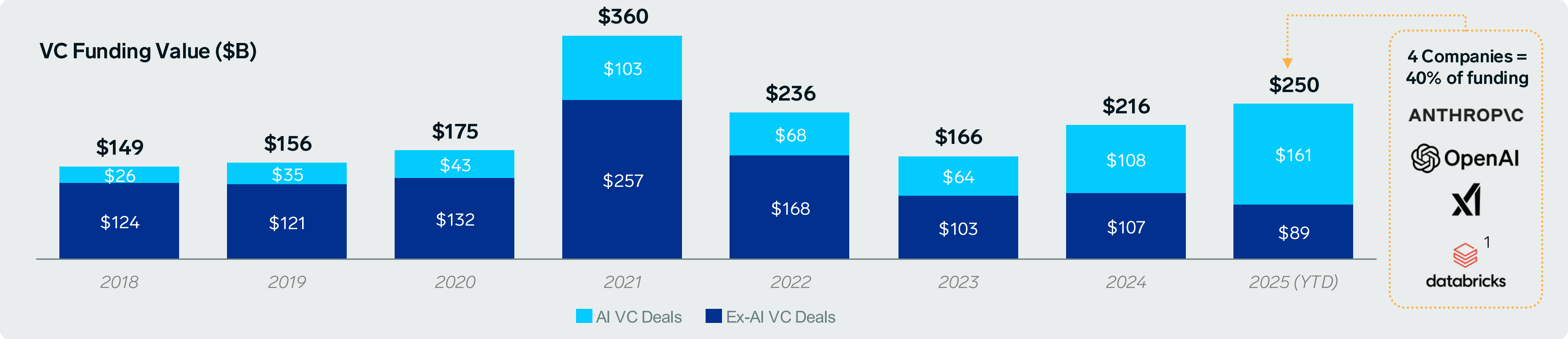
 | Sources: Battery Ventures estimates.

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





Note: 1. Denotes a past or current Battery company. For a full list of all Battery investments, please click here.
Sources: Pitchbook.

