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2026 Artificial Intelligence Outlook: The Great Competition Wars Have Begun

PitchBook's analysts identify top AI subsectors they expect to generate outsized venture outcomes and areas with the greatest competition.

PitchBook is a Morningstar company providing the most comprehensive, most accurate, and hard-to-find data for professionals doing business in the private markets.

Contents

Key takeaways

- **Outlook overview:** This outlook (1) highlights our analysts' favorite AI subsectors for generating outsized venture returns, (2) identifies AI subsectors that appear most overheated, (3) discusses which traditional incumbents are most at risk of market-share loss from AI, and (4) pinpoints likely near-term acquisition candidates.

- To receive a comprehensive list of startups from analysts' top AI subsectors, please email James Ulan at james.ulan@pitchbook.com.

- **Defining characteristics of AI winners:** We believe that AI winners will be those that successfully pursue (1) network effects, (2) unique data moats, (3) exceptional design and ease of use, (4) large but poorly understood industries, (5) land-and-expand strategies to become the new system of record, (6) solutions that require deep domain insights and long building timelines, (7) strong adherence to government-mandated compliance, and (8) creative distribution strategies.

- **Top healthcare AI subsectors:** In healthcare, our top picks are AI for drug discovery, which could double clinical trial success rates, and AI in radiology, due to the large market and rapid commercialization.

- **Top enterprise tech AI subsectors:** In enterprise tech, our top picks include foundation models (both incumbent and new model providers that specialize, thus establishing firmer model pricing); agentic commerce tools as agents transact across the internet; AI-focused data management (as the basis for all model interaction with the data layer); and AI for customer service & support, where industry-specific specialists will differentiate and thus create moats, while some will build sticky systems of record.

- **Top deep tech AI subsectors:** In deep tech, our favorites are autonomous maritime systems, which are now essential for governments and corporates in light of drone use in the Russia-Ukraine war; AI-derived agtech biologicals, which enable more effective molecules to be designed and tested for agriculture; datacenter electricity and decarbonization, as solar is often faster to install and cheaper than nuclear, gas, coal, and wind; and self-driving autonomy & perception software (we predict that virtually every vehicle type will become autonomous in the next three decades).

- **Top consumer tech AI subsector:** In consumer tech, our top pick is world models in gaming, as AI provides the ability to create new worlds and experiences instantly.

- **Overheated AI subsectors:** We see overheating in these AI subsectors: second-tier AI medical scribes; parts of AI precision medicine, specifically genomics and biomarkers; aerial defense drones; areas of AI gaming content development; parts of code gen; certain parts of AI for marketing; certain CFO stack and capital markets software; second-wave AI cyber protection startups; search as a service;

GEO visibility and placement; drone-based crop monitoring; and capital-intensive supply chain ops.

- **Incumbents most at risk from AI:** Incumbent industries most at risk include big-budget content production in gaming (AI-native upstarts compete at a fraction of the cost); traditional analytics & BI platforms (AI-native competitors will operate on natural language); legacy ERP, accounting, and capital markets software (AI-powered real-time analytics, smart forecasting, and seamless workflow integration will be sticky); traditional medical-device makers (providers and patients will prefer feature-rich AI-native devices); traditional trucking (regulations limit truck-driver hours but may not affect autonomous trucking); traditional healthcare administration (AI is excellent at processing unstructured data); and more.

Introduction

In this report, we (1) highlight our analysts' favorite AI subsectors for generating outsized venture returns, (2) identify AI subsectors that appear the most overheated, (3) discuss traditional incumbents most at risk of enterprise value loss from AI, and (4) pinpoint likely acquisition candidates in the near term.

We believe we are at the beginning of a technological revolution that will span more than 50 years and create thousands of new unicorns and multitrillions of dollars in enterprise value. It will also destroy hundreds, if not thousands, of companies and permanently transform work and life throughout the world.

The global infrastructure build-out for AI datacenters and model training is fast approaching $1 trillion annually, much like past technology revolutions when large quantities of capital were raised and invested. The size of the build-out alone is impacting how good the models become in the short term. But what is different now is that building something significant on top of this infrastructure is faster and cheaper than at any time in history. Today, a valuable application can be constructed for $20 a month with Cursor, an AI code-generation (code-gen) startup, setting the backdrop for rapid unicorn creation and posing an existential threat to incumbents.

We asked each of PitchBook's emerging tech analysts for the number one AI subsector they would invest in if they ran a venture fund and to estimate the total addressable market (TAM) for that subsector. Our analysts' picks reveal how much revenue is at stake.

Some AI technologies, such as AI for radiology and AI for customer service & support, have immediate pathways to commercialization, while others will take longer, such as AI-powered warehouse robotics and world models in gaming. Others may have a dramatically positive impact on human life, such as AI for drug discovery, which could double clinical trial success rates and reignite investment in early-stage biotech companies pioneering advancements in medicine.

