**District Capital Partners**
**DCP Debrief: AI-Native SaaS Tuck-Ins**
*August 2026*

The questions we field most often from clients and founders are about valuation: What are you seeing out there? Where are multiples? What gets a business to the top of the range? Given that we are pricing deals in real time and have a breadth of recent data points across industries to reference (both market-clearing and non-market-clearing) our responses are usually well-supported. Like most “answers” in our line of business, though, the answer is that it depends: on the situation, industry, business metrics, importance of the target to the buyer, etc. However, over the last few years coming out of the inflated ~2021/22 environment we could anchor the conversation to a valuation range based on the metrics in the table below, which buckets SaaS companies by the strength of their metrics.

## SaaS Benchmarks by ARR Size

Standard Market Metrics for Private B2B Software; *DCP Callout: It is not often that we see assets actively in market or looking to sell that check all “High” boxes, or even all the “Medium” boxes. Most companies may demonstrate a mixed bag across metrics*

**ARR Growth, GRR, NRR, Gross Margin & EBITDA Margin**

| | | $0 – $5M ARR | $5 – $10M ARR | $10 – $15M ARR |
|---|---|---|---|---|
| **ARR Growth** *YoY %* | High | >100% | >70% | >50% |
| | Medium | 60–80% | 40–60% | 30–45% |
| | Low | <40% | <30% | <25% |
| **Gross Revenue Retention** *GRR %* | High | >90% | >92% | >95% |
| | Medium | 85–90% | 87–92% | 90–95% |
| | Low | <80% | <85% | <88% |
| **Net Revenue Retention** *NRR %* | High | >110% | >115% | >120% |
| | Medium | 95–105% | 100–110% | 105–115% |
| | Low | <90% | <95% | <100% |
| **Gross Margin** *GM %* | High | >75% | >78% | >80% |
| | Medium | 65–75% | 70–78% | 72–80% |
| | Low | <60% | <65% | <68% |
| **EBITDA Margin** *EBITDA %* | High | >0% | >10% | >20% |
| | Medium | (20%)–0% | (10%)–10% | 5–15% |
| | Low | <(30%) | <(15%) | <0% |

Source: DCP analysis of Bessemer SaaS benchmarks, ICONIQ Growth, Scale Venture Partners, OpenView, and KeyBanc SaaS surveys (2024–2025). High = top quartile; Medium = interquartile range (Q1-Q3); Low = bottom quartile
Note: Values in b/w gaps of suggested bands (e.g., 90% ARR growth for $0-$5M ARR are interpolated / judgement calls) 4

In recent years, the increased focus on B2B AI-native SaaS companies (or those with top-tier AI point solutions) as acquisition targets has made these conversations about valuation increasingly murky due to the below points. And therefore, it can be difficult to chart them against standard SaaS metrics (e.g., there is no customer growth, no relevant retention stats because of limited months or data, or stable GM).

- Many being founded in the last few years and still looking for product-market fit
- There is far less transaction volume and useful business-metric data to analyze
- They have thin operating histories and few clean comparables to benchmark against
- The underlying AI cost model continues to change, making unit economics a moving target – with many companies still working through their own pricing structures
- Oftentimes, there is meaningful value in the founders and AI talent beyond the product and customers, as large acquirors are increasingly also looking to hire AI developers[1]
- Demos and analysis by the acquiror's product team are important for understanding the strength of the AI, but the irony is that the buyer's team is evaluating a product it did not build and may



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not be as well-equipped to judge the target's technology (particularly more advanced AI/ML) technology. In previous SaaS deals, the buyer could often assess architecture, security, and code quality more directly.
- There is little urgency to sell among founders of top-tier products, as many have only just begun to understand whether the company they created can solve the problem they set out to address. Large VC backers are also often readily available to provide development capital