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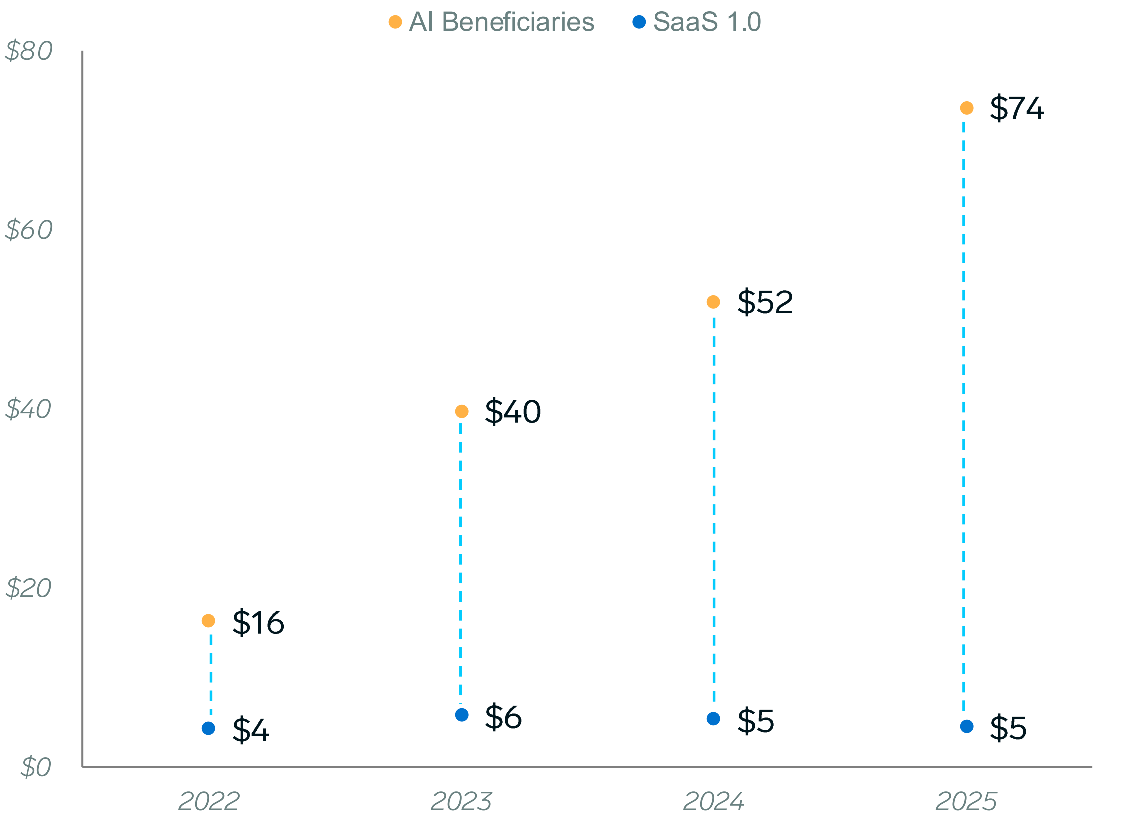
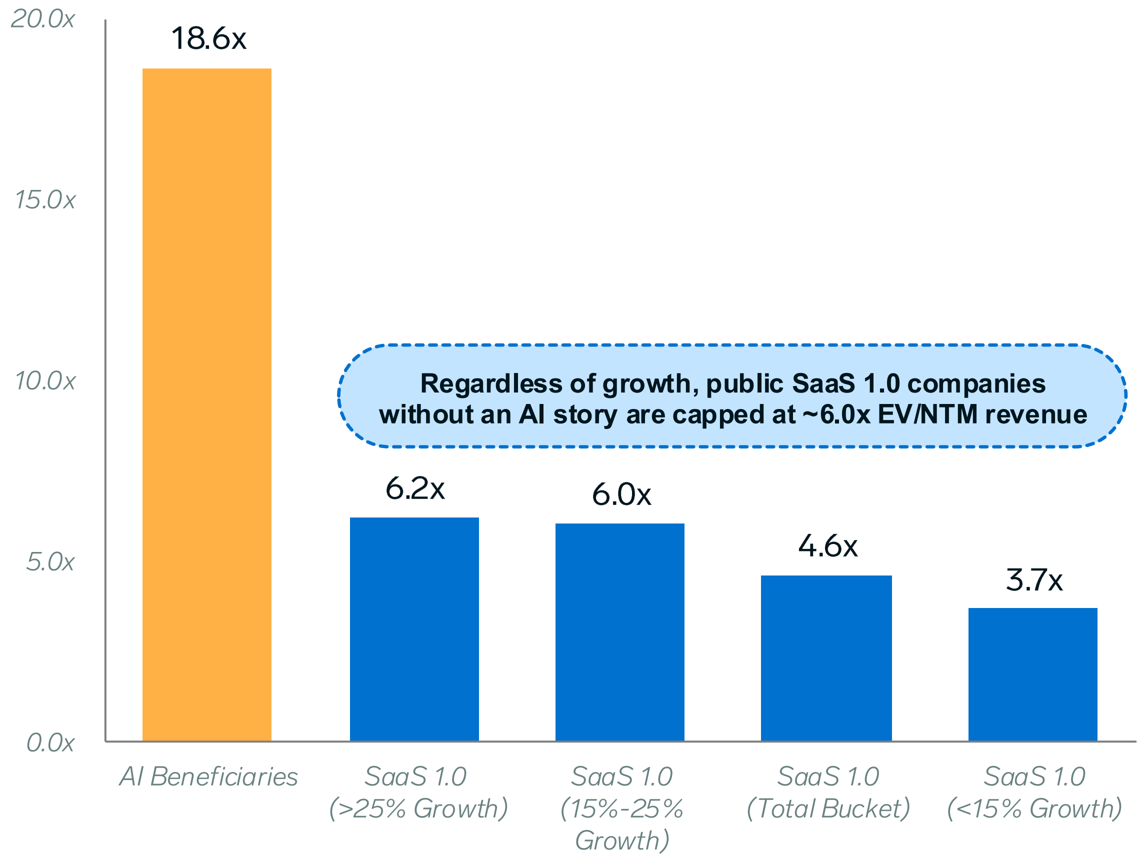
The public market is rewarding early AI beneficiaries

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



Note: "AI Beneficiaries" classification is based on Battery Ventures internal analysis and includes: ADBE, APP, CRM, CRWD, CYBR, DDOG, DOCS, FIG, FROG, MDB, NET, NOW, PLTR, RBRK, SHOP, SNOW, and ZS. Market data as of 12/15/25.
Sources: CapIQ, Company filings.