PitchBook analysts' top AI subsectors for generating outsized venture returns

Sector	Top AI subsector	2025 TAM ($B)	2030 TAM ($B)	Annual growth rate	Rationale
Healthtech	Drug discovery tools	$1.6	$60.0	106%	AI technologies will double clinical trial success rates, increasing the number of trials and drugs coming to market. This will dramatically increase infrastructure and services that support clinical trials.
Defense tech	Autonomous maritime systems	$8.1	$16.2	15%	Naval power remains a major strategic driver, and there is also commercial upside around undersea cables and critical infrastructure. The navigation, communications, and rugged-environment challenges mean the field is still in its early stages and underappreciated.
E-commerce	Agentic commerce infrastructure	$16.9	$28.6	11%	Commerce is an on-ramp for every major platform shift, from the internet to mobile, to cloud, and now to generative AI (GenAI). Core infrastructure across payments, identity, fraud, loyalty, and inventory systems will be rebuilt, enabling autonomous transactions in the future.
Gaming	World models	$190.0	$267.0	7%	Developers will be able to create previously impossible gameplay mechanics. The video game Whispers From the Star illustrated how AI can redefine design, agency, and game loops.
Enterprise software as a service (SaaS)	Customer service & support	$27.9	$56.2	15%	AI for customer service & support is a massive, well-defined market with a clear path to demonstrating return on investment (ROI) through automation. It presents a significant opportunity in the shift to autonomous, agentic resolution.
Infrastructure SaaS	Data management software	$69.2	$155.6	18%	AI has a fundamental "garbage in, garbage out" problem. Seed-stage companies creating tools for AI-specific data quality, governance, and vector data management are a critical "picks and shovels" play on the entire current and future ecosystem.
Fintech	Payment infrastructure for agentic commerce	$60.0	$76.5	5%	This subsector has a massive addressable market that may see revitalized growth from upcoming catalysts: agentic payments, stablecoin adoption, and real-world asset tokenization.
Carbon & emissions tech	Datacenter decarbonization	$4.9	$18.3	30%	Though decarbonization is a little out of favor (particularly in the US), the growth we have seen in datacenter capacity, coupled with reputational concerns that datacenters will either cause significant carbon emissions or increase energy costs for other consumers, means datacenter energy efficiency technologies will likely see considerable interest in the next few years.
Clean energy	Grid management & distributed energy resource management	N/A	N/A	N/A	Encompassing technologies that optimize use of intermittent renewables and energy storage, these technologies can also provide small-scale entities the ability to participate in demand response mechanisms.
Medical technology (medtech)	AI in radiology	$5.0	$20.0	32%	AI in radiology boasts rapid pathways to commercialization, existing reimbursement traction, highly scalable business models, and a strong ROI to health systems.

Source: PitchBook • Geography: US • As of October 31, 2025

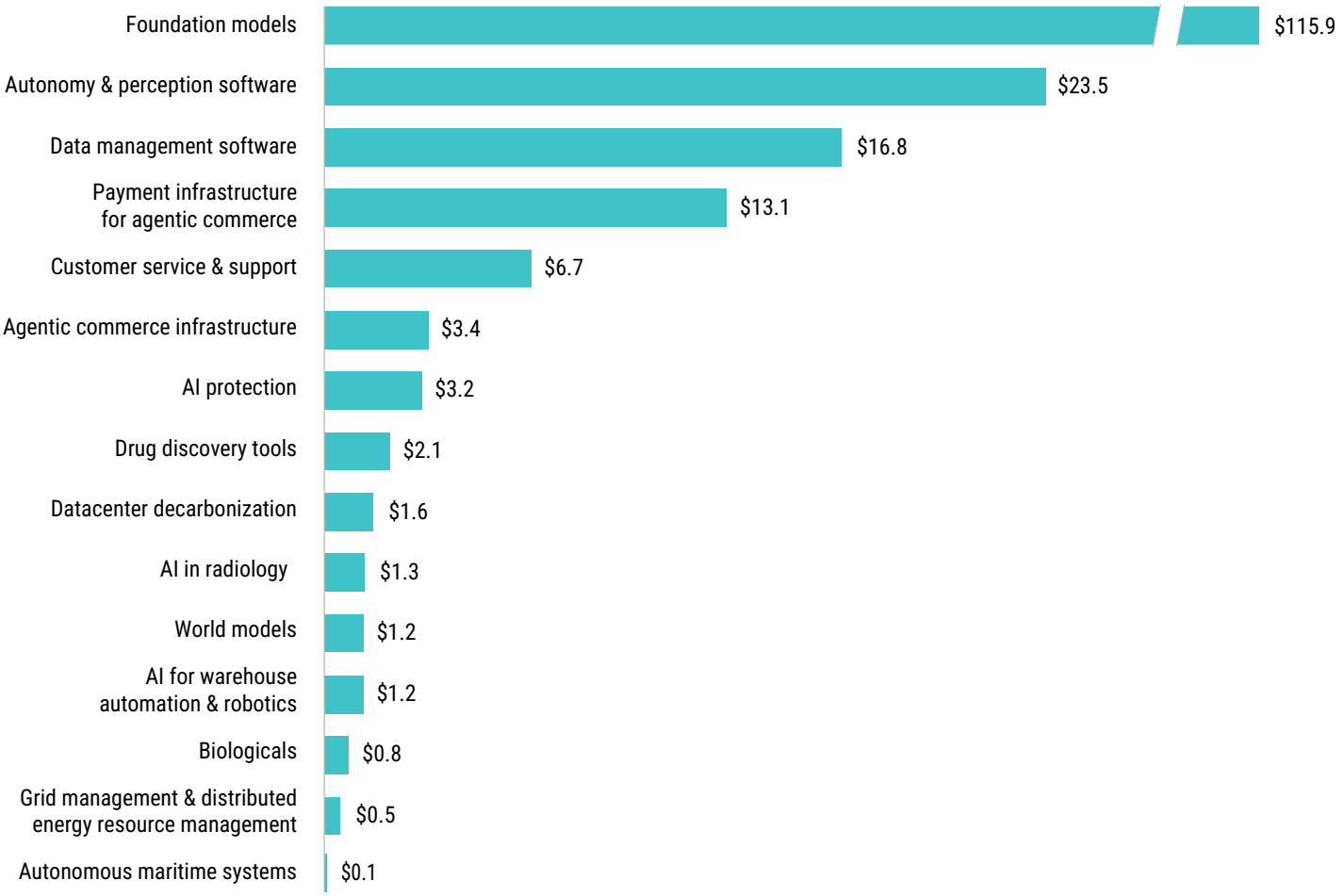
PitchBook analysts' top AI subsectors for generating outsized venture returns (continued)