**Although Valuations Are Still Murky, the Value These AI Products Provide Is Not**
Although pricing for these companies remains murky – and more situation-dependent than ever – focus and intensity around AI-native software acquisitions is high across the market. In almost every board meeting or M&A strategy discussion we have been involved in, the overarching theme has been the need to solidify an AI strategy[2]. That urgency is reflected more broadly: Bain's 2025 executive survey found that 74% of companies ranked AI among their top three strategic priorities, up from 60% a year earlier. [3]

From a capital markets / underwriting perspective this theme is prevalent as well, as shared to us by a colleague at one of the largest software-focused private equity firms:

*"Every software company we underwrite now runs through the following questions:*
- *i) Can AI do this job itself?*
- *ii) If not, what moats protect the company beyond its code (e.g. network effects, proprietary data, switching costs, etc.)?*
- *iii) Among those with moats, which teams are effectively shipping and implementing AI where appropriate?*

*The first two questions are getting easier to answer, with the third playing out in real-time. Incumbents have the initial right to win given established customer bases, but AI-native entrants will win in some markets (or get acquired by incumbents who can't effectively build out the AI capabilities)."*

Incumbents are feeling particular pressure to upgrade their product suites as end customers quickly adopt point solutions for repetitive, time-consuming tasks that are well-suited for AI. The buy-vs.-build analysis often becomes a quantitative reference point (i.e., it will cost us $XM to build this in the next 12 months, so the acquisition may be worth that cost plus some premium for speed, talent, and existing customer traction). **For certain buyers, speed-to-market is critical: switching customers to an internal product a year from now may be much harder than converting whitespace today.**

**Coming to Agreement Requires More Effort**
Given these dynamics, buyers have struggled to reconcile their conviction that end users need these AI tools with the standard metrics they are accustomed to using to evaluate software companies. For example, a target with a time-tracking or document-drafting solution that saves professional-services users hours per week may feel like a clear product winner (as previously referenced in our June article). But when that company is only 18 months old, has sub-$1M ARR and generally poor retention, it becomes extremely difficult to pay a premium valuation without full buy-in from a product or executive team that can clearly see the product fit and cross-sell or upsell revenue it brings to the buyer. From the seller's perspective, there is often dissonance as well: the founders are still early in the journey and want to keep attacking the problem they set out to solve ("we just started"), so there is no immediate need to sell – particularly if the product has some traction or the company has backing from an accelerator or a recent seed round. Sellers will also argue that early churn and other metrics are less indicative while they refine their true ICP (e.g., this AI was never relevant to customers of this size or in this industry).

Even when the parties agree on a valuation range, the buyer may still need a structured deal, such as a cross-sell or revenue-based earnout, or may test the product through a JV or commercial partnership first.[4] We have also seen more conversations end before meaningful diligence begins because the parties cannot agree on a process that gives the buyer enough product access without making the seller feel it is exposing sensitive data or know-how to a potential competitor.

That is why the best early-stage processes are less about demanding a full set of mature SaaS KPIs on day one and more about agreeing upfront on what evidence would create conviction such as customer references, cohort usage, task-level ROI, technical evaluations, cost-to-serve, data and model rights, and a credible integration plan. All of which requires more time upfront and effort from both sides to assess strategic fit.

**The AI Winners Are Being Bought and Funded Fast**

If there is one takeaway from our DCP team, it is that a focused strategy rewards acquirors in a fast-moving AI market. It is critical to define a buyer's two or three highest-priority AI solution gaps and then run hard at those for several months. This helps acquirors 1) have enough conversations to compare multiple opportunities (e.g., customer traction, product strength, pricing) and 2) develop enough focus within a smaller segment to identify the winners quickly, as many of the strongest products are being acquired or raising capital at record pace.[5,6] Some of the headline fundraising records are driven by enormous rounds for a handful of well-known companies, but we are seeing the impact down-market as well. Early-stage companies are raising larger initial rounds more quickly, which further strains acquisition conversations and can make companies completely unreceptive to M&A discussions for several years.