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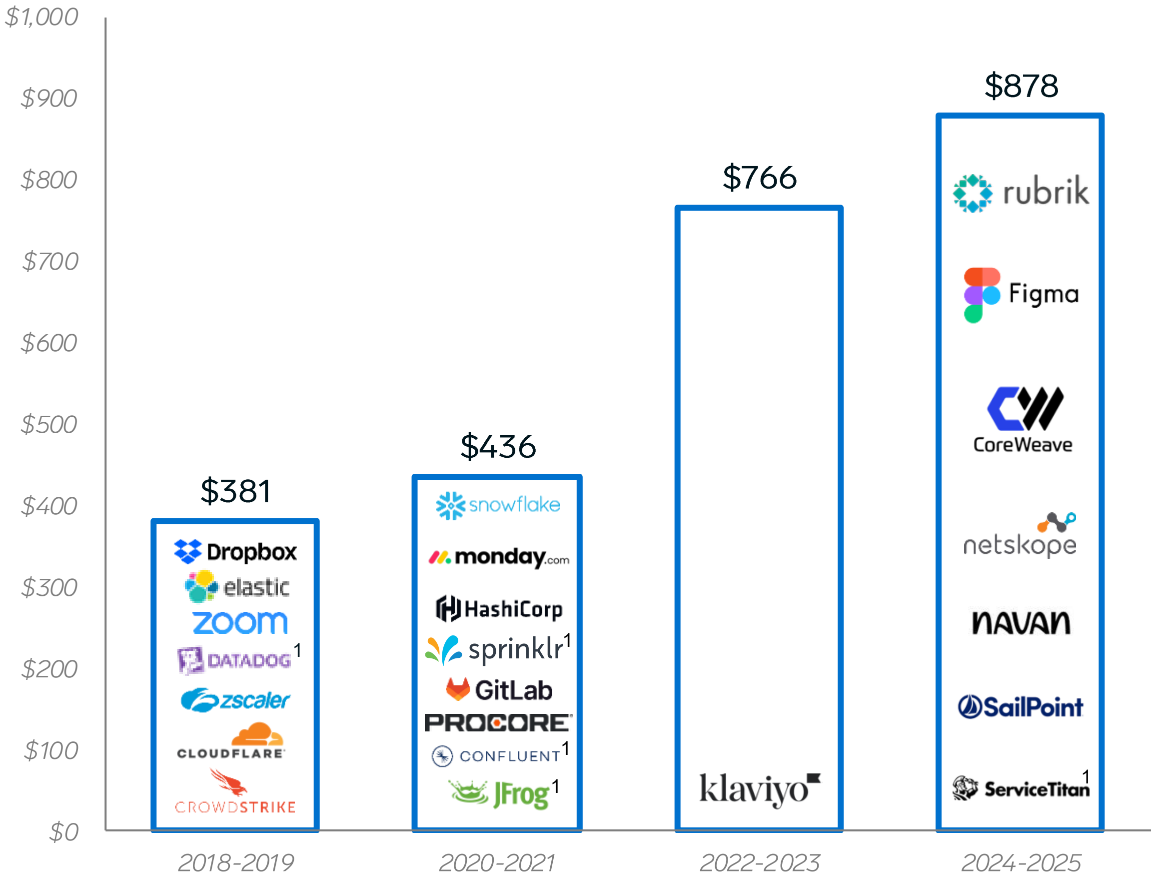
IPO candidates have reached unprecedented scale and growth

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

Median NTM Revenue at IPO ($M)



Emerging AI Companies Nearing IPO Scale

$1B+ ARR

- OpenAI
- ANTHROPIC
- databricks[1]
- xAI
- CURSOR
- Canva
- surge AI

$200M+ ARR

- perplexity
- synthesia
- Lovable
- IIElevenLabs
- glean
- SUNO
- GONG[1]
- Fireworks AI
- dataiku[1]