Sector	Top AI subsector	2025 TAM ($B)	2030 TAM ($B)	Annual growth rate	Rationale
Agricultural technology (agtech)	Biologicals	$3.5	$5.3	9%	Three catalysts will drive takeoff: the Synthetic Biology Advancement Act authorizing $30 million in federal grants through 2030 for CRISPR and AI-powered crop development; AI & ML platforms cutting crop development timelines from over 10 years to three to five years; and major partnerships between agriculture giants (such as Corteva, Bayer, and Mars) and biotech startups.
Supply chain tech	AI for warehouse automation & robotics	$6.5	$13.4	16%	Training and deployment of warehouse robotics is expensive, limiting the domain to leaders such as Amazon and Walmart. Yet even these companies see sizable portions of their employee bases devoted to warehousing with seasonal surges. AI-trained cobots orchestrated by warehouse workers can democratize deployment with lower costs while spurring productivity and safety.
Mobility tech	Autonomy & perception software	$31.0	$42.0	6%	Synthetic training data can provide far more edge cases and situations (crashes, obstacles, and so on) that one would never recreate with real data feeds. Models can be trained faster with data that is more robust by orders of magnitude.
AI	Foundation models	$25.3	$136.2	40%	Foundation model providers continue to attract the most interest because their products are becoming the default infrastructure for a growing share of enterprise AI workloads. Their scale, model performance, and integration depth position them to capture long-run demand across sectors, giving them clearer business durability than most application-layer startups. Over time, profitability should expand as inference becomes a recurring utility service, agentic workflows increase model usage density, and enterprises lock into multiyear computing platform commitments that compound revenue rather than reset it each cycle.
Cybersecurity	AI protection	$14.0	$32.3	18%	AI for data protection and encryption is arguably the fastest-growing need as enterprises secure models against adversarial prompts, theft, and misuse; consolidation validates demand.

Source: PitchBook • Geography: US • As of October 31, 2025

Some of our favorite AI subsectors include brand-new categories that have arisen solely because of modern AI, such as world models for gaming, autonomous maritime systems, and the agentic commerce stack. These are different from established, large categories that are receiving a boost from AI, such as data management software and data protection & encryption.