**<u>Approaching this Market</u>**

While approach to valuation and structuring remains fluid, it is clear that a focused AI strategy will remain important for potential acquirors – particularly as they look to exit or go through their own sale process. The market is no longer pricing software as one bucket, and companies with credible AI capabilities (and especially those with proprietary data moats) are commanding meaningful premiums over comparable non-AI software.

This is prevalent across industry verticals and sellers cannot simply start thinking about AI strategy ~3-6 months before a sale. Per a colleague at a middle market investment bank focused on Healthcare Services, *“We are finding that operators have shifted their measure of AI success to focus on demonstrated operational and quantifiable financial benefits. There seemed to be a rush to invest in any software business with ‘AI’ in the business description 2-3 years ago, but now you need to show metrics on real ROI of your AI products and not simply a slide about how it is being developed.”*

Once a buyer can get comfortable that a product can immediately accelerate their product roadmap and be value-additive to customers, the likely acquirors who will succeed will find companies that:

1) control a high-value, repeatable workflow,
2) have measurable customer ROI and usage that persists beyond a pilot,
3) own proprietary data and feedback loops (vs. “vibe coded” easily copied solutions)
4) have a credible path to scalable gross margins as AI costs move,
5) can easily plug into their current customer base for quantifiable cross-sell / upsell, and
6) come with a founder and talent team the buyer can actually retain.

**How We Can Help**

For founders evaluating options, sponsors building platforms, or portfolio companies looking to acquire necessary AI capabilities, consistent conversations with emerging AI companies are critical to understanding the shifting landscape. In today's market, buyers need to understand how these new solutions are reshaping customer expectations, impacting valuations, and delivering—or failing to deliver—real value. If you are interested in augmenting your corporate development team to support a higher volume of outreach and sourcing, or if you would like to discuss valuation from a sell-side perspective, please reach out to us at info@dcp.com.

**Footnotes:**

1. “Reverse acquihires”—hiring a startup's founders and licensing its technology rather than buying the company—became a defining 2025 deal shape as acquirors competed for scarce AI talent.
   https://www.fastcompany.com/91384816/what-is-the-reverse-acquihire
   https://ff.co/ai-acquihires/
2. “AI and private equity fuel surge in large M&A deals”
   https://www.pwc.com/us/en/services/consulting/deals/library/ai-and-private-equity-fuel-surge-in-mergers-and-acquisitions.html
3. Bain found that 74% of companies ranked AI as a top-three strategic priority in Q3 2025, up from 60% a year earlier. https://www.bain.com/insights/executive-survey-ai-moves-from-pilots-to-production/
   https://www.ey.com/en_us/insights/private-equity/us-private-equity-ai-insights
4. Earnouts can bridge AI valuation gaps and align price with realized performance; staged investments and other alternative structures are also becoming more common.
   https://www.morganlewis.com/pubs/2026/06/technology-m-and-a-key-trends-and-structuring-considerations
   https://www.skadden.com/insights/publications/2026/2026-insights/sector-spotlights/ma-in-the-ai-era
   https://www.pwc.com/us/en/services/consulting/deals/library/ai-and-private-equity-fuel-surge-in-mergers-and-acquisitions.html
   https://katten.com/artificial-intelligence-ma-navigating-new-deal-landscape
5. Crunchbase reported that AI companies raised a record $211B in 2025. In Q1 2026, AI funding reached $242B, or 80% of total global venture funding; the four largest AI-related rounds represented 65% of all global venture investment. Early-stage funding rose 41% year-over-year and seed funding rose 31%.
   https://news.crunchbase.com/venture/funding-data-third-largest-year-2025/
   https://news.crunchbase.com/venture/record-breaking-funding-ai-global-q1-2026/
6. PwC describes a barbell market of transformative AI deals and speculative tuck-ins, with limited activity in the middle because durable winners remain difficult to identify.
   https://www.pwc.com/us/en/industries/tmt/library/technology-deals-outlook.html