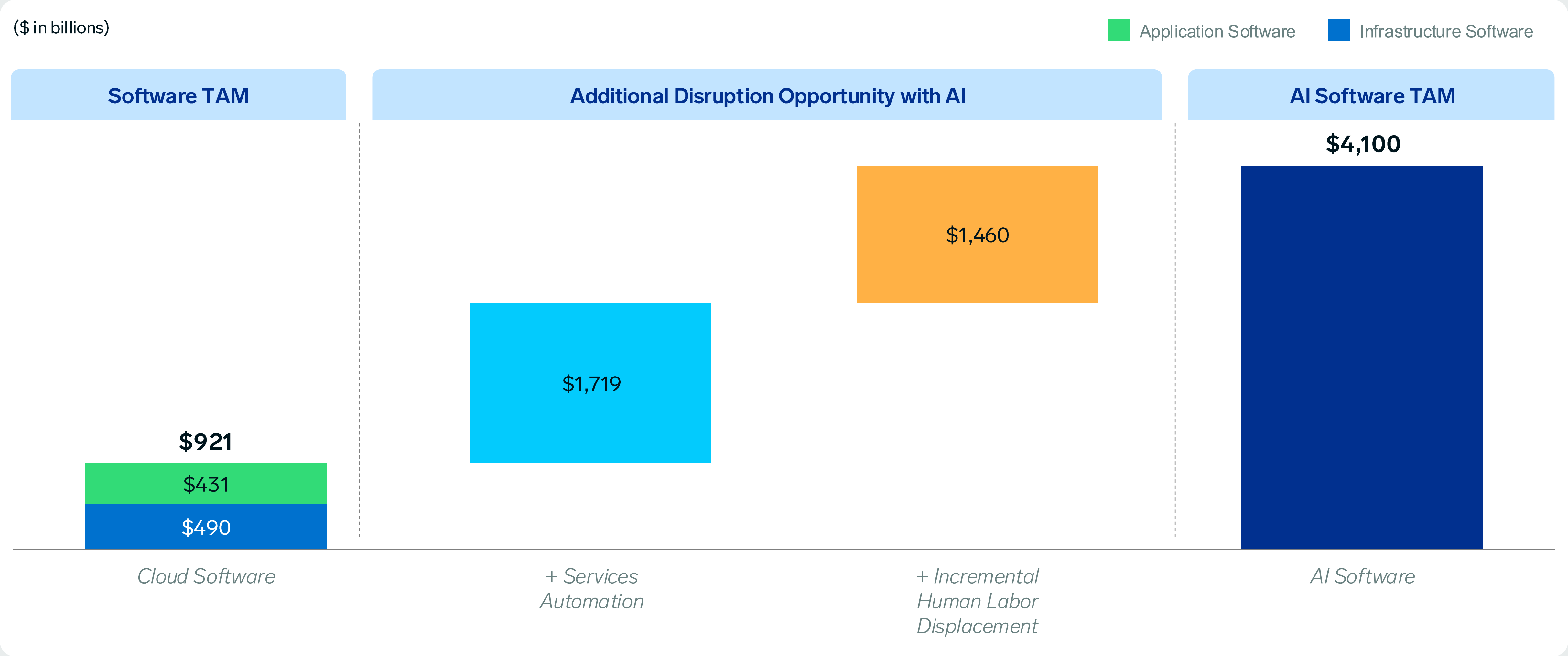
$100M+ ARR

- clay
- Gamma
- SIERRA
- Harvey
- Cognition
- HeyGen
- Elise AI

Note: Data revenue at IPO date exclusively represents software and infrastructure companies. 1. Denotes a past or current Battery company. For a full list of all Battery investments, please click here.
Sources: CapIQ, ARR.Club.

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

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



Sources: Gartner, Battery Ventures estimates.

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Operational Best Practices

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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

	CURSOR	ANTHROPIC
	Application	**Proprietary Models**
01 **Wedge** (Land + Distribution)	Code Completion → CI/CD, testing, code review, etc.	Claude Sonnet Models → More Models
	Proprietary Models	**Application**
02 **Moat** (Durability)	Open source/proprietary models to diversify away from AI Lab models	Claude Code

Vertical Expansion (Product Depth)

Horizontal Expansion (Product Breadth)

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

Metric	Target
ARR Growth	2x – 3x
NDR	130%+
Magic #	0.8x+
Burn Ratio	< 3x

Commentary

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.

Early-stage AI companies often trade growth and distribution for margins, which makes validating long-term scalable unit economics essential.

Gross retention is critical in AI because churn signals experimentation, while strong retention shows real adoption and product stickiness.

Value is no longer tied to seats or licenses. Real usage is the clearest measure of whether customers are consistently realizing value.

Magic number and burn ratio still matter because they validate whether the business can scale efficiently.

AI-Native

Metric	Target
ARR Growth	5x – 10x
Gross Margin	20%-40%
Gross Retention	80%+
Usage	DAU/WAU/MAU
Magic #	1.0x+
Burn Ratio	< 2.0x

Sources: Battery Ventures estimates.

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%

Sources: Battery Ventures estimates.