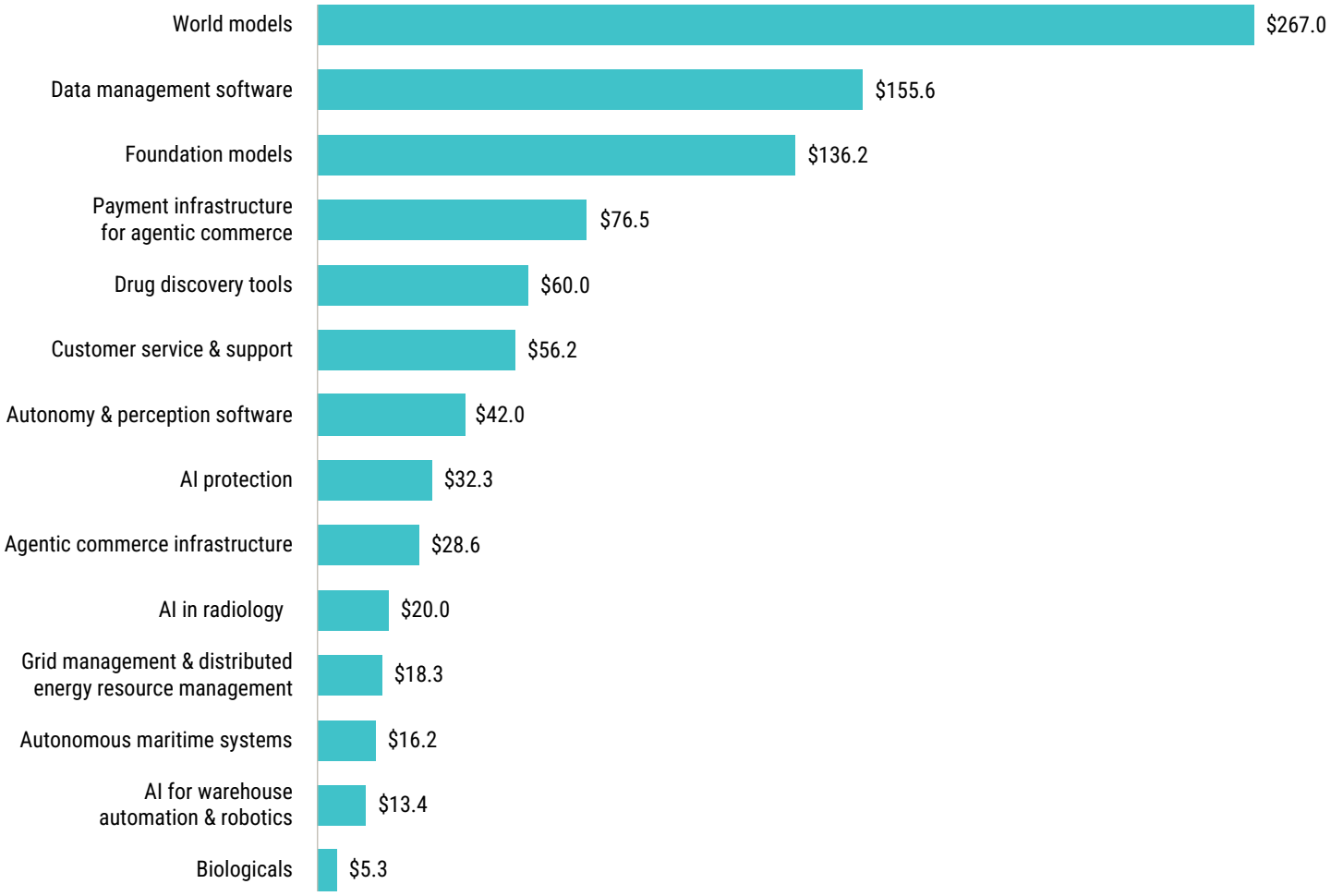
PitchBook analysts' top AI subsectors by capital invested ($B) from 2022 to 2025



