

Market Breadth vs. Market Depth

A Comparative Analysis of Horizontal and
Vertical SaaS Companies
2026 Update



Introduction

In January 2025, we published a white paper that highlighted the following key takeaways from an analysis of 50 publicly traded SaaS companies (25 Horizontal, 25 Vertical):

- Precipitous drop in SaaS revenue growth and net retention rates based on data from Altimeter Capital.
- Vertical SaaS companies showed better resilience to the SaaS market downturn, which suggests that their deep integration into customer workflows provides stronger protection against customer churn or spend reductions.
- Horizontal SaaS companies outperformed Vertical SaaS companies on seven of the ten key metrics including Revenue Growth (CAGR), Gross Margin, and Customer Acquisition Cost (CAC).
- The comparative analysis validated the views of leading venture capital firms, with deep Vertical SaaS domain expertise, that Vertical SaaS has superior performance on Sales & Marketing Efficiency, Net Retention Rate, and Average Contract Value (ACV).

We have now updated our analysis with 2024 (FY2025) financial data from recent annual reports to determine if these key takeaways are still valid and to dive deeper into underlying factors driving these trends.

Growth Rates

Altimeter Capital's data indicated that the median Net Twelve Months (NTM) growth rate for 80 publicly traded companies dropped ~50% from 25% in Q1 2022 to 12% in Q1 2024.

Our latest analysis, shown in Figure 1A, shows a sharp decline in median year over year (YoY) revenue growth for both Horizontal (-60.5%) and Vertical SaaS (-62.5%) companies from 2021 to 2023. Horizontal SaaS continues to slow into 2024, while Vertical SaaS shows a modest rebound, rising from 12.9% to 14.4%.

Median YoY Growth Rates: 2021 – 2024

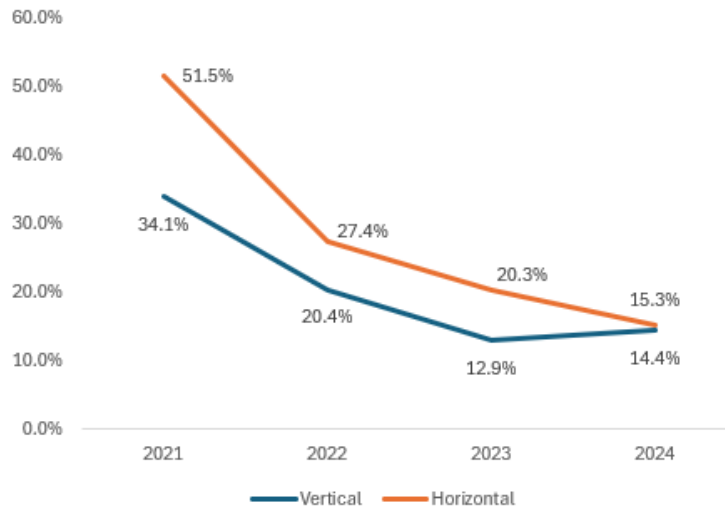


Figure 1A: Median YoY Growth Rates 2021 – 2024

Using cumulative revenue totals and 2025 revenue data, the revenue growth comparison in Figure 1B tells a slightly different story for Horizontal and Vertical SaaS companies. Horizontal SaaS companies experience a similar sharp decline in YoY revenue growth from 2021 to 2024, followed by stabilization, with growth slightly increasing from 14.7% to 15.2%.

Vertical SaaS revenue growth declines from 2021 through 2023, surpassing Horizontal SaaS YoY growth rates in 2024. Revenue growth rebounds from 17.6% in 2024 to 18.5% in 2025.

YoY Growth Rates: Total Revenue 2021 – 2025

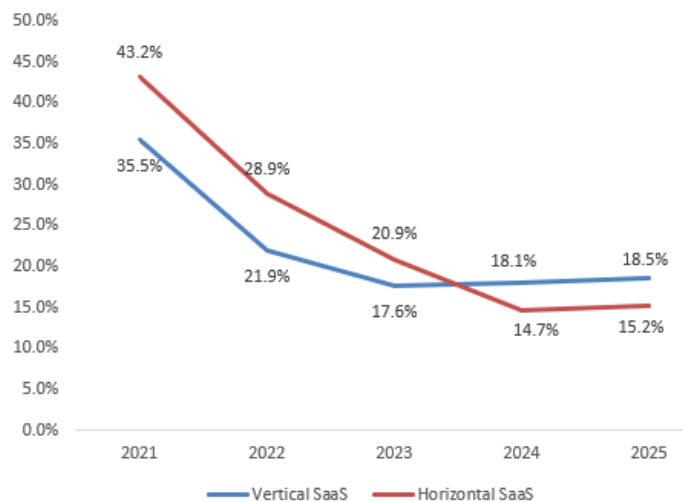


Figure 1B: YoY Growth Rates 2021 – 2025F

Net Retention Rates (NRR)

Altimeter Capital’s NRR data, in our prior report, showed that median Net Retention dropped off from its peak of 121% in Q1 2022 to 110% in Q2 2024.

Our data highlights that median Horizontal SaaS NRR significantly dropped from 2021 to 2024. Median NRR for Vertical SaaS, however, did not decrease as severely as Horizontal SaaS and has been stable since 2022.

Net Retention Rates 2021 - 2024

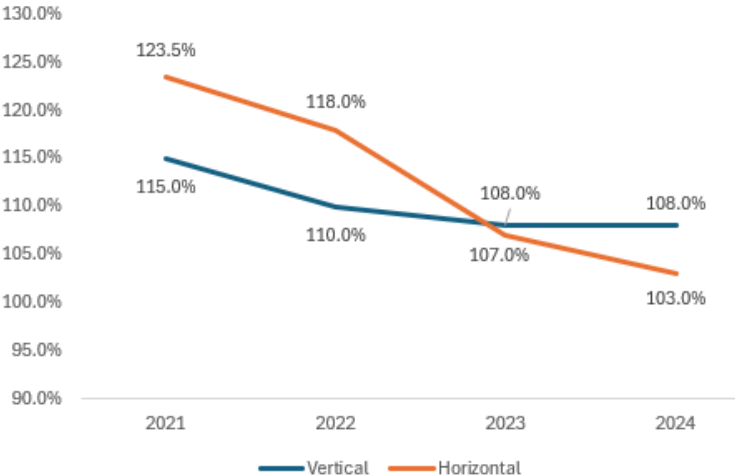


Figure 2: Median Net Retention Rates 2021 - 2024

1) Background

The publicly traded SaaS companies included in our analysis are listed in Tables 1 & 2.

Horizontal SaaS

We identified twenty-five publicly traded Horizontal SaaS companies to include in our analysis as listed in Table 1 below:

Publicly Traded Horizontal SaaS Companies

1	Amplitude	9	Fastly	17	Snowflake
2	Asana	10	Freshworks	18	Sprinklr
3	Atlassian	11	Hubspot	19	UiPath
4	AvidXchange	12	Klaviyo	20	Unity Software
5	Bill Holdings (bill.com)	13	Nutanix	21	Workday
6	CrowdStrike	14	PubMatic	22	ZipRecruiter
7	Dynatrace	15	Semrush	23	Zoom
8	Expensify	16	SentinelOne	24	ZoomInfo
				25	Zscaler

Table 1

Blue Font = New Additions

Green Font = Acquired

We replaced the following two companies, due to acquisitions, which were included in our prior analysis:

- SmartSheet was acquired by Vista Equity and Blackstone for \$8.4 billion in January 2025.
- HashiCorp was acquired by IBM for \$6.4 billion in February 2025.

These companies were replaced by Klaviyo (NYSE: KVYO) and Sprinklr (NYSE: CXM).

There were two Horizontal SaaS companies acquired during the year:

- AvidXchange was taken private by TPG and Corpay (NYSE: CPAY) in May 2025 for \$2.2 billion which included Corpay acquired a 33% equity position in the company for ~\$500 million. AvidXchange will be replaced in any future updates.
- Adobe announced in November it was acquiring Semrush for \$1.9 billion.

Vertical SaaS

We also identified twenty-five publicly traded Vertical SaaS companies to include in our analysis as listed in Table 2 below:

Publicly Traded Vertical SaaS Companies

1	Agilysys	9	Definitive Healthcare	17	nCino
2	AppFolio	10	Doximity	18	Olo
3	Autodesk	11	Enfusion	19	Procore
4	Bentley Systems	12	Five9	20	PROS Holdings
5	Blackbaud	13	Guidewire	21	Q2 Holdings
6	Blend	14	Health Catalyst	22	Shopify
7	Clearwater Analytics	15	Lightspeed	23	Toast
8	CS Disco (DISCO)	16	MeridianLink	24	Tyler Technologies
				25	Veeva Systems

Table 2

Blue Font = New Additions

Green Font = Acquired

We replaced the following five companies that were included in our prior analysis due to acquisitions or going private:

- 2U filed for Chapter 11 bankruptcy in July 2024 and subsequently emerged as a private company from bankruptcy in September 2024.
- PowerSchool Holdings was acquired by Bain Capital for \$5.6 billion in October 2024.
- Envestnet was acquired by Bain Capital for \$4.5 billion in November 2024.
- Instructure was acquired by KKR and Dragoneer for \$4.8 billion in November 2024.
- Emerson Electric acquired the remaining common stock it did not already own of AspenTech for \$5.2 billion in March 2025.

These companies were replaced by Agilysys, Bentley Systems, MeridianLink, PROS Holdings, and Tyler Technologies.

We should note that five additional Vertical SaaS company acquisitions were announced since April 2025:

- Enfusion was acquired by another Vertical SaaS company in our analysis, Clearwater Analytics, in April 2025 for \$1.5 billion.
- Olo was acquired by Thoma Bravo in September 2025 for ~\$2 billion.

- MeridianLink, just added to our updated analysis, was acquired by Centerbridge Partners in October 2025 for \$2 billion.
- PROS Holdings, also just added to the analysis, announced on September 22, 2025, that it was being acquired by Thoma Bravo for \$1.4 billion. As part of this transaction, Thoma Bravo is selling PROS Holdings' B2B business to Conga.
- Clearwater Analytics announced on December 21, 2025, that it was being acquired by Permira and a Warburg Pincus-led investor group for \$8.4 billion.

2) Awakened Interest in Vertical SaaS Investments

While Horizontal SaaS companies have dominated investor interest and headlines since Salesforce launched the 1st SaaS solution in 1999, there has been renewed appreciation of the Vertical SaaS model driven by the success of prior IPOs and recent privately held unicorns. As an example of the prior IPO success, the Vertical SaaS companies in Table 3 with 2012 – 2015 IPOs have had 10-year returns ranging between 172% to 6,387%.

Vertical SaaS Companies IPOs 2012 – 2015

Company	IPO Date	10-Year Return (as of 12/12/2025)
Guidewire	2012	253%
Veeva Systems	2013	701%
Q2 Holdings	2014	180%
Five9	2014	172%
AppFolio	2015	1,418%
Shopify	2015	6,387%

Table 3

This interest has also been further fueled by the recent success of privately held unicorns like Aurora Solar (Solar), Cloudbeds (Hospitality), and Forter (Retailers/e-Commerce).

The success of these and other Vertical SaaS players demonstrate that companies that build dominant market positions by becoming mission critical to companies in their vertical markets can create attractive investment returns for venture capital firms, private equity firms, and stock investors. This success has helped change SaaS investment views that Horizontal SaaS companies were the de facto path to generate outsized investment returns.

The reasoning for this investment interest is based on insights generated by leading venture capital firms that have deep domain expertise in Vertical SaaS investments




including Bessemer Venture Partners, Fractal Software, Redpoint Ventures, Mucker Capital, and Harlem Capital. FLG Partners, a fractional CFO advisory firm, has also profiled the “operational and financial characteristics between Horizontal and Vertical SaaS companies.” These firms highlight, in a series of articles, the following comparative advantages that Vertical SaaS companies have over their Horizontal SaaS peers:

- Higher Sales Efficiency
- Higher Retention Rates
- Lower Customer Acquisition Costs (CAC)
- Larger Average Contract Values (ACV)
- Higher EBITDA Margin¹
- Higher Market Penetration
- Higher M&A Activity

¹ Added to list of Vertical SaaS comparative advantages

Examples of these comparative advantages are listed in Table 4 below:

Vertical SaaS Companies: Comparative Advantages

Higher Sales Efficiency	
	Vertical SaaS companies have “ higher overall sales efficiency than is found in Horizontal SaaS companies ” “ Sales efficiency is the key difference between Vertical and Horizontal SaaS businesses.”
Higher Retention Rates	
	“...when successful, vertical software solutions are incredibly sticky , mission critical, and therefore have a far lower likelihood of displacement given their positioning as core workflow. ”
	“ Vertical SaaS companies also see less churn ...because their products are so hyper-targeted that customers become unable to live without it. ”
Lower Customer Acquisition Costs (CAC)	
	Having a more potent wedge when selling translates to a lower cost of customer acquisition , as refined customer personas make targeting precise and reduce the need for extensive ad spend.