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

Application Software

salesforce HubSpot Figma

Seat-based pricing

- ✅ Predictable, stable revenue
- ✅ Easy for buyers to understand
- ❌ Simple to implement and measure
- ❌ # of seats flat / going down as AI does the work
- ❌ Human productivity value not captured

Value-Based Pricing

baseten unify[1] SIERRA

Seat-based fee

+ pay per action or outcome

- ✅ Captures AI value
- ✅ Aligns pricing with successful customer outcomes
- ✅ Greater willingness to pay
- ✅ Revenue naturally scales with customer maturity / growth

Minimum platform fee

Infrastructure Software

snowflake databricks[1] ClickHouse[1]

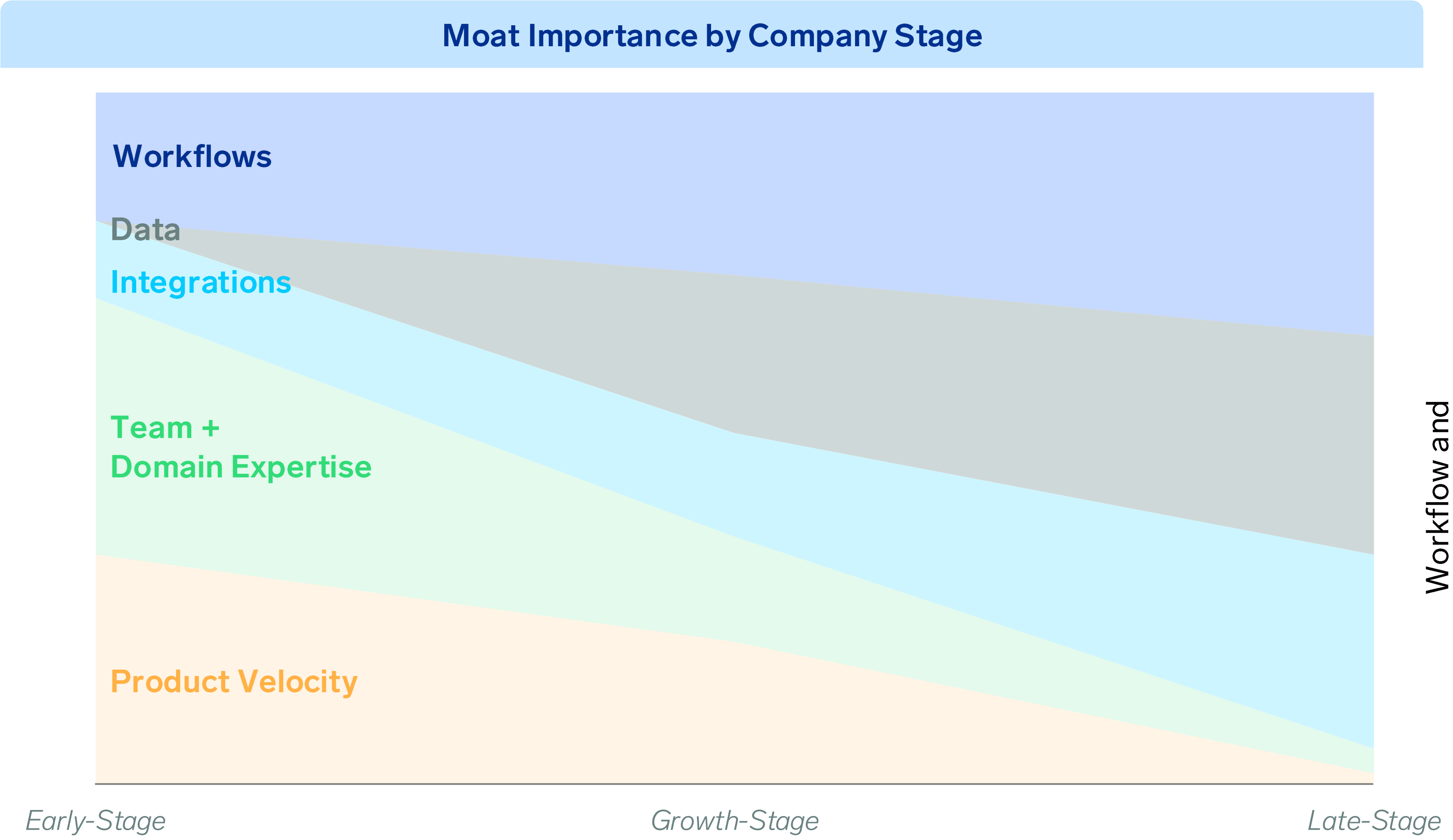
Consumption-based pricing

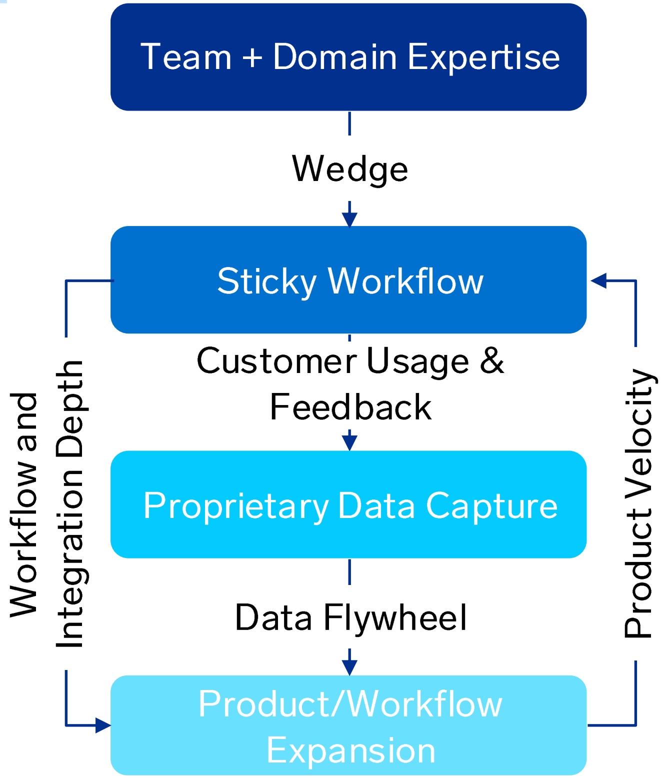
- ✅ Low-friction land
- ✅ Aligns pricing with usage
- ❌ Volatile revenue
- ❌ Complex billing and unpredictable costs for customers
- ❌ Under monetizes small customers and early usage

Note: 1. Denotes a past or current Battery company. For a full list of all Battery investments, please click here.

Build enduring moats

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





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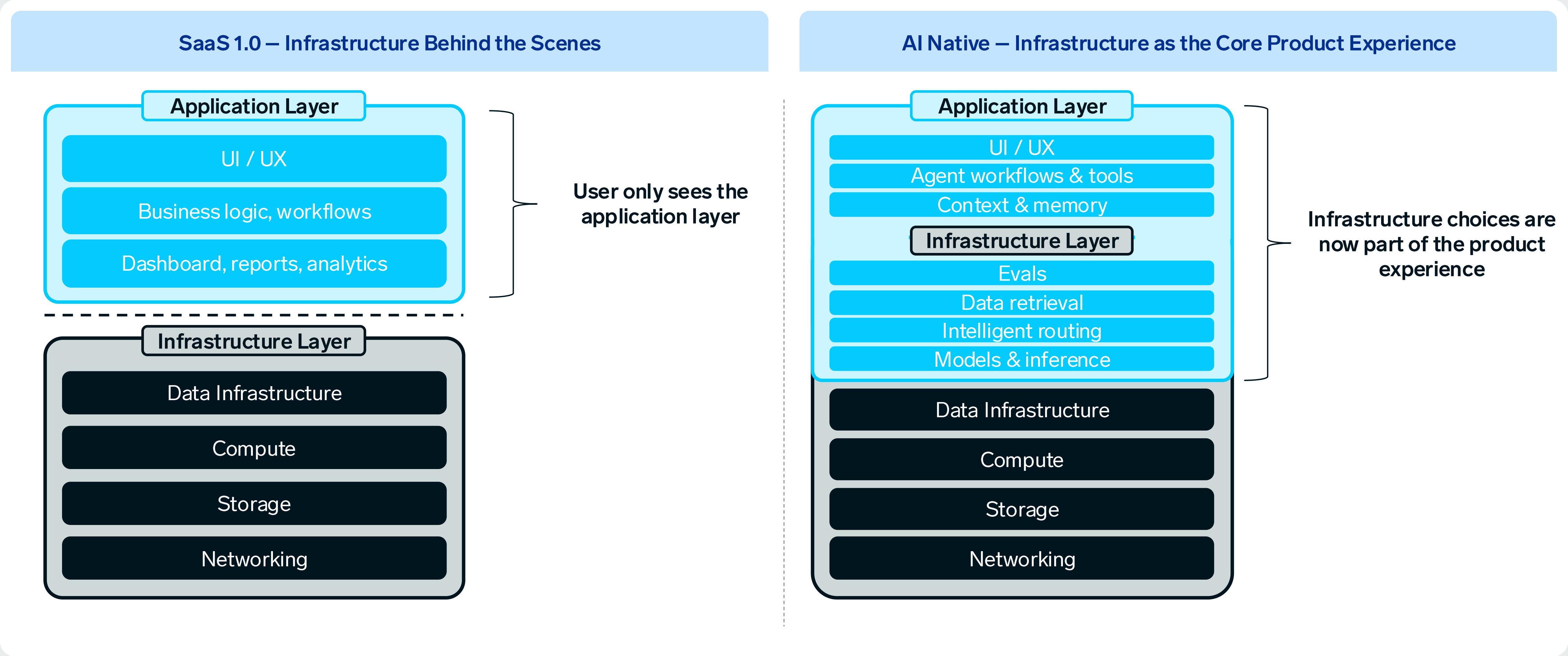
Deliver best-in-class product experiences with tightly coupled infra and apps