Source: PitchBook • Geography: US • As of October 31, 2025

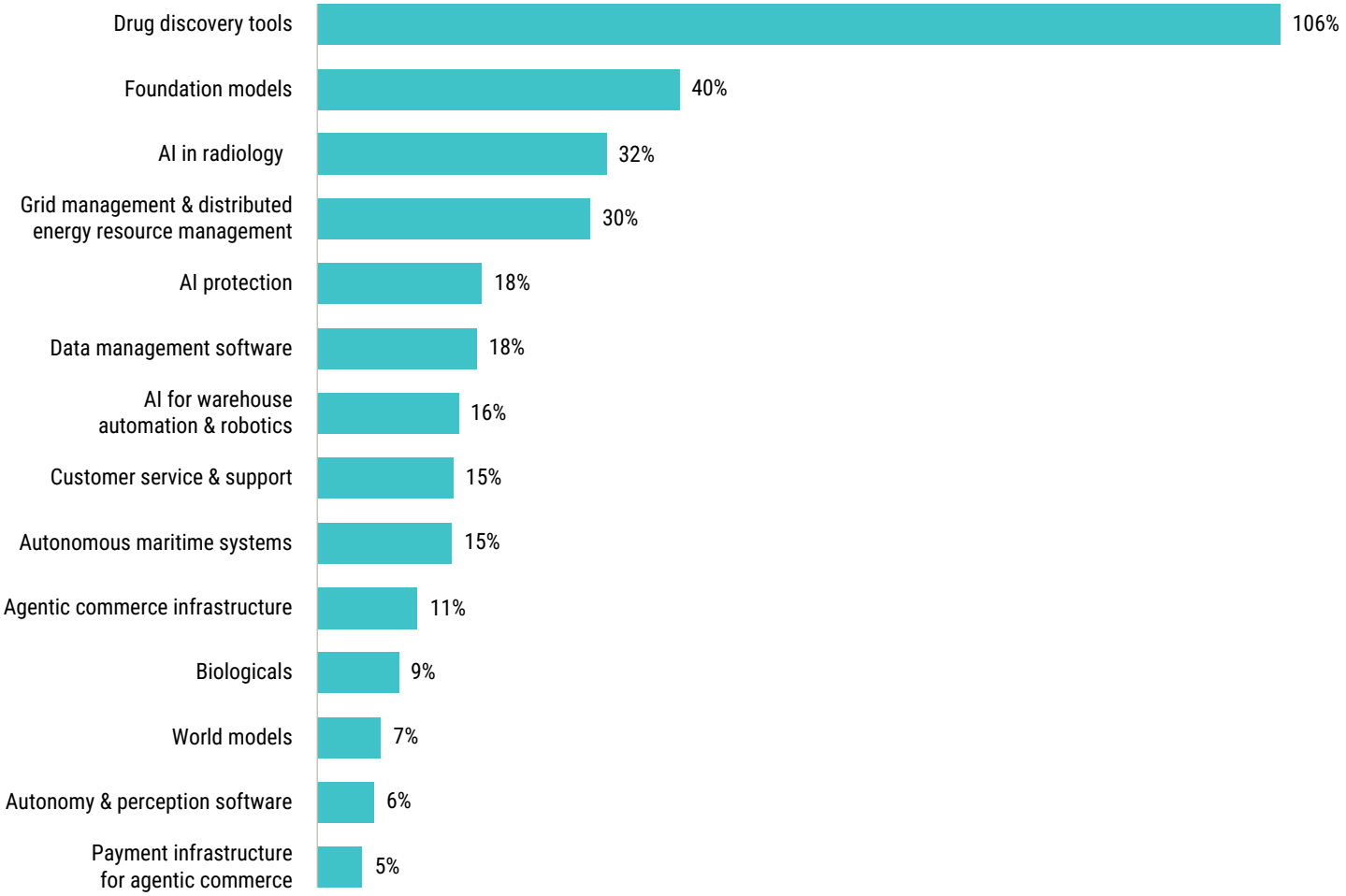
We asked our analysts to estimate the TAM for their top AI subsectors to quantify the size of the opportunity. Many TAMs are large because their broader sectors already existed in a big way, such as gaming and payments. Other categories are small but growing fast as AI introduces an entirely new product that does not have an existing TAM to target. Examples include AI for drug discovery and AI in biologicals.

Estimated 2030 TAM for PitchBook analysts' top AI subsectors ($B)



Sources: PitchBook, Mordor Intelligence, Coherent Market Insights, Gartner, McKinsey & Company, Newzoo, Grandview Research • Geography: US • As of October 31, 2025

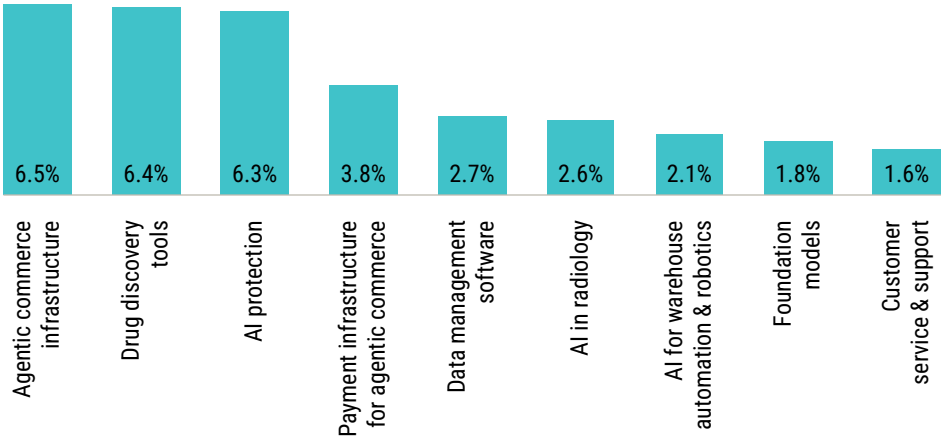
2025-2030 TAM CAGRs for PitchBook analysts' top AI subsectors



Sources: PitchBook, Mordor Intelligence, Coherent Market Insights, Gartner, McKinsey & Company, Newzoo, Grandview Research • Geography: US • As of October 31, 2025

To help VCs identify high-opportunity pockets of startups, we looked at each top AI subsector and the startups in them and explored which had the best PitchBook IPO Exit Predictor Score—in other words, which subsectors showed the greatest potential for outlier outcomes. We determined the IPO Exit Predictor Scores for startups that had raised two institutional rounds, which is roughly equivalent to a pre-seed and seed round or a seed and Series A round. The following chart displays the 90th percentile of those scores.