Larger Average Contract Value (ACV)	
 Harlem Capital	<p>A core way that vertical software companies scale is by adding layers of various products and services to become an all-encompassing platform for end customers. This model brings numerous benefits like higher customer retention, larger ACVs, and a moat that leads to market leadership.</p>
Higher EBITDA Margins	
	<p>"...vertical software players are more profitable than horizontal software players. In our sample group, the median EBITDA margin of vertical software companies is 2.4x the margin of horizontal software companies."</p>
Higher Market Penetration	
	<p>"Vertical SaaS companies can achieve materially higher market penetration than their horizontal counterparts."</p>
	<p>Vertical SaaS companies "...could grow to be much larger than we expected. By focusing on a vertical market, these companies are able to trade market size for market share and in some cases achieve 50%+ market penetration."</p>
Higher M&A Activity	
	<p>"Tremendous amount of M&A activity in the Vertical SaaS market"</p>
	<p>"Vertical software companies tend to be more acquisitive than horizontal players"</p>

Table 4

The above comments highlight that these comparative advantages, excluding higher M&A activity, are driven by how the most successful Vertical SaaS companies become essential to their customers' workflows as highlighted in Table 5 below:

**Vertical SaaS Companies
Essential to Customer's Workflows**

Essential to Customers' Workflows	
	<p>"Vertical SaaS is one of the best business models in the game because it is absolutely essential to the customer's workflow, which yields high LTV and high margins."</p> <p>"Vertical SaaS is an essential service that will be the last cost to be cut during hard times because it powers the core workflows of its users."</p>

Table 5

3) Publicly Traded Vertical and Horizontal SaaS Companies Analysis Scope

We completed detailed financial analysis of the Vertical and Horizontal SaaS companies listed in Tables 2 and 3. This analysis included comparative charts of the following metrics:

- 1) Revenue Multiple LTM
- 2) Market Capitalization
- 3) Average R&D Spend vs. Revenue CAGR (5-year view)
- 4) Average R&D Spend vs. Revenue CAGR split by Growth Rate Tiers
- 5) R&D Productivity (2024 and average 3-year view)
- 6) Average Sales & Marketing Spend vs. Revenue CAGR (5-year view)
- 7) Average Sales & Marketing Spend vs. Revenue CAGR split by Growth Rate Tiers
- 8) Sales & Marketing Efficiency (2024 and average 3-year view)
- 9) OpEx Spend: R&D and Sales & Marketing
- 10) % of OpEx: R&D, Sales & Marketing, and G&A
- 11) SaaS/Overall Gross Margin (average 3-year view and specific years)
- 12) Professional Services: Avg. Revenue and Avg. Gross Margin
- 13) Average Contract Value (ACV)
- 14) Customer Acquisition Cost (CAC)
- 15) CAC Payback
- 16) Net Retention Rates
- 17) Revenue per Employee
- 18) EBITDA Margin %
- 19) Rule of 40

Our comparative charts do not include key SaaS metrics, such as ARR, CARR, SaaS Magic Number, and Customer Lifetime Value (CLV). The data for these

metrics either wasn't included in the annual reports or was inconsistently reported by these companies.

The calculations for select Key Metrics are shown in Table 6 below:

Definitions for Select Key Metrics

Key Metrics	Definitions
R&D Productivity	$(\text{Current Year Revenue} - \text{Previous Year Revenue}) / \text{Previous Year R\&D Expense}$
Sales & Marketing Efficiency	$(\text{Current Year Revenue} - \text{Previous Year Revenue}) / \text{Previous Year Sales \& Marketing Expense}$
Average Contract Value	$\text{Current Year Revenue} / \text{Current Year \# of Customers}$
Customer Acquisition Cost (CAC)	$\text{Current Year Sales \& Marketing Expense} / (\text{Current Year \# of Customers} - \text{Previous Year \# of Customers})$
CAC Payback	<p>CAC Ratio = $((\text{Current Year Revenue} - \text{Previous Year Revenue}) * \text{Current Year Gross Margin}) / \text{Current Year Sales \& Marketing Expense}$</p> <p>CAC Payback Period = $(1 / \text{CAC Ratio}) * 12$</p>

Table 6

4) Horizontal vs. Vertical SaaS Comparison: Summary

While we analyzed Horizontal versus Vertical SaaS companies across the nineteen metrics identified in Section 4, our analysis in this white paper is focused on the twelve comparative metrics in Table 7 below:

Comparative Metrics: Horizontal vs. Vertical SaaS

Key Performance Metrics	Horizontal			Vertical		
	2023	2024	% Change	2023	2024	% Change
Revenue Growth	20.3%	15.3%	-25%	12.9%	14.4%	12%
Gross Margin	81.6%	79.1%	-3%	70.9%	72.8%	3%
Adjusted EBITDA Margin	17.4%	16.4%	-5%	14.8%	18.8%	27%
Net Retention Rate	107.0%	103.0%	-4%	108.0%	108.0%	0%
R&D Productivity	0.74	0.60	-19%	0.59	0.67	14%
Sales & Marketing Efficiency	0.41	0.35	-15%	0.54	0.66	22%
Average Contract Value (ACV)	\$ 67,505	\$ 58,676	-13%	\$ 176,792	\$ 176,001	0%
Customer Acquisition Cost (CAC)	\$ 241,249	\$ 179,974	25%	\$ 481,900	\$ 581,652	-21%
CAC Payback (months)	35	39	-13%	32	27	19%
Revenue/Employee	\$ 354,622	\$ 369,613	4%	\$ 288,290	\$ 318,786	10%

Stock Performance	Horizontal			Vertical		
	YE 2024	12/12/2025	% Change	YE 2024	12/12/2025	% Change
Market Cap (millions)	\$ 7,134	\$ 5,476	-23%	3,888	4,709	21%
Revenue Multiple LTM	6.0	4.8	-20%	7.2	6.3	-13%

Table 7

Notes:

- 1) The data uses Median instead of Average to minimize the effects of any outlier data
- 2) EBITDA Margin and Revenue/Employee were added as additional key metrics in our updated analysis
- 3) Revenue Growth is median revenue growth as shown in Figure 1A
- 4) The analysis had planned to include Annual Recurring Revenue (ARR) as a key metric, but most companies did not report ARR in their annual reports

Refer to the Appendix for a more detailed analysis of these comparative metrics.

Horizontal SaaS Comparative Advantages

In our earlier analysis, Horizontal SaaS outperformed in seven of ten comparative metrics (70%). In the latest update, which adds two new metrics, Vertical SaaS leads in seven of twelve metrics (58%).

Market Capitalization

The Horizontal SaaS companies have higher Market Capitalization, reflecting their better top line and Gross Margin and EBITDA margin performance. Horizontal SaaS companies can achieve better top line growth by targeting larger Total Addressable Markets (TAM) and diversifying across markets to protect against downturns in any single industry. Horizontal SaaS companies, such as Zoom, also benefit from the Network Effects as their user bases grow. These Network Effects create barriers to entry and sustainable competitive advantages.

Customer Acquisition Cost (CAC)

Horizontal SaaS companies' ability to target customers across multiple industries led to lower CAC as they can leverage standardized sales & marketing strategies to reach a larger audience, resulting in more cost-effective customer acquisition compared to the Vertical SaaS companies. The lower CAC is also in line with lower ACVs for these companies.

The Horizontal SaaS companies that reported their customer data in Figure 20 had a material improvement in their YoY CAC (25%). One key driver for this improvement is a pullback in YoY Sales & Marketing expenditures in response to slowing revenue growth. The overall YoY Sales & Marketing expenditures for the 25 Horizontal SaaS companies increased by 12% compared to 14% in the prior period.

Revenue Growth

Horizontal SaaS companies continued to outperform their Vertical SaaS counterparts on Revenue Growth (CAGR) and CAC due to their broad market reach and flexibility. The Horizontal SaaS companies had higher growth rates as they cater to a wider audience across various industries, allowing them to expand more rapidly. The growth gap, however, significantly closed given median revenue growth for Horizontal SaaS decreased by 25% versus a 12% increase for Vertical SaaS.

Gross Margins

Horizontal SaaS companies achieved higher median Gross Margins than their Vertical counterparts. This margin advantage is driven by several factors. Horizontal SaaS firms benefit from greater economies of scale, as they can spread infrastructure costs such as cloud hosting and customer support across a larger customer base. In addition, a larger proportion of Vertical SaaS companies (16) offer significantly lower margin professional services compared to Horizontal SaaS companies (7) as shown in Table 10. Horizontal SaaS products are more standardized and universally applicable, reducing the need for costly customizations and allowing for more efficient product delivery.

Adjusted EBITDA Margin

Vertical SaaS had higher median adjusted EBITDA Margins (18.8%) than Horizontal SaaS (16.4%), aligning Main Capital Partners' view in their "[Vertical versus Horizontal Software](#)" study (February 2024). That study, based on 290 publicly listed SaaS companies across the U.S. and Europe, concluded that Vertical SaaS margins were 2.4x higher than those of Horizontal SaaS.

Main Capital Partners attributed this stronger performance to superior product/market fit (lower R&D costs) and more targeted sales & marketing efforts (lower Sales & Marketing costs).

Our analysis, however, did not find a significant adjusted EBITDA margin advantage for Vertical SaaS. The divergence may reflect differences in sample size (290 vs. 50 companies), scope (inclusion of European firms), timeframe (our analysis focused on the past two years), or definitional differences in how vertical and horizontal companies were classified.

Revenue per Employee

Horizontal SaaS companies have higher revenue per employee than their Vertical SaaS counterparts. This gap stems in part from Vertical SaaS models addressing smaller TAMs and relying more heavily on the high-touch professional services that are often central to driving and sustaining adoption (see Table 10).

Vertical SaaS solutions also require deeper integrations with legacy systems, more specialized workflows, and greater product customization, which drive higher product management, engineering, and customer success headcount relative to revenue.

Vertical SaaS Comparative Advantages

Vertical SaaS companies outperformed Horizontal SaaS on the following six key metrics:

Net Retention Rates (NRR)

The Vertical SaaS companies have higher median Net Retention Rates compared to their Horizontal SaaS peers. This result is consistent with Redpoint Ventures' view that "when successful, vertical software solutions are incredible sticky, mission critical, and therefore have a far lower likelihood of displacement given their positioning as core workflow."

The drop in Net Retention Rates from 2021 – 2024 in Figure 2, especially for Horizontal SaaS companies, was primarily attributed to a challenging macroeconomic environment, with factors like economic uncertainty and customer budget constraints causing customers to reassess and either cut back or defer their SaaS spending. Other contributing factors include:

- Erosion of product-market fit as SaaS solutions are increasingly viewed as commoditized. The blog, [The AI Revolution: Why SaaS Companies Must Adapt or Become Obsolete](#), by Chief Outsiders states that “72% of enterprise buyers consider SaaS feature sets increasingly interchangeable.”
- Emergence of Native AI companies targeting legacy SaaS markets.

R&D Productivity

In our January 2025 report, we noted that Horizontal SaaS had higher R&D Productivity, as these companies can “concentrate their R&D efforts on building adaptable, scalable solutions that achieve economies of scale by serving multiple industries and use cases. This broader reach enables these companies to achieve higher overall growth and, consequently, superior R&D productivity compared to their Vertical SaaS counterparts.”

Our latest findings overturn that conclusion. In 2024, median R&D productivity for Vertical SaaS surpassed Horizontal SaaS (see Figure 3). The shift is primarily explained by the ongoing YoY slowdown in Horizontal SaaS revenue growth while overall R&D expenditures remain high (38% of total Horizontal SaaS revenue in 2023 and 37% of revenue in 2024).

By contrast, Vertical SaaS experienced a YoY revenue growth rebound from 2023 to 2024 while reducing R&D intensity, with expenditures falling from 21% of revenue in 2023 to 18% in 2024.

The precipitous drop in Horizontal SaaS R&D Productivity from 2021 to 2024 in Figure 3 is stunning. Beyond weaker YoY revenue growth, other factors may include TAM saturation, reduced R&D impact from platform diversification into adjacent products, and a shift to longer-horizon AI investments. Further research, with a specific focus on AI investments, is required to validate the key drivers behind this sharp downturn.

Notably, only four of the fifty companies in our study, AppFolio, Blackbaud, Guidewire, and Nutanix, increased their R&D Productivity from 2021 to 2024. Three of the four are Vertical SaaS providers.

R&D Productivity 2021 - 2024

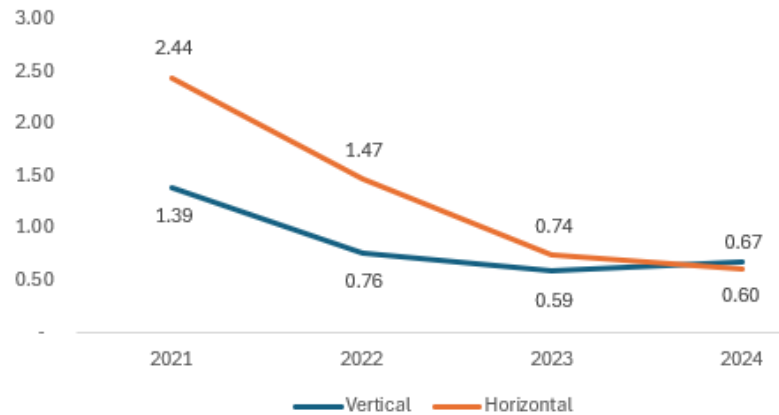


Figure 3

Sales & Marketing Efficiency

The higher Sales & Marketing Efficiency for Vertical SaaS companies validates [FLG Partners'](#) view that Vertical SaaS companies have higher Sales & Marketing Efficiency. By targeting specific industries, Vertical SaaS firms can tailor their sales strategies and marketing messages to resonate more deeply within their target market. Vertical SaaS companies benefit from a more streamlined sales process, as their products are designed to address specific pain points within a particular industry, making it easier to communicate their value propositions.

From 2021 to 2024, Sales & Marketing Efficiency for Horizontal SaaS fell sharply, declining 73%. Vertical SaaS declined from 2021 through 2023 but posted a strong rebound in 2024.

Only five of fifty companies, Agilysys, AppFolio, Blackbaud, Guidewire, and Nutanix, increased their Sales & Marketing Efficiency from 2021 to 2024. Four of the five are Vertical SaaS providers.

Sales & Marketing Efficiency 2021 - 2024

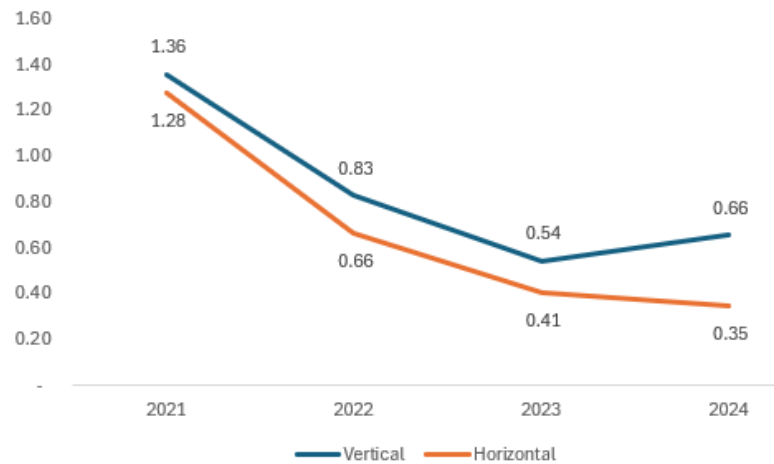


Figure 4

Average Contract Values (ACV)

Vertical SaaS companies had higher ACV, as mentioned by Harlem Capital in Section 4, than their Horizontal SaaS peers as they provide industry-specific solutions that deeply integrate into their customers' workflows. They also achieve higher ACVs due to their ability to introduce additional products and services after establishing a "land and expand" foothold within a company. Bessemer Venture Partners, in their ["Ten Lessons from a Decade of Vertical Software Investing"](#) article, states the "best vertical software companies build a layer cake of new products that drive continuous growth." This Bessemer Ventures Partners article profiles one of their prior portfolio companies, Veeva Systems, using this layer cake strategy to generate high levels of sustained growth.