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



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Rewire your org chart for intelligence

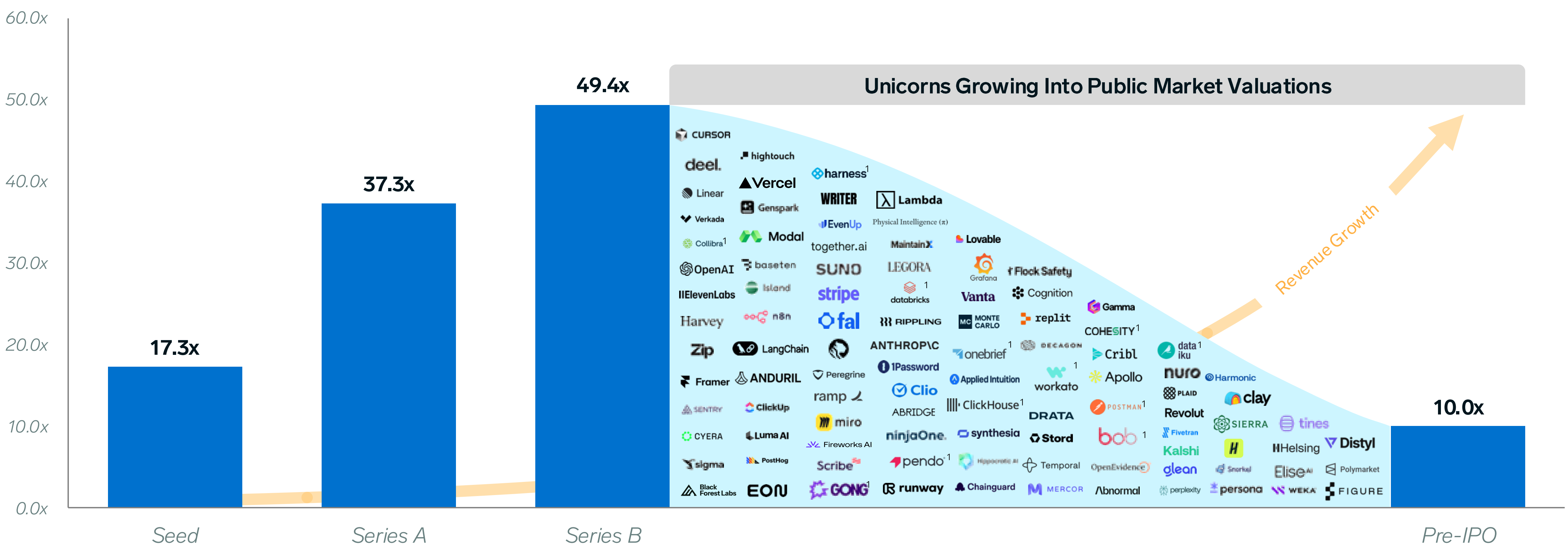
In AI-native orgs, every function becomes technical as teams build and maintain AI systems that influence product and user value

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

Illustrative Forward ARR Multiples by Deal Stage



Note: Based on illustrative Battery Ventures analysis. 1. Denotes a past or current Battery company. For a full list of all Battery investments, please click here.
Sources: CapIQ, Battery Ventures data and Pitchbook.