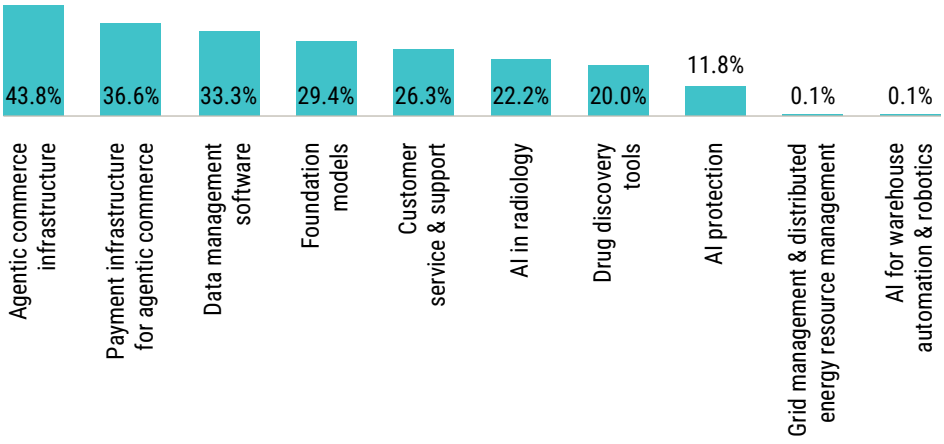
90th percentile IPO Exit Predictor Scores for PitchBook analysts' top AI subsectors



Source: PitchBook • Geography: US • As of October 31, 2025

We also determined which AI subsectors had the most disclosed $50 million valuations, specifically looking at startups that had raised $10 million to $20 million, thus representing normal-sized seed and Series A rounds. This "$50 million valuation batting average" provides a crude but useful figure that shows where success is happening at Series A.

Startups with a $50 million valuation as a share of all startups that have raised $10 million to $20 million by AI subsector



Source: PitchBook • Geography: US • As of October 31, 2025

Our analysts also opined on which AI subsectors appeared to be the most overheated with capital and/or competition and which were likely to see disproportionate value destruction among the startups that do not differentiate. Most of these categories share a defining characteristic: There are several startups in the space.

PitchBook analysts' overheated AI subsectors

Sector	Overheated subsector(s)	Rationale
Healthtech	Second-tier AI scribes	The AI scribe space is simply overcrowded. Due to the foundational nature of the technology, we believe second-tier companies will be acquired at highly discounted valuations to add capabilities to larger healthcare IT platform companies or niche areas.
Defense tech	Defense drones	The drone space is arguably overheated. The Russia-Ukraine war has triggered a surge of drone startups, with dozens of new players emerging and intense competition for contracts and manufacturing scale.
E-commerce	Search as a service, generative engine optimization (GEO) visibility/placement	The $500 million search-as-a-service category appears challenged as investors and consumers shift their interest to discovery engines over branded properties and merchant-side demand slows. Further, emergent GEO/answer engine optimization (AEO) visibility platforms risk becoming features within incumbent platforms, as Amplitude recently demonstrated.
Gaming	Content development (intelligent characters, asset creation, localization)	Within our gaming VC ecosystem market map, the content development segment—encompassing intelligent characters, asset creation, localization, and more—appears overheated, having attracted nearly $1 billion in venture capital. While AI-native production tools can enhance developer efficiency and expand margins, they are unlikely to produce near-term venture-scale outcomes. Large studios remain protective of proprietary IP, user-generated content (UGC) platforms like Roblox are internalizing GenAI capabilities, and consumers are not yet willing to pay premiums for AI-generated content.
Enterprise SaaS	AI & data science platforms, marketing	The AI & data science platforms subsector is dominated by capital-intensive foundation model builders like OpenAI and Anthropic, making it nearly impossible for new entrants to compete. The marketing subsector is saturated with undifferentiated AI content and personalization tools, some of which look like thin wrappers around third-party APIs.
Infrastructure SaaS	Create/code gen	The create/code-gen subsector feels overheated. The dominant incumbents, primarily Cursor and Microsoft/GitHub, have unparalleled data and distribution advantages, which could lead to widespread commoditization and value destruction for undifferentiated startups in this space.
Fintech	CFO stack	Certain CFO stack and capital market segments currently see high shares in AI penetration and VC funding. However, startups in these areas see high feature parity as they target the same upgrade cycles. They may converge on similar automation use cases such as reporting, reconciliation, and data ingestion, leading to overlapping functionality and pricing pressure.