CAC Payback

Vertical SaaS companies achieved faster CAC Payback periods than their Horizontal peers in 2024, with a median of 27 months compared to 39 months. This improvement reflects a key structural advantage for Vertical SaaS. Their solutions, deeply embedded in industry-specific workflows, lead to less churn and more sustainable upsell potential. These dynamics allow Vertical SaaS companies to recoup acquisition costs more quickly. Additionally, higher ACVs, driven by the “land and expand” approach described above, help generate more revenue per customer in a shorter timeframe.

Another key factor is the go-to-market motion efficiency in Vertical SaaS. These companies target specific markets, allowing for more focused and efficient sales and marketing efforts.

The widening gap in 2024, following more comparable payback periods in 2023, underscores how Vertical SaaS has adapted more effectively to shifting market conditions by leveraging deeper domain expertise and tighter go-to-market alignment.

Overall

The shift in relative performance from 2023 to 2024, as shown in Table 7, further underscores the stronger resiliency of Vertical SaaS companies highlighted in our previous white paper. Horizontal SaaS firms saw declines, ranging from slight to significant, across seven of the ten key performance metrics, while Vertical SaaS companies experienced declines in only two.

While both models have faced steep declines in median revenue growth between 2021 to 2023 (see Figure 1A), Vertical SaaS had a modest rebound in median growth from 2023 to 2024. In contrast, Horizontal SaaS not only continued to see deteriorating growth but also posted declines in R&D Productivity, Sales & Marketing Efficiency, ACV, and CAC Payback.

Revenue per Employee improved for both Horizontal and Vertical SaaS, despite a slowdown in YoY revenue growth since 2021, due to on-going headcount reductions as shown in Table 8 below:

Headcount Reductions since 2024

Horizontal SaaS				Vertical SaaS			
Company	Date	% Reduction	# of FTEs	Company	Date	% Reduction	# of FTEs
Klaviyo	08/25	~5%	<100	Health Catalyst	08/25	9%	135
ZoomInfo	06/25	6%	150	nCino	05/25	7%	130
Crowdstrike	05/25	5%	500	Five9	04/25	4%	125
Sprinkler	02/25	15%	500	Autodesk	02/25	9%	1,350
Workday	02/25	9%	1,750	Olo	11/24	9%	65
Freshworks	11/24	13%	660	Blackbaud	2024	13%	400
Fastly	08/24	9%	100	Blend	2024	39%	340
UiPath	07/24	10%	420	Definitive Healthcare	01/24	15%	145
Unity Software	01/24	25%	1,800				
		Subtotal	~5,980			Subtotal	2,690
						Total	~8,670

Table 8

While the companies in our study improved their 2024 median Revenue per Employee to \$369,613 for Horizontal SaaS and \$318,786 for Vertical SaaS, this pales in comparison to a cohort of forty-four lean AI native companies. These companies are rewriting performance on this metric with average revenue per employee of \$2.5 million, according to Henry Shi’s [Top Lean AI Native Companies Leaderboard](#). Examples of best-in-class Revenue per Employee examples include \$12.5 million for Midjourney, \$9.1 million for SurgeAI and \$5.0 million for Anysphere (Cursor). The only SaaS companies to exceed \$1 million Revenue per Employee are Expensify (\$1.2 million) and Shopify (\$1.1 million).

M&A Activity

The study did not assess the claims made by Fractal and Bessemer Venture Partners that Vertical SaaS has higher M&A activity than Horizontal SaaS.

Since beginning this analysis in late 2023, twelve Vertical SaaS companies have been acquired compared to four Horizontal SaaS companies. It is interesting, given the view of the higher acquisition propensity of Vertical SaaS companies, that seven of these twelve Vertical SaaS companies were acquired by private equity firms. Only one company, Enfusion, was acquired by another Vertical SaaS company.

Vista Equity Partners, Bain Capital, and Thoma Bravo each completed two deals, making them the most active acquirers.

5) Conclusion

Research Highlights / Updated Key Takeaways

- Vertical SaaS had superior performance on seven of the twelve key performance metrics (58%).
 - Horizontal SaaS outperformed in Revenue Growth, Gross Margins, Revenue per Employee, and CAC, driven by their ability to target larger TAMs. They also had higher Market Capitalizations compared to Vertical SaaS.
 - Vertical SaaS excelled in EBITDA Margin, NRR, R&D Productivity, Sales & Marketing Efficiency, CAC Payback, and ACV, benefiting from a concentrated focus on mission-critical solutions tailored to specific markets. They also had higher Revenue Multiples compared to Horizontal SaaS.
- Vertical SaaS companies continue to show better resilience to the overall SaaS market downturn, which reiterates that their deep integration into customer workflows provides stronger protection against customer churn or spend reductions.
 - During the YoY performance downturn, Horizontal SaaS companies experienced greater than 10% YoY declines in six key metrics, while Vertical SaaS companies had comparable declines on three metrics: revenue growth, CAC, and Revenue Multiples.
- The comparative analysis validated the views of leading venture capital firms, with deep Vertical SaaS domain expertise, that Vertical SaaS has superior performance on Sales & Marketing Efficiency, NRR, and ACV.
 - Updated analysis, however, contrast with the views of Harlem Capital and Main Capital Partners that Vertical SaaS companies have lower CAC and higher EBITDA Margins, respectively.
- The Horizontal vs. Vertical analysis provides SaaS executives with a relevant comparison group to evaluate their company's performance and, in case they are within the ["Unstable Zone" for R&D Productivity](#) and Sales & Marketing Efficiency, to complete a deeper dive to identify root causes and define and implement corrective actions.

Implications for SaaS Executives

The analysis we have conducted allows SaaS company executives to benchmark their performance across a range of key metrics, comparing their results within their relevant peer group and across the SaaS landscape. This provides invaluable insights to identify areas where the company's performance exceeds, aligns, or falls short against these benchmarks.

For example, by examining their R&D Productivity metrics against the Horizontal or Vertical SaaS benchmarks, executives can quickly determine if their R&D efforts are in the "Unsustainable Zone." If so, this signals the need for a deeper dive to uncover the root causes. It may be that excessive customization work for key customers is driving higher than necessary R&D costs. Or there could be other systemic issues behind the subpar R&D Productivity performance such as a misalignment of priorities between the Sales, Product Management, and R&D teams.

Regardless of the specific metric, having this comparative data enables SaaS executives to pinpoint performance outliers. This empowers them to make more informed, data-driven decisions about where to focus their optimization efforts, how to direct scarce resources, and what strategic adjustments may be required to align their operations with best practices or where to create a sustainable competitive advantage.

Emergence of Native AI Companies

Last year, we published an article, "[Disrupted or Disruptor: The Strategic Imperative of AI for Vertical SaaS](#)," which noted that "a new shift is underway, one that threatens to upend the Vertical SaaS model as we know it." This disruption extends beyond Vertical SaaS to the entire SaaS landscape.

The rapid evolution of AI represents a pivotal moment for SaaS companies. While SaaS companies have demonstrated remarkable success for over twenty years, the rapid emergence of AI represents a fundamental shift in how SaaS solutions must react to the following challenges:

- Limited success incorporating predictive AI into their solutions due to fragmented data infrastructure, data silos, and limitations in training models.
- Ability to process and extract insights from unstructured data, such as documents, audio, images, and customer interactions, has remained underdeveloped.

Vertical SaaS companies hold several unique advantages over their Horizontal peers that position them to respond effectively:

- **Industry Expertise:** have a deep understanding of market-specific requirements, terminology, compliance needs, and workflows, enabling them to deliver AI solutions tailored to their industries.
- **Existing Data Assets:** possess valuable industry-specific data sets that are crucial for training specialized AI agents, offering AI-enabled predictive analytics, and building Small Language Models (SLMs).

Companies that successfully embrace this transition will unlock significant AI-driven revenue growth and operational efficiency. Those that do not adapt quickly risk being displaced more agile, Native AI companies or AI-capable competitors.

Appendix

Horizontal vs. Vertical SaaS Comparison: Detailed Analysis

This appendix provides a deep dive of the ten metrics from Table 7, comparing performance between Horizontal and Vertical SaaS groups as well as the relative performance of the twenty five publicly traded companies within each group.

This analysis also extends the available SaaS benchmarking data available from other sources including [Benchmarkit](#), [Meritech Capital](#), [Bloom Street Ventures](#), [BenchSights](#) (David Spitz), [Mostly Metrics](#) (CJ Gustafson), and [Open View Partners](#).

Key SaaS Metrics *(refer to Table 7)*

Stock Performance

From December 31, 2024 to December 12, 2025, Horizontal SaaS companies experienced a 23% decrease in median Market Capitalization and an 18% decrease in median Revenue Multiples. Vertical SaaS companies had a 21% increase in Market Capitalization, while Revenue Multiples decreased by 15% compared to the prior period.

The 2025 year-to-date stock performance for these Horizontal and Vertical SaaS companies has been dismal with thirty four of the fifty (68%) companies in the analysis having negative returns.

Revenue Multiple LTM¹

Horizontal	4.8	Vertical	6.3
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Vertical SaaS companies had higher median Revenue Multiples compared to the Horizontal SaaS companies. Vertical SaaS companies with the highest multiples are Shopify, Agilysys, and Guidewire. Noteworthy Horizontal SaaS high performers on this metric are CrowdStrike, Snowflake, and Zscaler.

¹ The Revenue Multiples were calculated using Last Twelve Months (LTM) data

Market Cap

Horizontal	\$5.5 B	Vertical	\$4.7 B
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Horizontal SaaS companies had higher Market Capitalization than their Vertical SaaS peers. The Horizontal SaaS companies with the highest market capitalizations are CrowdStrike, Snowflake, Workday, and Atlassian, while the Vertical SaaS top performers are Shopify, Autodesk, and Veeva Systems.

Growth Rates

Horizontal	15.3%	Vertical	14.4%
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The median 2024 growth rate was 15.3% for Horizontal SaaS companies and 14.4% for Vertical SaaS. The higher CAGR for Horizontal SaaS companies, as discussed earlier, is due to their broader market reach and larger TAMs.

The fastest-growing Horizontal SaaS companies in Figure 5 are SentinelOne, Klaviyo, Bill Holdings, Snowflake, CrowdStrike, and Zscaler, each delivering a CAGR above 30% over the past 5 years. These firms, except for Bill Holdings, also had the strongest YoY revenue growth.

Bill Holdings’ modest 13.4% YoY growth, coupled with its FY2026 revenue growth guidance of 9–11%, was attributed by analysts to macroeconomic pressures on its core SMB customers and product mix effects, particularly the slowdown in its subscription revenue.

Horizontal SaaS Growth Rates (CAGR)

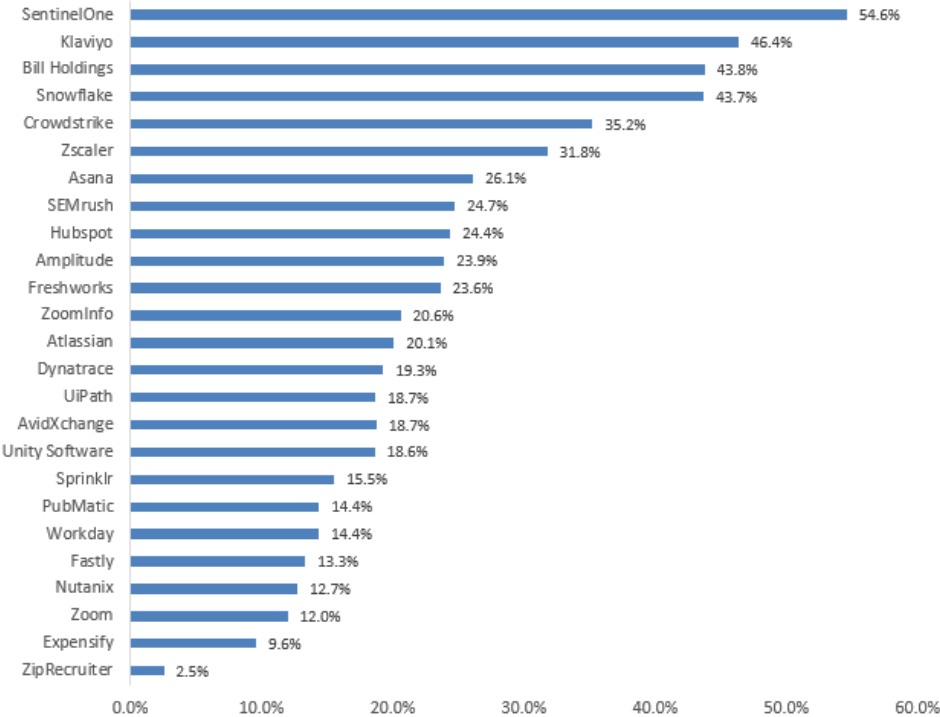


Figure 5

The only Vertical SaaS companies with a CAGR above 30% in Figure 6 are Toast and Lightspeed Commerce. Companies with the highest YoY growth are Toast (28.3%), AppFolio (28%), Shopify (25.8%), Olo (24.8%), and Clearwater Analytics (22.7%). Lightspeed Commerce’s YoY revenue growth fell to 18.4%.

Like Bill Holdings, Lightspeed Commerce’s 18.4% YoY revenue growth and reduced FY2026 revenue guidance of 10–12% growth were attributed by analysts to continued macroeconomic headwinds facing its retail and hospitality SMB customers.