Navigate strategic partnerships

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

	Distribution	Capital	Product/Technology
Value	• Access to a scaled customer base • Credibility and brand validation • Co-marketing/co-selling	• Balance sheet strength without heavy dilution • Market validation • Greater organizational access	• Accelerated product development • Access to technical resources • Preferential support and access
Stakeholder	• GTM	• Corporate development / finance	• R&D
Risks	• Reduced brand ownership • Over-dependence on partner-led deals	• Perceived loss of independence • Potential negative signaling for future investors and acquirers	• Platform lock-in • Roadmap dependency • Exposure to partner product competition
Example	databricks[1] / Microsoft	OpenAI / Microsoft	ANTHROP\C / amazon

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Themes of Interest

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Runtime AI infrastructure

Applications

- Business Workflow Applications
- Technical Applications

Middleware Enablement/ Dev Workflow

Tool Usage & Agent Auth	Web Access	Post-Training	Evals/ Observability	Execution Sandbox	Frameworks & Libraries	Model Routing
Arcade	parallel	VERIS	Galileo[1]	E2B	Temporal	martian
WorkOS	exa	Habitat Inc.	arize[1]	Daytona	mastra	OpenRouter
Keycard	TINY FISH	THINKING MACHINES	Braintrust	CODER	crewai	nexos.ai
Composio	Firecrawl	APPLIED COMPUTE	LangSmith		LangChain	
Runlayer	Browser Use	fleet			vLLM	
	Browserbase	Kaizen			SGL	
					TensorRT	
					Modular	

Software Infrastructure

Foundation Models: OpenAI, ANTHROPIC, deepseek, Gemini, Reflection[1]

Inference & Training: baseten, together.ai, fal, Modal, Fireworks AI

Databases: ClickHouse[1], supabase, databricks[1]

Hardware Infrastructure

ORACLE, aws, Google Cloud Platform, Microsoft Azure, CoreWeave, NVIDIA, AMD

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AI-native software development lifecycle

Build

Code Gen/Agents

CURSOR, CLAUDE CODE, Cline, GitHub Copilot, Cognition, Augment, FACTORY, Google Antigravity, warp, All Hands

Vibe Coding

Vercel, Lovable, replit, Anything, bolt

Test/Review

Testing

Ranger, antithesis, QA WOLF, Meticulous

Code Review

greptile, CodeRabbit, LinearB[1], Graphite

Deploy/Run/Monitor

Sandboxes

E2B, Daytona, CODER

Databases

ClickHouse[1], supabase, databricks[1] / NEON

Runtimes

baseten, Fireworks AI, Modal, together.ai

AI SRE

Traversal, Resolve.ai, TierZero AI, Deductive.ai

Secure

XBOW, terra, TENZAI[1], Corridor, depthfirst, Pixee, Clover

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Securing the agentic attack surface

SOC Automation
- 7AI
- Exaforce
- LEGION
- Dropzone AI
- prophet
- CROGL

Agent Auth
- Keycard
- Arcade
- WorkOS
- Runlayer

Product Security
- Corridor
- depthfirst
- Pixee
- Clover
- prime

Vulnerability Mgmt.
- cogent
- maze
- ZAFRAN

Offensive Security
- XBOW
- terra
- TENZAI[1]

SIEM
- Cribl
- runreveal
- vega
- SCANNER
- Artemis

Endpoint Security
- KOI[1]
- Remedio
- HUNTRESS

Identity
- Opal Security[1]
- ConductorOne
- HushSecurity[1]
- Astrix
- LINX
- token
- descope

Social Engineering
- Abnormal
- SUBLIME
- imper.ai[1]
- AegisAI

Human Risk Management
- Adaptive
- Fable

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Vertically integrated AI solutions for key technical personas

ITSM

CONSOLE | Serval | atomicwork[1]

Risotto | Ravenna | FIXIFY

servicenow | ATLASSIAN | freshworks

Security Operations Center

7AI | Exaforce | Dropzone AI

LEGION | prophet | CROGL

elastic | splunk>[1] | sumo logic[1]

Observability

Traversal | Resolve.ai

TierZero AI | Deductive.ai

DATADOG[1] | Grafana | dynatrace

Software Development

CURSOR | Cognition | CLAUDE CODE

LinearB[1] | CodeRabbit | greptile

GitHub | GitLab

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Workflow solutions for business buyers

Sales & Marketing

unify[1]
clay
1mind[1]
GONG[1]
rox

salesforce
HubSpot

Customer Support

DECAGON
Parloa
SIERRA

salesforce
freshworks
zendesk

Legal

Harvey
LEGORA
ontra[1]
EvenUp
crosby
Spellbook

THOMSON REUTERS WESTLAW
LexisNexis
Relativity

Healthcare

ABRIDGE
Ambience
latent
Hippocratic AI — Do No Harm —
Assort Health
OpenEvidence
tandem

Epic
ORACLE Cerner
athenahealth
R1
doximity

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