Source: PitchBook • Geography: US • As of October 31, 2025

PitchBook analysts' overheated AI subsectors (continued)

Sector	Overheated subsector(s)	Rationale
Clean energy	Small modular reactors (SMRs)	Though it may not be strictly an AI subsector, we are seeing significant capital going toward SMR development (with AI energy demands as a core market segment due to SMRs' stable power output and smaller sizes suitable for colocation). Value destruction is more likely to be driven by SMR developers' failure to commercialize—to the point of standardized reactor manufacturing rather than first-of-a-kind (FOAK) projects—than it will be by differences in reactor designs.
Medtech	AI precision medicine	AI precision medicine has become a crowded investment space as capital floods into genomic and biomarker-driven models that may still be years from broad clinical adoption. While we are bullish on the space and see significant long-term market potential, there will not likely be room for dozens of smaller players chasing similar opportunities.
Agtech	Drone-based crop monitoring	Drone-based crop monitoring faces value destruction risk as the market consolidates around more than 50 competitors offering commoditized AI-powered drone solutions.
Supply chain tech	Capital-intensive supply chain operations	Capital-intensive aspects of supply chain operations, such as managing dedicated airfreight fleets and trucking assets, have not been particularly kind to VC investors since money flooded into the sector in 2020. Convoy went bankrupt trying to expand beyond initial efforts to optimize the less-than-truckload (LTL) sector.
Mobility tech	Autonomous driving	Autonomous driving startups, fueled by various AI technologies, have burned through more than $100 billion over the past decade, while the promise of Level 5 autonomy continues to recede on the horizon. Hardware and software cost variability make viable service business models elusive.
AI	Personal assistant, wellness, study helpers, productivity	Personal assistant bots, wellness companions, study helpers, and productivity chat apps all rely on near-identical model outputs.
Cybersecurity	Second-wave AI protection startups	The opportunity for second-wave independent AI protection startups is narrowing as these features become standard across application and cloud security suites.

Source: PitchBook • Geography: US • As of October 31, 2025

We believe we are in the first decade of a multidecade technological revolution. Like in past technological revolutions (such as railroads and steamships, electricity and automobiles, and microprocessors and personal computers), business will be outcompeted quickly as more efficient technology is adopted. Our analysts identified the traditional industries they believe will likely be outcompeted by AI-native upstarts in 10 years if the incumbents fail to embrace AI.

PitchBook analysts' AI-pressured traditional industries

Sector	AI-pressured traditional industries	Rationale
Healthtech	Tech-enabled services companies	Tech-enabled services companies will be fully outcompeted by AI-native competitors if they do not rapidly adopt AI functionalities. They know this already, which is driving AI-capability acquisitions by PE-owned healthcare IT companies. One recent example is R1 RCM's acquisition of Phare Health, a builder of AI-native solutions for inpatient coding and clinical documentation improvement (CDI). We believe care delivery needs to adopt an AI-first approach to the practice of medicine in the long term.
Defense tech	Legacy human-piloted drones, conventional radar & sensor	Legacy drone makers reliant on human pilots are already being challenged by autonomous leaders such as Anduril Industries and Shield AI. Conventional radar and sensor firms face similar pressure as AI-first systems such as CHAOS Industries' radars detect and react far faster than legacy platforms.
E-commerce	Reviews platforms	Though they have attracted over $2 billion in venture capital, reviews platforms such as Podium and Birdeye face structural headwinds as large language models (LLMs) aggregate, summarize, and repackage the totality of online reviews.
Gaming	Big-budget content production	Across creative industries, big-budget content production is acutely exposed to AI-driven cost containment and automation. Gaming is no exception as development costs for AAA titles spiral toward $250 million to $700 million, with Grand Theft Auto VI reportedly nearing $1 billion.
Enterprise SaaS	Traditional analytics & business intelligence (BI) platforms	The core value proposition of legacy BI, especially manual dashboard creation and static reporting, is being rendered more and more obsolete by agentic AI and natural language querying. The paradigm is shifting from users navigating to a dashboard to insights being delivered conversationally and contextually within their workflows.
Infrastructure SaaS	Legacy vendors in IT operations (ITOps) management	Companies built on static dashboards and manual, ticket-based workflows will be completely outcompeted. AI-native platforms will not just alert a human; they will predict the failure and autonomously remediate it.
Fintech	Legacy enterprise resource planning (ERP), accounting, capital markets, and regulation technology (regtech) software	Companies still relying on manual workflows, static rule-based automation, or limited data-driven insights will lose ground as AI-native platforms deliver real-time analytics, smart forecasting, and seamless workflow integration.
Carbon & emissions tech	Traditional building energy optimization tech	Building energy optimization systems must incorporate AI to assist with improving optimization and to allow more granular analysis of factors in building energy systems.
Clean energy	Monitoring & hardware diagnostics, solar & wind optimization	Monitoring and hardware diagnostics, plus solar and wind optimization platforms, are the most likely candidates for being outcompeted, though we are still hesitant to say that non-AI systems are likely to be fully outcompeted by AI-native ones.