Vertical SaaS Growth Rates (CAGR)

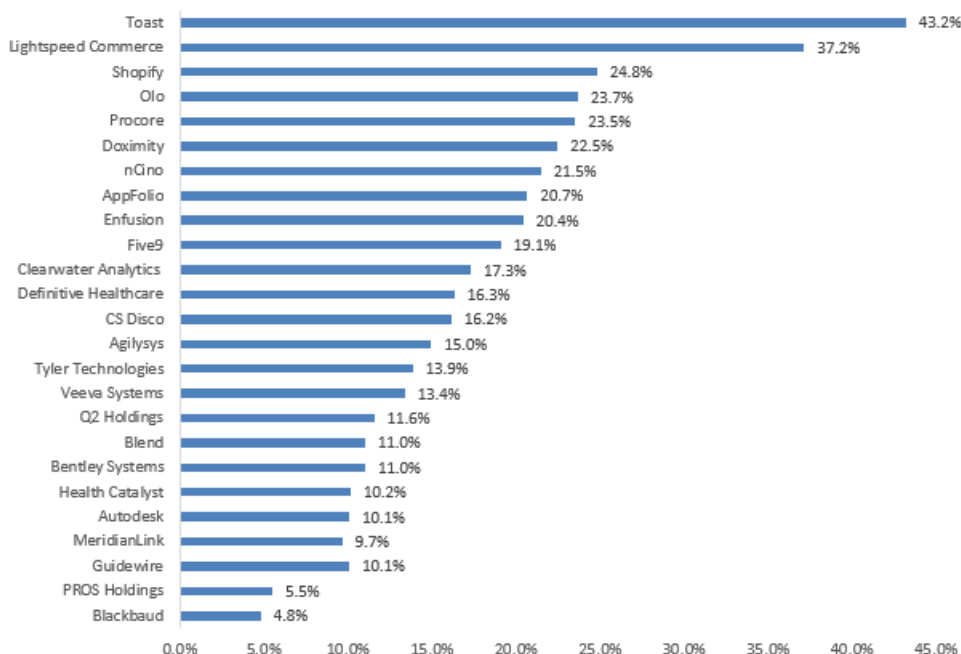


Figure 3

Company Profile: Definitive Healthcare

Definitive Healthcare illustrates how quickly a company’s growth trajectory can unravel. From 2019 to 2023, it ranked 10th among Vertical SaaS firms with a 24.1% CAGR, driven by 40% YoY growth in 2020–2021 and 34% in 2021–2022.

This past year’s YoY growth, however, collapsed to 0.3%. The company’s 2026 midpoint revenue guidance of \$239.5 million represents a 5% contraction from 2024 revenue of \$252 million.

Warning signs emerged earlier as Net Retention Rates fell from 111% in 2021 to 85% in 2024, while its customer base declined from a peak of 3,000 in 2022 to 2,500 in 2024. Management attributed the weak performance to tougher commercial conditions with longer decision cycles, deferred purchases, and tighter budgets, especially among life sciences and provider customers. Emerging native AI companies focused on healthcare may also be having an impact given over \$8.6 billion in funding has been received by forty one native AI companies.

Gross Margin %²

Horizontal	79.1%	Vertical	72.8%
------------	-------	----------	-------

The median gross margin was 79.1% for the Horizontal SaaS companies and 72.8% for Vertical SaaS. SaaS Gross Margin industry benchmarks from [SAG \(Software Equity Group\)](#) state that SaaS companies should achieve Gross Margins above 75% and anything below 70% is a potential concern for further research. Only four of the Horizontal SaaS companies, Snowflake, PubMatic, Fastly, and Expensify, had Gross Margin % under the 70% threshold as shown in Figure 7. The common driver for these companies falling below this threshold is their high infrastructure costs as highlighted in the examples below:

- Snowflake improved its Gross Margin from 59% in FY2022 to 66.5% in FY2025 falling just short of the 70% threshold. Snowflake’s Gross Margin improvement was based on securing higher volume discounts from its hyperscale providers as it continues to scale its business (43.7% CAGR). Management also credited cloud infrastructure processor improvements for lowering unit compute costs.
- Fastly has improved its Gross Margin % from 48.5% in 2022 to 54.4% in 2024 but it is still well below the 70% target. This shortfall, however, is due to Fastly’s operating model which involves running a large, global network infrastructure.
- PubMatic’s Gross Margin % decreased from 74.3% in 2021 to 65.3% in 2024. PubMatic’s management attributed its Gross Margin decline to its “significant datacenter capacity expansion” and an “increase in hosting expenses as a result of an increase in volume of impressions.” Management also acknowledged that its revenue mix is changing with more revenue from its higher cost CTV/video and omnichannel segments.

² 8 Horizontal SaaS companies (32%) separately reported their subscription revenue, while the Gross Margins for the other 17 companies were determined by using the overall revenue and total cost of revenue reported in their annual reports. 16 of the Vertical SaaS companies (64%) separately reported subscription revenue.

Horizontal SaaS Average Gross Margin % 2024 (FY2025)

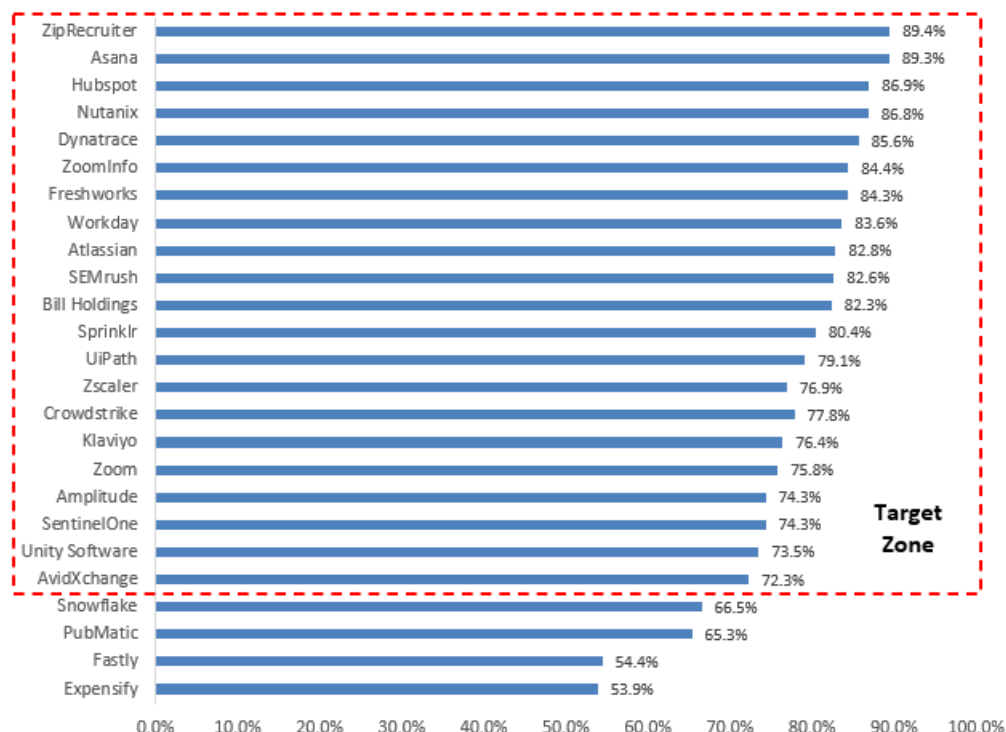


Figure 4

Ten of the Vertical SaaS companies had Gross Margins under the 70% threshold shown in Figure 8. Toast’s Gross Margin is impacted by the hardware component of their business which is used as a loss leader with a -69% average Gross Margin from 2020 – 2024 including a negative -86.4% Gross Margin in 2024.

Additionally, five of the Vertical SaaS companies, Tyler Technologies (-0.8%), Health Catalyst (-2.2%), Definitive Healthcare (-3.5%), Olo (-10.7%), and Enfusion (-12.9%) had YoY declines in their Gross Margins.

Company Profile: Olo (acquired by Thoma Bravo)

Olo continues to experience a rapid Gross Margin decline in its Platform segment from a high of 84.5% in 2020 to 55.5% in 2024. In its 2024 Annual Report, Olo attributed its YoY Gross Margin decrease to “...higher transaction processing costs associated with the increased adoption of Olo Pay and increased amortization of capitalized internal-use software.”

While not specifically referenced in their annual report, Olo is undergoing a product mix shift toward lower-margin offerings such as Olo Pay and Dispatch (delivery-as-a-

service). These services are usage-based (e.g., per transaction or per delivery), which introduces direct costs that scale with volume, in contrast to their software solutions that have minimal marginal cost as they scale.

Vertical SaaS Average Gross Margin % 2024 (FY2025)

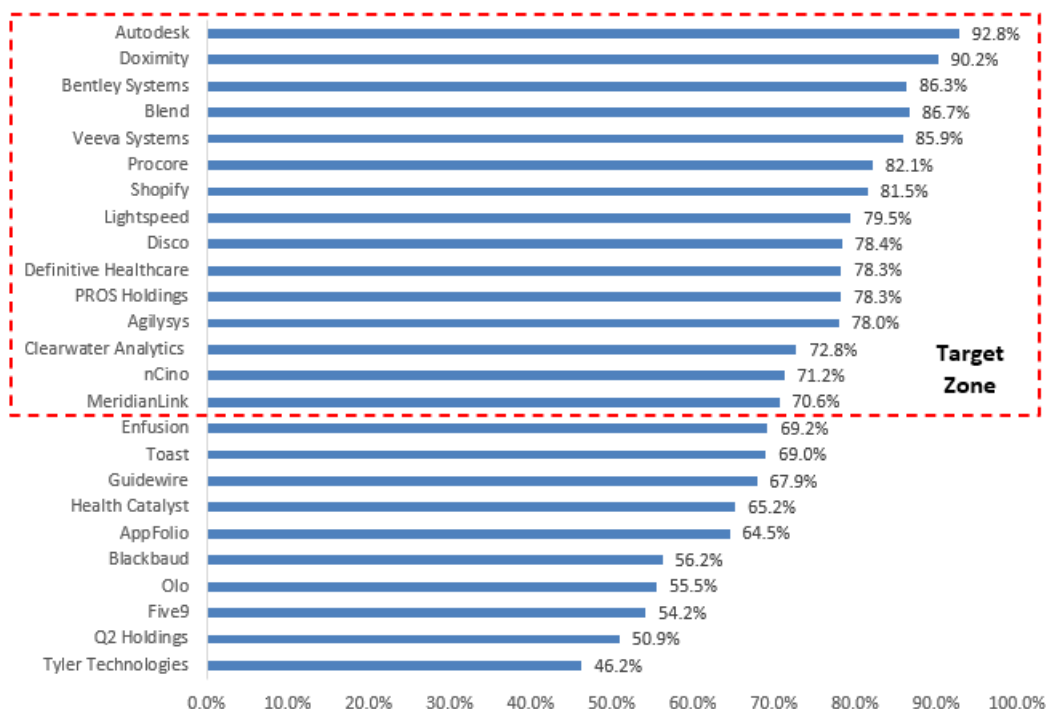


Figure 5

One factor contributing to lower Gross Margins in Vertical SaaS is their heavier reliance on low-margin Professional Services. As shown in Table 10, 64% of Vertical SaaS companies offer Professional Services, compared to just 28% of Horizontal SaaS firms.

Professional Services Offerings

	# of Companies	Median % Revenue	Median Gross Margin
Vertical SaaS	16 (64%)	15.9%	9.9%
Horizontal SaaS	7 (28%)	6.0%	-2.7%

Table 8

Note:

1) 12 of 16 Vertical SaaS and 6 of 7 Horizontal SaaS companies provided Professional Services expenses in their annual reports. Blend, Definitive Healthcare, MeridianLink, Nutanix, and Toast did not report Professional Services expenses.

As shown in Figure 9, six of the ten Vertical SaaS companies, Health Catalyst, Olo, Toast, Blackbaud, Guidewire, and Tyler Technologies, with Gross Margins below the 70% Target Zone offer Professional Services.

Vertical SaaS Professional Services

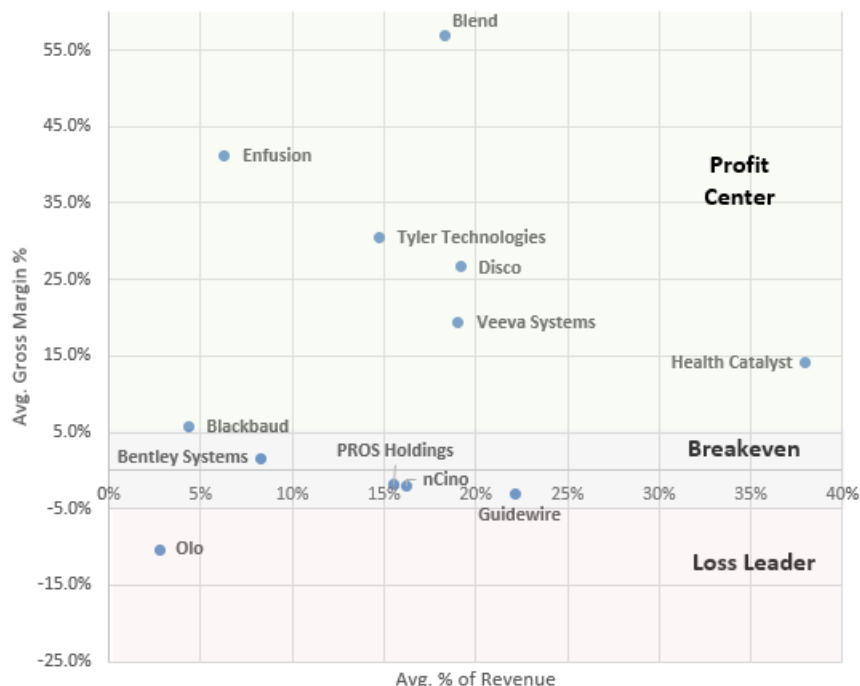


Figure 6

Olo and Toast (not shown on the chart) operate their Professional Services as loss leaders. Blackbaud, Bentley Systems, nCino, PROS Holdings, and Guidewire follow a breakeven model. Enfusion, Tyler Technologies, Disco, Veeva Systems, and Health Catalyst operate Professional Services as profit centers, though their gross margins remain well below the 72.8% median for Vertical SaaS companies.

Adjusted EBITDA Margin %	Horizontal	16.4%	Vertical	18.8%
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The median EBITDA Margin was 18.8% for Vertical SaaS companies and 16.4% for Horizontal SaaS.

As with many of these key metrics, there is a wide performance disparity between the 40% adjusted EBITDA Margin for Zoom compared to the -5.2% adjusted EBITDA Margin for Asana.

Zoom’s high adjusted EBITDA Margin is the result of \$813 million in operating income (17.4% of revenue) coupled with adding back \$931 million in stock-based compensation

and \$123 million in depreciation and amortization. Asana, on the other hand, had a \$267 million operating loss (-36.8% of revenue) which was reduced by \$211 million in stock-based compensation and \$17.5 million in depreciation and amortization.

Horizontal SaaS Adjusted EBITDA Margin 2024

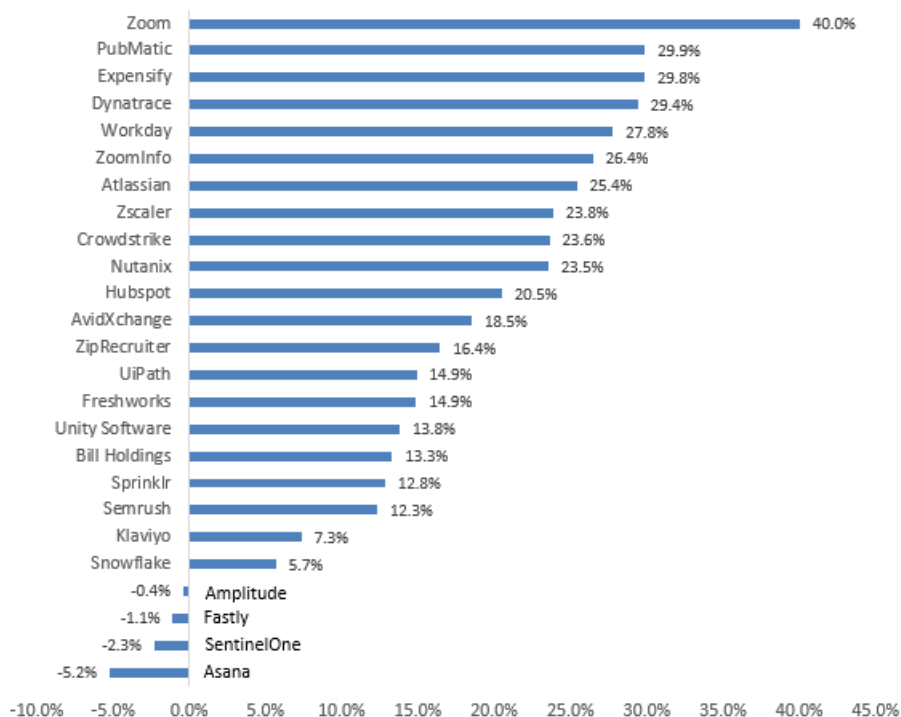


Figure 10

Vertical SaaS also had a wide performance disparity ranging from Doximity’s 54.5% adjusted EBITDA Margin to Disco’s -14.0% adjusted EBITDA Margin.

Doximity’s high adjusted EBITDA margin is the result of \$227.8 million in operating income (40% of revenue) coupled with adding back \$72.4 million in stock-based compensation, \$10.7 million in depreciation and amortization and \$2.3 million in restructuring charges.

Disco, on the other hand, had a \$61.7 million operating loss (-42.6% of revenue) which was improved by adding back \$22.3 million in stock-based compensation, \$15.2 million in impairment of intangible assets and \$3.9 million in depreciation and amortization.

Vertical SaaS Adjusted EBITDA Margin 2024

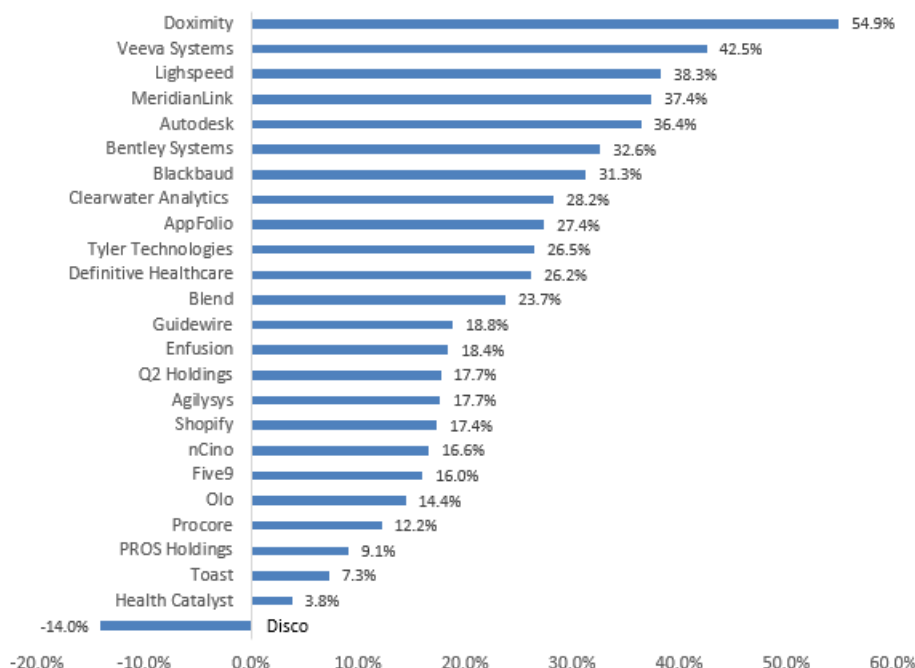


Figure 11

Net Retention Rate

Horizontal	100%	Vertical	108%
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Jamin Ball’s Clouded Judgement blog, [A Look Back at Q2 '24 Public Cloud Software Earnings](#), classifies a Net Retention Rate of “> 130% as best in class, 115% - 130% as good, and anything less than 115% as subpar. The blog clarifies that SaaS companies selling to SMB customers, such as Bill Holdings, have lower Net Retention Rate benchmarks.

ChartMogul reiterates the importance of sustaining high net retention rates by stating in their [SaaS Retention Report](#) that “companies with best-in-class retention grow at least 1.5-3x faster than their peers.”

2023 was an inflection point with Vertical SaaS companies exceeding the median Net Retention Rates compared to their Horizontal SaaS peers. This result is consistent with the views from Redpoint Ventures and Mucker Capital that Vertical SaaS companies have higher net retention rates although this was not the case in 2021 and 2022 (refer to Figure 2).

The drop in Net Retention Rates for these SaaS companies from their 2020 peak is primarily attributed, as referenced in the Introduction section, to a challenging

macroeconomic environment, with factors like economic uncertainty and customer budget constraints leading to increased churn and reduced upselling opportunities, causing customers to reassess and cut back on their SaaS spending.

Our prior discussion also highlighted that Vertical SaaS companies had less drop in YoY Net Retention Rates due to their solutions being mission critical to their customers' workflows and daily operations.

There were no Horizontal SaaS companies in the updated analysis that achieved Jamin Ball's "best-in-class" status and only one company, Snowflake, exceeded the "good" target. The remaining companies were in the "subpar" group as shown in Figure 12.

Horizontal SaaS Net Retention Rates

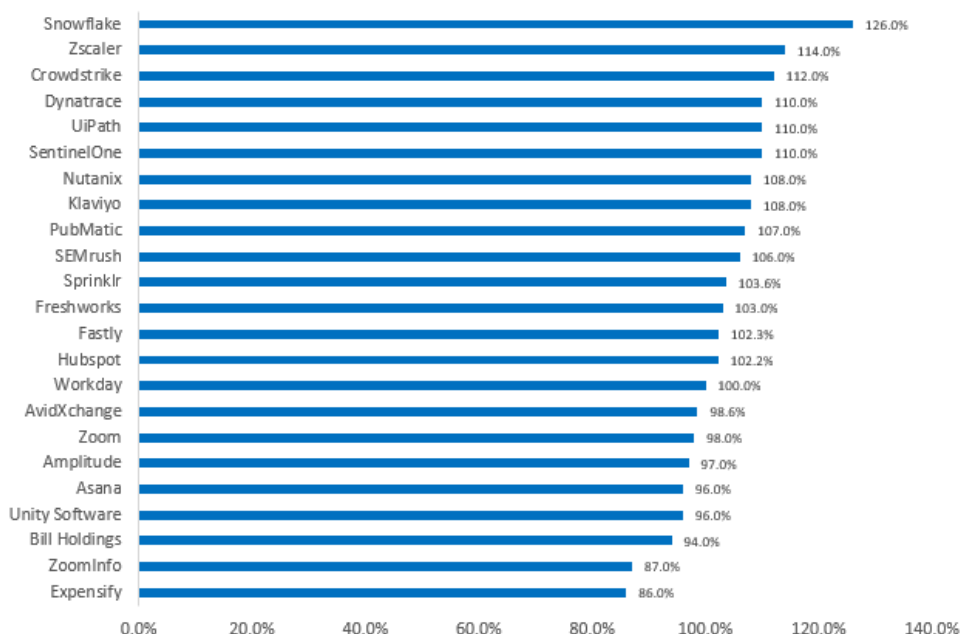


Figure 12

Notes:

- 1) 23 of 25 Horizontal SaaS companies reported their NRR. ZipRecruiter and Atlassian did not report this metric in their annual reports.
- 2) Fastly reported its LTM NRR and Sprinklr reported its Net Expansion Rate.

Similarly, there were no Vertical SaaS companies that achieved "best-in-class" status and only four companies in "good" group. The remaining companies were in the "subpar" group as shown in Figure 13.

Vertical SaaS Net Retention Rates

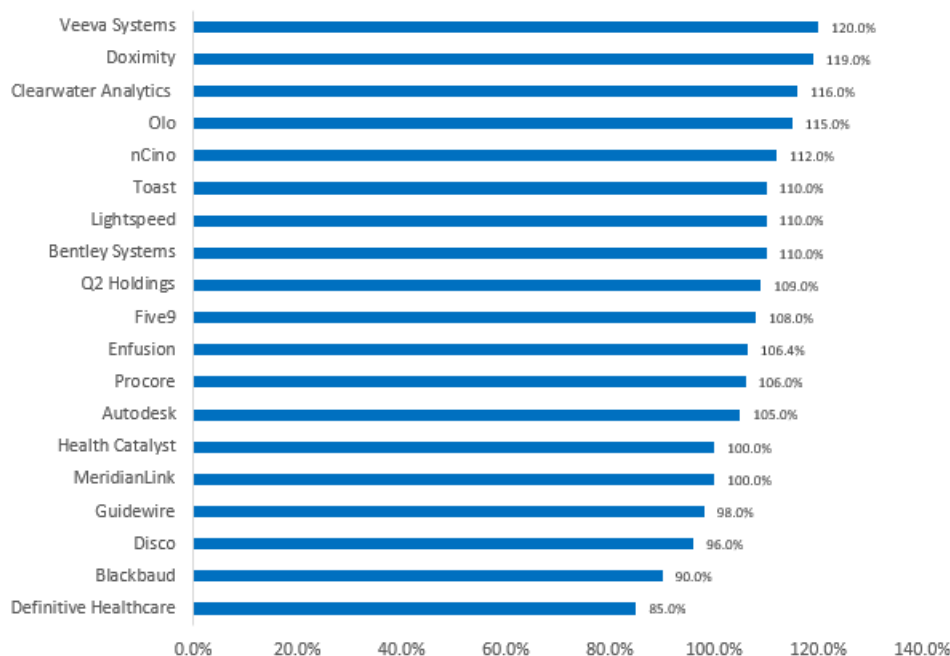


Figure 13

Notes:

- 1) 19 of 25 Vertical SaaS companies reported their NRR. Blend, Tyler Technologies, AppFolio, Shopify, PROS Holdings, and Agilysys did not report this metric in their annual reports.
- 2) Autodesk reported their NRR ranged between 100% to 110% (used mid-point).
- 3) Lightspeed Commerce did not report its NRR in the FY2025 annual report; chart uses 110% as its FY2025 NRR given it had reported this rate in the three previous years.

62% of the NRR reporting companies (26/42) experienced year-over-year decreases with the largest decreases being experienced by Expensify (-15.1%), Sprinklr (-13.6%), Fastly (-10.9%), Klaviyo (-8.3%), and Definitive Healthcare (-8.2%), and UiPath (-8.2%).

Clearwater Analytics (7.8%), PubMatic (5.6%), Doximity (4.2%), and Disco (4.2%) were the only companies that had material year-over-year increases.

R&D Productivity

Horizontal	0.60	Vertical	0.67
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While Horizontal SaaS had higher R&D Productivity from 2021 to 2023, Vertical SaaS had superior performance on this metric in 2024. Refer to Section 4 for a detailed explanation of this shift.

There is a wide disparity regarding the R&D Productivity metric for the Horizontal SaaS companies ranging from 1.20 for Semrush to -1.21 for ZipRecruiter as shown in Figure

14. ZipRecruiter’s negative R&D Productivity was the result of a -26.6% YoY revenue growth rate from 2023 to 2024.

Ten companies exceed the 0.70 Target Zone with only three of these companies having greater than 1.0 R&D Productivity.

Horizontal SaaS 2024 (FY2025) R&D Productivity

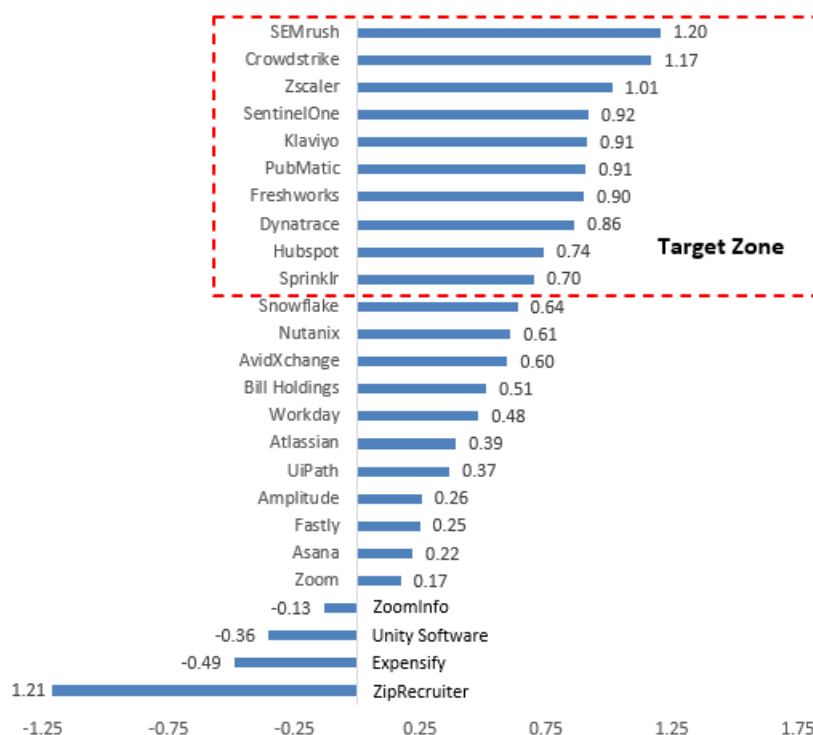


Figure 14

R&D Productivity also varies widely among Vertical SaaS companies, ranging from Toast's 3.06 to Definitive Healthcare's 0.02 in Figure 15. Toast's high score stems from its revenue composition: 82% from Financial Technology Solutions (payments, payroll, lending) versus just 14% from Subscription Services in 2024.³

³ Given that Toast’s Subscription Services is a minimal part of their overall revenue, this company may be removed from any future updates on this white paper

Company Profile: Disco

Disco’s R&D Productivity over the past two years was 0.05 in 2023 (2nd worst) and 0.13 in 2024 (3rd worst). Disco’s 0.13 R&D Productivity in 2024 was due to only having 2% YoY revenue growth from 2022 to 2023 and 5% YoY revenue growth from 2023 – 2024, while maintaining high R&D expenditures (37.4% of revenue in 2023 and 35.6% of revenue in 2024).

Vertical SaaS 2024 (FY2025) R&D Productivity

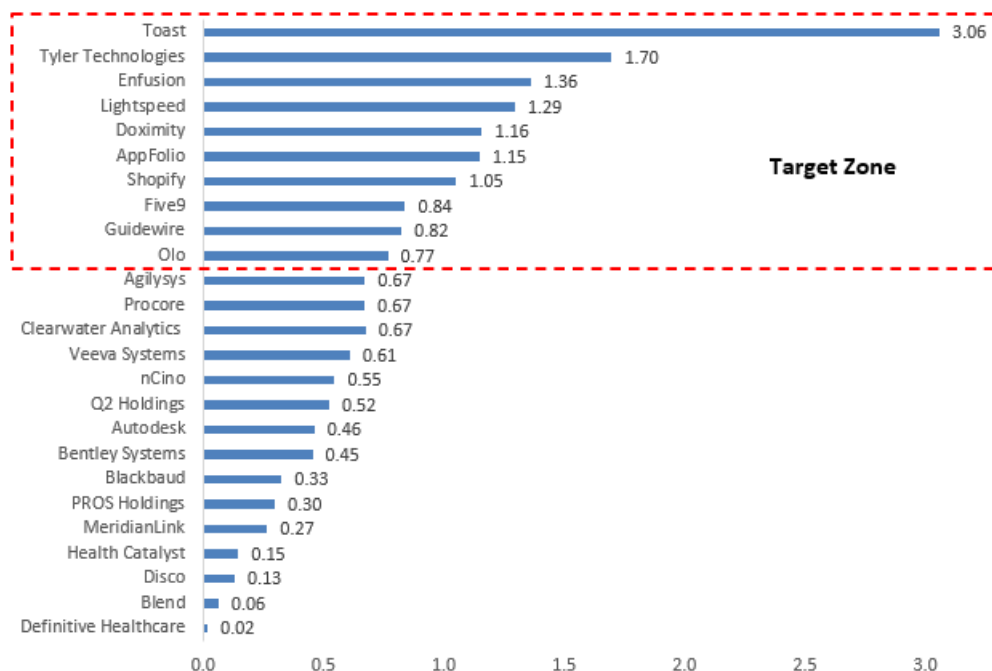


Figure 15

Sales & Marketing Efficiency

Horizontal	0.35	Vertical	0.66
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Vertical SaaS companies had significantly better Sales & Marketing Efficiency compared to their Horizontal SaaS peers in 2024. While the median Sales & Marketing Efficiency metric continues to deteriorate for Horizontal SaaS, Vertical SaaS has a dramatic decrease from 1.36 in 2021 to 0.54 in 2023 but then rebounded to 0.66 in 2024 as shown in Figure 4.

This superior performance and YoY rebound validates FLG Partners’ view in Section 4 that Vertical SaaS companies have “higher overall sales efficiency than is found in Horizontal SaaS companies.” [FLG Partners](#) states that Vertical SaaS companies “gain unique experience selling into industry verticals and typically employ a ‘Land and Expand’ Go-To-Market strategy.”

Bessemer Venture Partners describes as one of their [Ten Lessons from a Decade of Vertical Software Investing](#) using a “layer cake” approach as the path to efficiently grow sales. They mention that “the best vertical software companies build a layer cake of new products that drive continuous growth.” Bessemer further states that the “one thing that separates the good from the truly great in vertical software—a ‘layer cake’ strategy of building additional products to sell into their core vertical market.”

Only three of the Horizontal SaaS companies, Atlassian, CrowdStrike, and AvidXchange, were within the Target Zone of having at least 0.70 Sales & Marketing Efficiency. The 18% decrease in Sales & Marketing Efficiency from the prior year is driven by the continued decrease in YoY growth coupled with elevated levels of Sales & Marketing expenditures (median spend was 38% of revenue in 2023 and 37% of revenue in 2024).

Company Profile: Atlassian

Atlassian had the highest Sales & Marketing Efficiency in Figure 16. This performance is attributed to its strong product-led growth strategy where their user-friendly products are designed to be easily on-boarded by customers, minimizing the need for extensive sales involvement and allowing them to acquire new users organically through word-of-mouth from their large, active user community.

**Horizontal SaaS
2024 (FY2025) Sales & Marketing Efficiency**

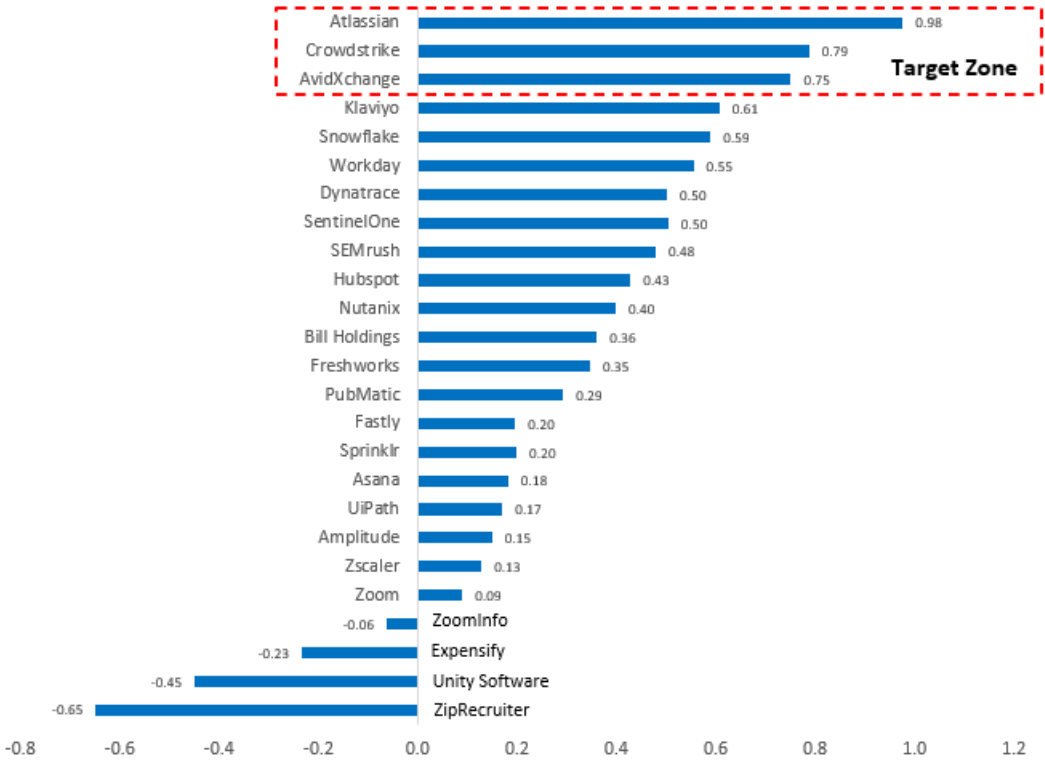


Figure 16
Note: ZipRecruiter, Unity Software, Expensify, and ZoomInfo have negative S&M Efficiency due to decreases in YoY revenue

Twelve of the Vertical SaaS companies exceeded the 0.70 threshold for Sales & Marketing Efficiency in Figure 17, compared to only three for Horizontal SaaS, reinforcing why Vertical SaaS had significantly superior performance on this metric.

Vertical SaaS companies show wide variation on this metric, with results ranging from Toast at 2.73 to Definitive Healthcare at just 0.01. The contrast is clear when comparing AppFolio and MeridianLink: AppFolio increased sales & marketing spend by only 2.8% while generating 28% YoY revenue growth, whereas MeridianLink increased spend by 20.6% but realized just 4.2% revenue growth.

Of the thirteen companies falling below the 0.70 threshold, eight either reduced or held flat their YoY sales & marketing expenditures. The remaining companies, along with MeridianLink, which increased this expense are Autodesk, Bentley Systems, Five9, and Procore.



Figure 17

Company Profile: Toast

Toast significantly outperformed its Vertical SaaS peers on Sales & Marketing Efficiency as shown in Figure 17. One of the key drivers of their robust performance on this metric is their concerted effort to obtain customer referrals. SaaStr, in an [interview](#) with Toast’s CRO, Jonathan Vassil, shared that “a staggering 20% of deals come from referrals.”

Average Contract Value (ACV)

Horizontal	\$59 K	Vertical	\$176 K
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Vertical SaaS companies have higher Average Contract Values compared to Horizontal SaaS companies as previously discussed in Section 4.

Given the diverse range of Horizontal SaaS companies included in the analysis, there is a wide disparity in ACVs ranging from \$767,818 for Workday to \$2,925 for Expensify in Figure 18.

The seven Horizontal SaaS companies with less than \$12k ACVs primarily or exclusively target SMBs and mid-market companies. Expensify also targets individual consumers, while Semrush targets digital marketers, agencies, and SEO professionals.

Company Profile: Workday

Workday has historically been one of the most expensive Human Capital Management (HCM) systems on the market coupled with a one-time deployment fee that typically costs 100% of the first year software fees. Workday also had previously had a \$250k minimum annual contract commitment which was recently discontinued to provide a more affordable option for mid-market companies.

**Horizontal SaaS
Average Contract Value (ACV)**

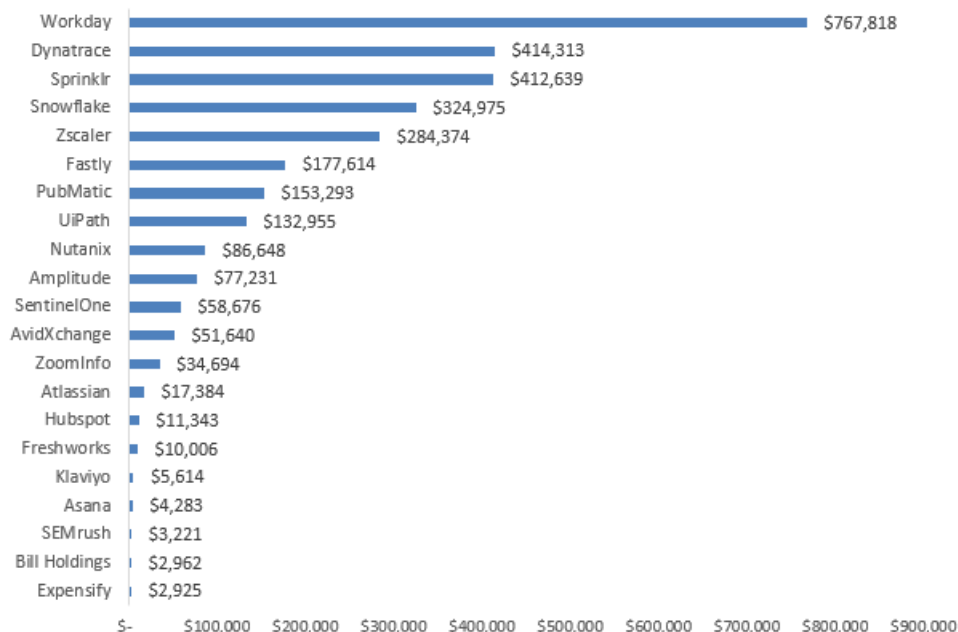


Figure 18

Notes:

- 1) 21 of the 25 Horizontal SaaS companies reported their # of customers for the ACV calculation
- 2) Companies that did not report their customer data are CrowdStrike, ZipRecruiter, and Zoom.

- 3) *Unity Software was not included in the chart given they only report their # of customers with \$100k or more in revenue*

There is also wide ACV disparity for Vertical SaaS companies, as shown in Figure 19, ranging from \$1.86 million for Veeva Systems to \$7,478 for Lightspeed.

Company Profile: Veeva Systems

Veeva Systems sells enterprise-grade software to large pharmaceutical and biotech companies and medical device firms, often through multi-year contracts that bundle multiple products and services. Its long-standing customer relationships, high switching costs, and specialization in compliance-heavy workflows contribute to both its pricing power and contract durability.

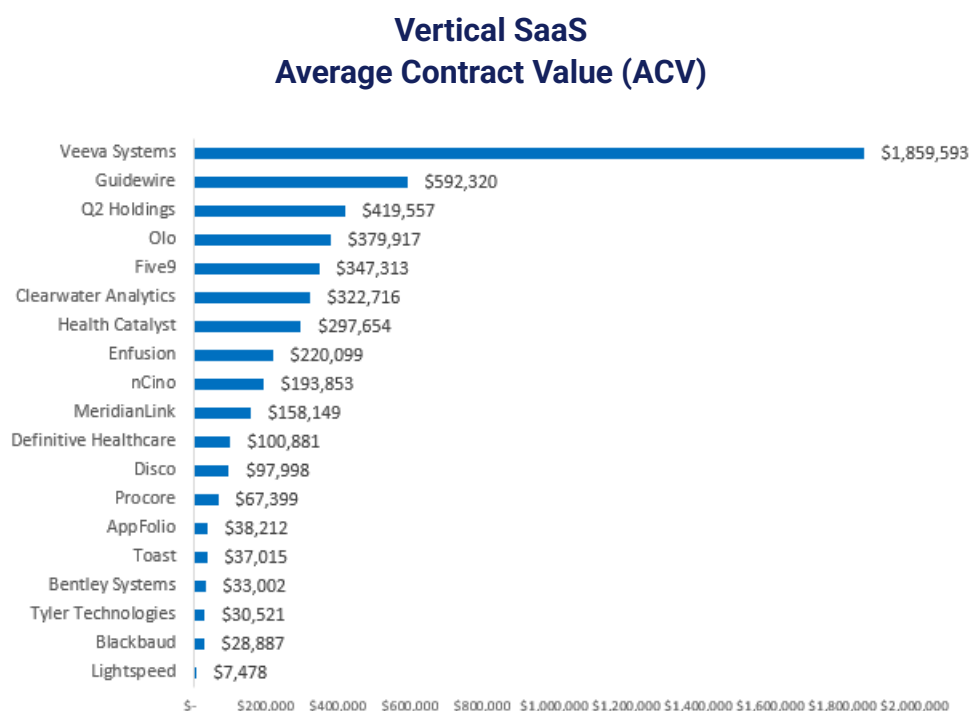


Figure 19
 Note: 19 of the 25 Vertical SaaS companies reported their # of customers for the ACV calculation
 Companies which did not report their customer data are Agilysys, Autodesk, Blend, Doximity, PROS Holdings and Shopify.

Customer Acquisition Cost (CAC)

Horizontal	\$195 K	Vertical	\$582 K
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Horizontal SaaS companies have significantly lower Customer Acquisition Costs (CAC) compared to Vertical SaaS companies as also previously discussed in Section 4.

Despite a continued decline in median revenue growth, the Horizontal SaaS companies did not scale back their median Sales & Marketing expenditures, as a percentage of revenue, only decreased from 38% to 37% in the past year. Only four companies, Expensify, ZipRecruiter, Unity Software, and Zoom, reduced their YoY Sales & Marketing expenditures. Expensify, ZipRecruiter, and Zoom had the lowest revenue growth CAGR in Figure 5.

Company Profile: Dynatrace

While Dynatrace had the 2nd highest ACV at \$414k, its \$6.1 million CAC was the result of adding only 100 customers in FY2025 while spending \$606 million in Sales & Marketing.

Management attributed their lower customer growth to its go-to-market shift from broad logo acquisition toward higher-value, larger enterprise contracts that drive more revenue per account. The transition from SKU-based licensing to its Dynatrace Platform Subscription (DPS) also lengthened sales cycles and emphasized customer expansion and consumption, slowing the pace of new logo additions despite strong ARR growth.

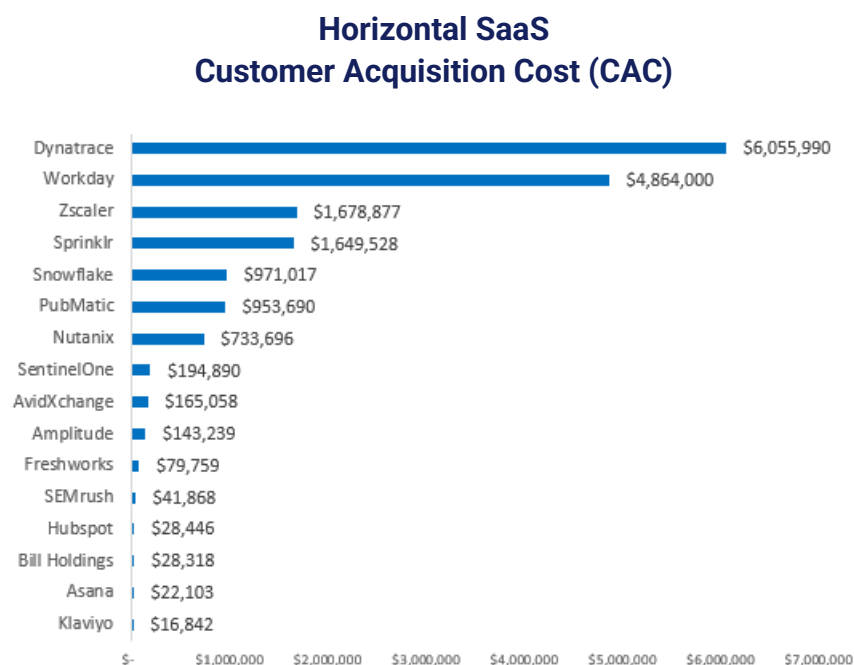


Figure 20

Notes:

- 1) CrowdStrike, Unity Software, ZipRecruiter, and Zoom were not included in the chart as they did not report the # of customers in their annual reports
- 2) Atlassian, Fastly, Expensify, UiPath, and ZoomInfo were not included in the chart given they reported negative or zero customer growth

The median CAC of the Vertical SaaS companies in Figure 21 increased from \$481,900 to \$581,652. As examples for this increased cost to acquire new customers, the YoY CACs of Disco and Olo dramatically increased from 2023 to 2024.

Disco spent \$61.4 million in sales & marketing to add 15 net new customers in 2024 compared to spending \$68.1 million to add 136 customers in the prior year. As a result, their YoY CAC increased by over 8x from \$500,971 to \$4,091,800.

Olo spent \$53.1 million in sales & marketing to add 50 net new customers in 2024 compared to spending \$48.1 million to add 100 customers in the prior year. Olo’s CAC increased by over 2x from \$481,900 in 2023 to \$1,062,840 in 2024.

Vertical SaaS Customer Acquisition Cost (CAC)

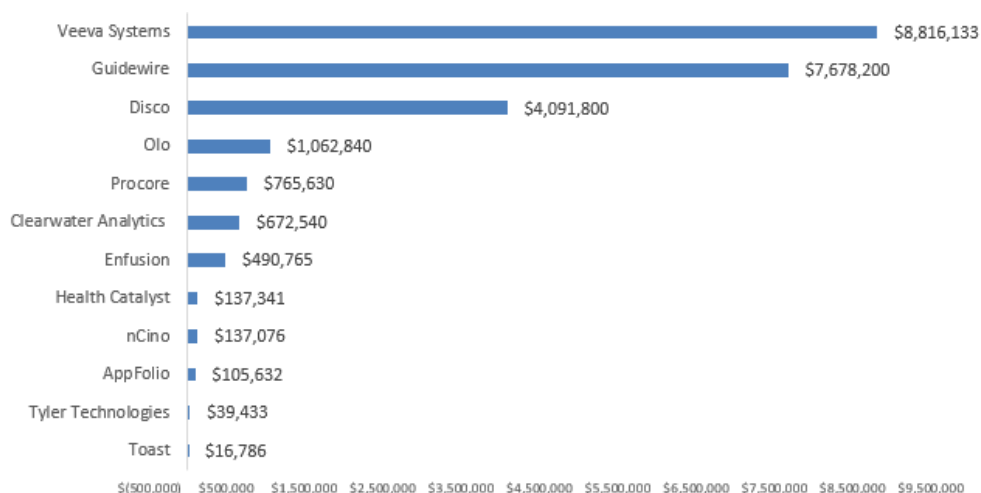


Figure 21

Notes:

- 1) Agilysys, Autodesk, Doximity, PRO Holdings and Shopify did not report # of customers in their annual reports
- 2) Blackbaud, Bentley Systems, Blend, Definitive Healthcare, Five9, LightSpeed, MeridianLink, and Q2 were not included in the chart given they reported negative or zero customer growth

CAC Payback

Horizontal	39 months	Vertical	27 months
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The Vertical SaaS companies had better CAC Payback compared to the Horizontal SaaS companies. Horizontal SaaS (-12%) had YoY deterioration in CAC Payback, while Vertical SaaS (19%) had an improvement on this metric.

The CAC Payback period for Horizontal SaaS companies in Figure 22 ranges widely, from 19 months for Atlassian to 164 months for Zoom.

The ideal CAC Payback period, according to the article, [The Art and Science of Figuring out Your CAC Payback Time](#), for companies with greater than \$100 million in ARR ranges from 25 to 30 months based on benchmark data from Benchmarkit and Bessemer Venture Partners.

Only four Horizontal SaaS companies, Atlassian, AvidXchange, CrowdStrike, and Klaviyo, had CAC Payback periods less than or equal to 30 months.

Company Profile: UiPath

UiPath had the most significant decrease in YoY performance (-118%) with its CAC Payback increasing from 40 months in FY 2024 to 88 months in FY 2025. UiPath’s drop-off was due to a high marketing spend (52% of revenue) only driving a 9.3% YoY revenue increase, while gross margin slightly decreased from 85% in FY 2024 to 82.7% in FY 2025.

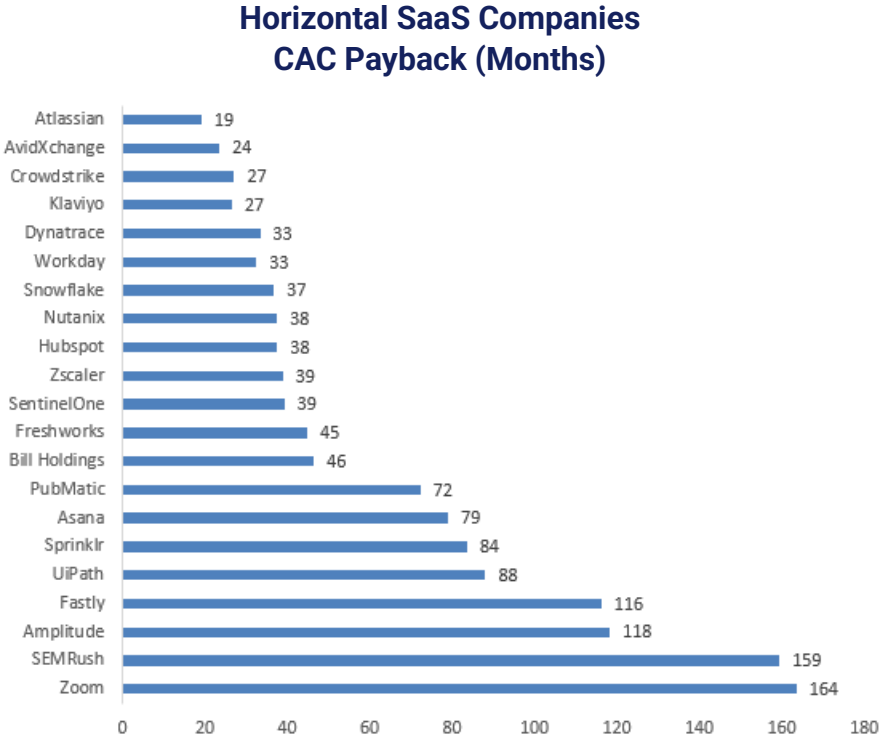


Figure 22

Note:
1) Expensify, Unity Software, ZipRecruiter, and ZoomInfo were not included in the chart given they had negative revenue growth

The CAC Payback for the Vertical SaaS companies ranged from 150 months for Blend to 12 months for AppFolio. Thirteen of the twenty four Vertical SaaS companies in Figure 23 had CAC Payback periods less than or equal to 30 months.

Company Profile: Health Catalyst

Health Catalyst had a 45% decrease in YoY performance with its CAC Payback increasing from 92 months in 2023 to 134 months in 2024. Health Catalyst’s drop-off occurred despite low sales & marketing expenditures at 17.7% of revenue. Their \$54.4 million sales & marketing expenditure, however, only drove a \$10.7 million (3.6% YoY) revenue increase, which coupled with a slight increase in YoY gross margin increased their CAC Payback.

**Vertical SaaS Companies
CAC Payback (Months)**

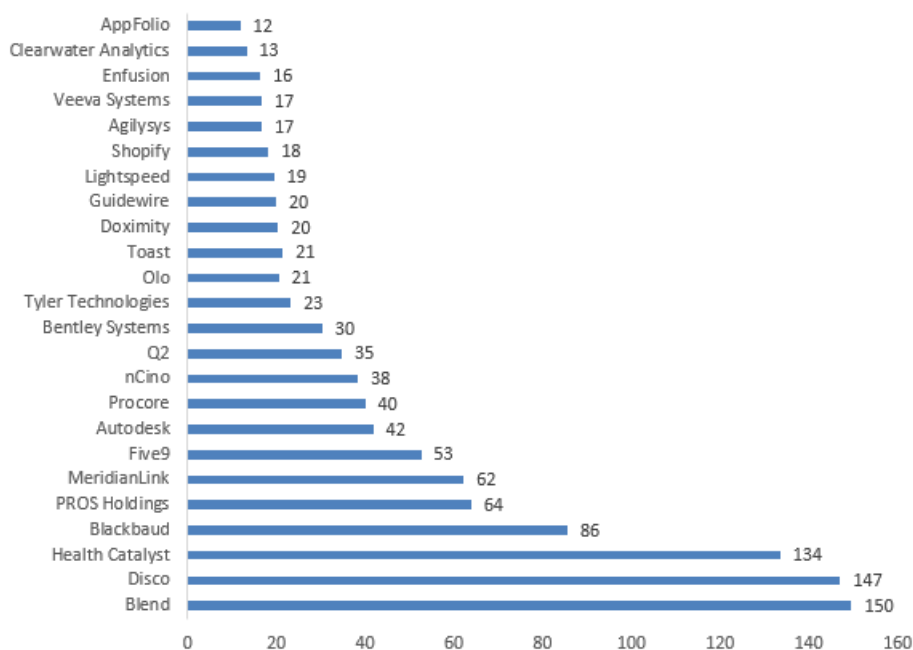


Figure 23

Note:

1) Definitive Healthcare was not included given their extremely high CAC Payback would have distorted the chart

Revenue per Employee

Horizontal	\$370 K	Vertical	\$319 K
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Horizontal SaaS companies have higher revenue per employee compared to their Vertical SaaS peers as we discussed in more detail in Section 4.

One of the key factors for Vertical SaaS companies having lower Revenue per Employee is the significantly higher number of these companies offering Professional Services as outlined in Table 10. 64% of Vertical SaaS companies offer Professional Services compared to only 28% of Horizontal SaaS companies.

The Revenue per Employee from Horizontal SaaS ranged from Expensify’s \$1.2 million in revenue per employee to Semrush’s \$121k in revenue per employee. Twenty three of the twenty five Horizontal SaaS companies had improved YoY performance on this metric except for ZipRecruiter and Zscaler.

Company Profile: Expensify

Expensify’s leading revenue per employee is attributed to extremely lean operating model and its historical reliance on product-led growth (PLG). The company rejects traditional hierarchy and roles, relying on self-managing, multi-functional teams. Its PLG approach is reflected by spending only \$12.8 million on sales & marketing in 2024 (9.2.% of revenue). This lean operating philosophy, however, has not translated into sustained success as its revenue declined from \$169.5 million in 2022 to \$139.3 million in 2024 (18% decrease). One of the key factors driving Expensify’s revenue decline is increased competitive pressure from companies like Ramp, Brex, Navan, and others. These companies offer broader platforms (e.g., cards, AP automation, reimbursements, etc.) with deep integrations and end-to-end automation across financial workflows.

**Horizontal SaaS Companies
Revenue per Employee**

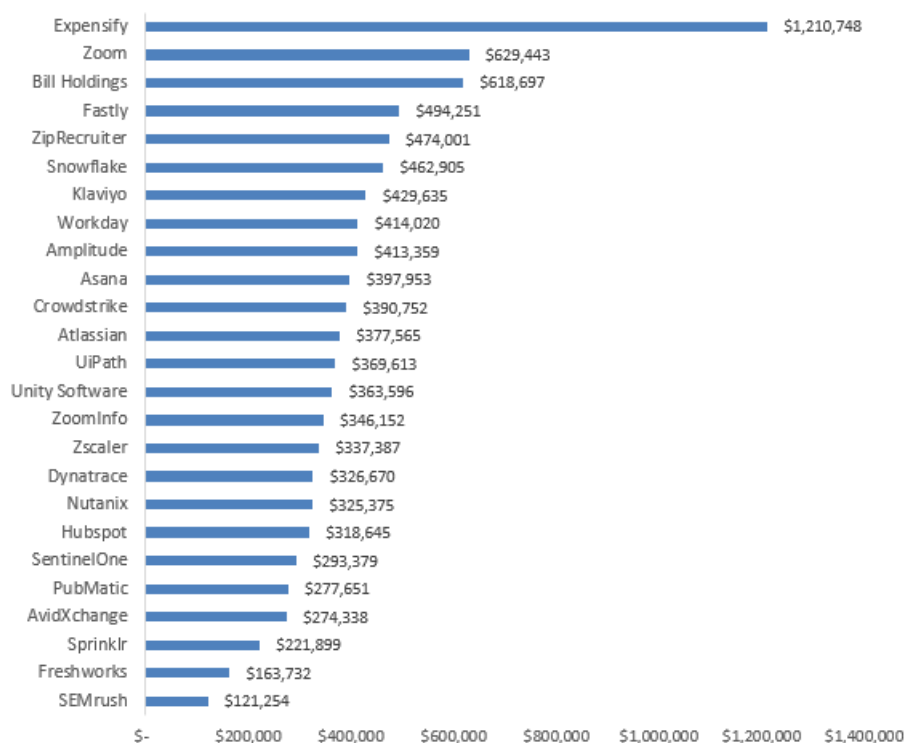


Figure 24

Revenue per Employee for the Vertical SaaS companies ranged from Shopify's \$1.1 million in revenue per employee to Agilysys's \$125k.

Company Profile: Shopify

Shopify leads all Vertical SaaS companies in Revenue per Employee at approximately \$1.1 million, well ahead of the next highest, Toast, at \$870,000.

Shopify's Revenue per Employee rose from \$486,000 in 2022 to \$1.1 million in 2024, due to headcount dropping from 11,600 to 8,100 after selling its logistics business, Flexport, in 2023.

Another major contributor is the rapid growth of Shopify Payments, a scalable and low touch revenue stream. Shopify's Merchant Solutions segment, which includes Shopify Payments and other fintech offerings, has grown from 59% of total revenue in 2019 to 74% in 2024, reflecting the company's increasing focus on efficient and transaction based revenue sources.

Finally, Shopify has increasingly leveraged AI to drive internal efficiency. CEO Tobi Lütke reinforced this shift in a company-wide memo stating that employees must justify why they "cannot get what they want done using AI" before requesting additional resources.

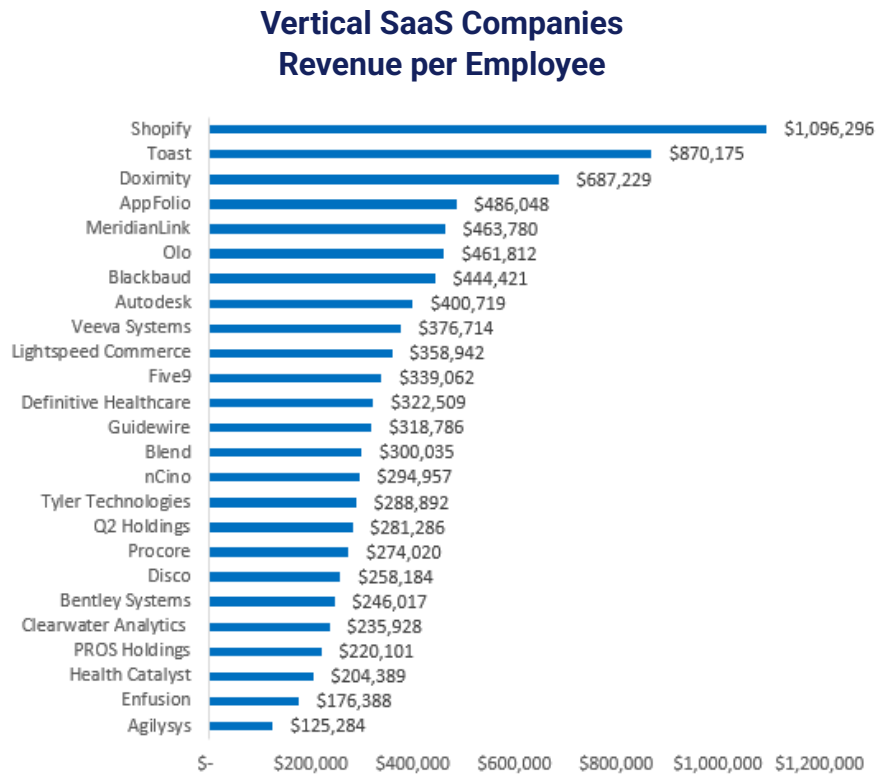


Figure 25

Vertical and Horizontal SaaS Companies Summary

IPO Dates

58% (29/50) of the companies in our analysis had their IPOs between 2020 – 2022 with 69% (20/29) of these companies going public in 2021 alone. An additional 32% (16/50) of these SaaS companies went public between 2010 – 2019.

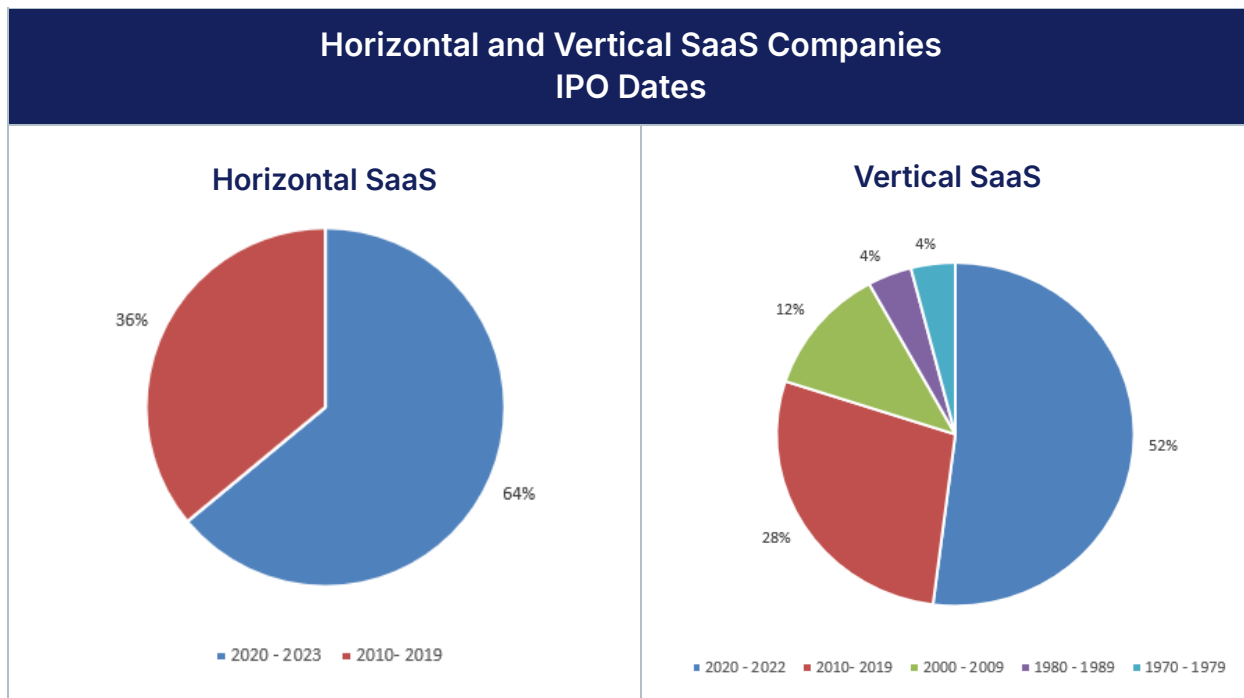


Figure 26

Horizontal SaaS

Sixteen companies had their IPOs between 2020 – 2022 with ten during the IPO-frenzy in 2021. There were no Horizontal SaaS companies included in the analysis that went public before 2010.

Vertical SaaS

Thirteen companies had their IPOs between 2020 – 2022 with ten in 2021. Vertical SaaS had five companies, Agilysys (1971), Autodesk (1985), Blackbaud (2004), Tyler Technologies (2006), and PROS Holdings (2007), that went public before 2010.

Years in Business (Age)

All the companies in our analysis have been in business ≥ 10 years with Agilysys being the longest in business at 62 years (founded in 1963). Blossom Street's SaaS Metrics data identified an 11-year median age at IPO.

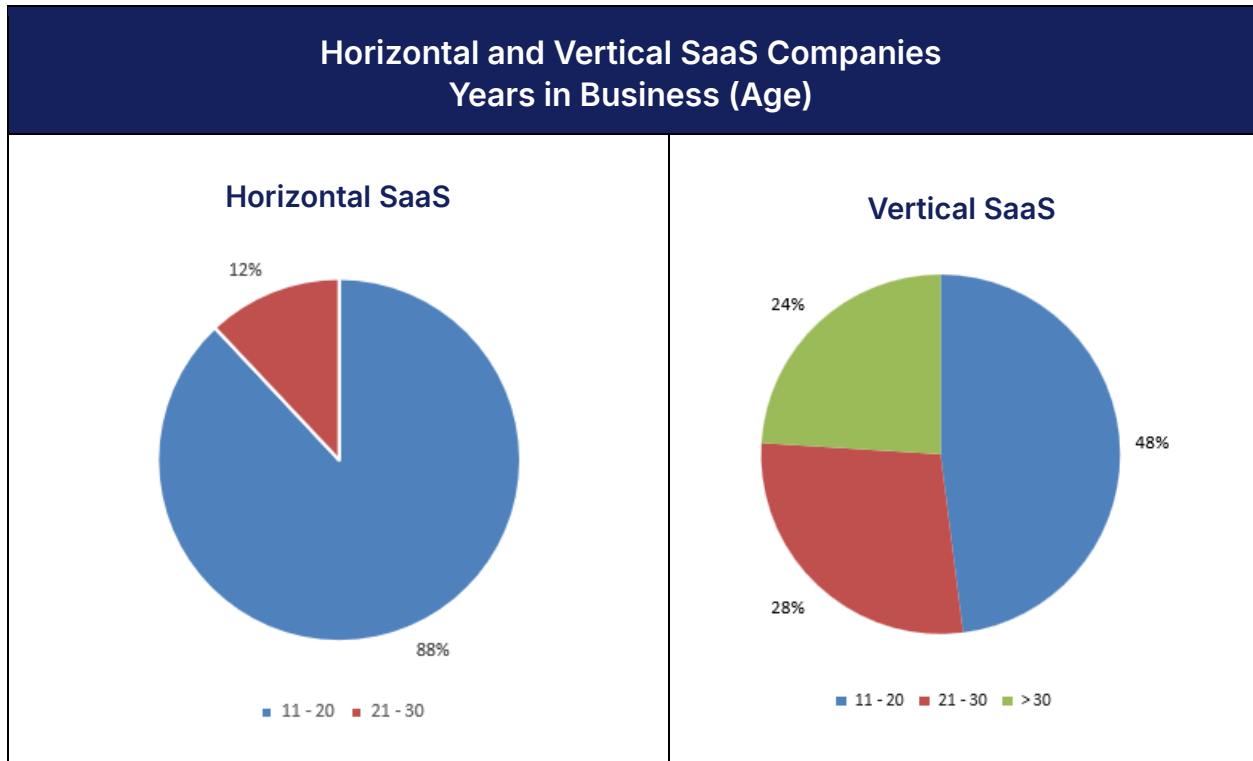


Figure 27

Author

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