Source: PitchBook • Geography: US • As of October 31, 2025

PitchBook analysts' AI-pressured traditional industries (continued)

Sector	AI-pressured traditional industries	Rationale
Medtech	Traditional device makers that remain tied to fixed hardware innovation cycles	Device makers that remain tied to fixed hardware innovation cycles risk being outcompeted by AI-native competitors building data-driven platforms. Medical devices without connected software are increasingly vulnerable to competition from emerging market entrants offering digital capabilities.
Agtech	Agricultural input distributors	Precision AI platforms (such as Granular, Climate FieldView, and Cropwise) now provide variable-rate fertilizer recommendations directly to farmers, bypassing retailer agronomists.
Supply chain tech and mobility tech	Traditional trucking	Trucking firms that do not adopt autonomous solutions look vulnerable. Regulations limit trucker hours, and autonomous trucks can run longer, more safely, and with greater energy efficiency. The cost per mile of autonomous solutions is looking to drop dramatically over the next few years.
AI	Traditional healthcare administration	Outdated healthcare administration systems (such as paper-based Epic holdouts) risk obsolescence against AI platforms such as Abridge for scribing and diagnostics, which slash errors by 75% and enable predictive care.[1]
Cybersecurity	Traditional vendors in web application protection and development operations (DevOps) security platforms	Legacy web application firewalls (WAFs) and rule-based API defenses are already challenged by polymorphic, AI-generated attacks that evade static signatures.

Source: PitchBook • Geography: US • As of October 31, 2025

1: "The Future of Healthcare Documentation: Why Ambient Clinical Intelligence Is Transforming Patient Care in 2025," HealOS, July 4, 2025.

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OUTLOOK

Healthtech

Which AI subsector in your coverage has been the most successful at taking share in 2025? What is driving its success?

Ambient AI scribes have taken the most share in 2025 due to their significant ROI proposition of reducing administrative burden on clinicians and their staff. The technology affords them more time to practice medicine and handles a myriad of administrative tasks required to receive reimbursement. The leading startups in this category include Abridge, Ambience, Innovaccer, Commure, Corti, Eleos Health, Freed, Nabla, and Suki AI.

Which AI subsector in your coverage is underappreciated today but whose customer traction you expect to accelerate the most in 2026 or 2027? What catalysts will drive its takeoff?

AI-driven drug discovery is the most underappreciated AI subsector in healthcare. While funding levels have been higher than in traditional drug discovery in 2025, biopharma VC funding in 2025 is at multidecade lows. We believe AI has the potential to improve the success rate of clinical trials from 8% to 17%. Lower interest rates have historically been a catalyst for more speculative investment sectors such as biotech. Some leading startups in AI drug discovery include Formation Bio, Lila Sciences, Unlearn.ai, BenchSci, Chai Discovery, and Isomorphic Labs.

If you were deploying a new seed-stage VC fund and could select only four AI subsectors in your coverage to invest in, which would you choose and why? Rank them from 1 to 4, with 1 being your favorite.

Ranking	AI subsector	Rationale
1	AI drug discovery targets	AI technologies will double clinical trial success rates.
2	AI drug discovery platforms	This is a picks-and-shovels play that enables improved trial success rates. Platform systems include protein foundation models, cell foundation models, target identification & validation, de novo drug design, clinical trial optimization, and AI lab assistants.
3	AI healthcare services workflow agents	These agents reduce administrative burden and improve clinical efficacy, which is a $155 billion market opportunity that improves provider margins and reduces administrative burnout for clinicians.
4	Certain AI healthcare services ambient scribes	This foundational technology will incorporate additional workflow agent capabilities into its chassis. Valuation levels have run ahead of other areas because of commercial successes, which is why we rank this subsector fourth rather than higher.

Which AI subsectors in your space appear to be the most overheated with capital and/or competition and will likely see disproportionate value destruction for the startups that do not differentiate?

AI ambient scribes have received a substantial level of funding because of the foundational value of this technology in all healthcare provider workflows. Combined with intensified competition from incumbent oligarchs in electronic health records, we see the space as having room for a dozen winners that will consolidate niche capabilities. The success or limitations of early launches of embedded native-AI scribing functions at Epic and Oracle Health will be key to adoption rates of AI scribes. However, due to the foundational nature of the technology, we believe second-tier companies will be acquired at highly discounted valuations to add these capabilities to larger healthcare IT platform companies or niche areas. For example, home health aides utilizing ambient scribe functions could help improve documentation for Medicare Advantage risk coding.

Which traditional, non-AI competitors in your coverage will likely be fully outcompeted by AI-native competitors in the next 10 years if they do not rapidly adopt AI functionalities?

Tech-enabled services companies will be fully outcompeted by AI-native competitors if they do not rapidly adopt AI functionalities. They know this, which is driving AI capability acquisitions by PE-owned healthcare IT companies. One recent example is R1 RCM's acquisition of Phare Health, a builder of AI-native solutions for inpatient coding and CDI. We believe care delivery needs to adopt an AI-first approach to the practice of medicine in the long term.

In which AI subsectors are companies most likely to remain private longer, and in which are they likely to seek exits in 2026? Beyond a tight IPO market, what other industry-specific, macroeconomic, or geopolitical factors should be considered?

AI drug discovery companies will likely remain private longer given the lengthier development timelines resulting from the clinical trial process, whereas workflow agent adoption rates could escalate quickly.

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OUTLOOK

Defense tech

Which AI subsector in your coverage has been the most successful at taking share in 2025? What is driving its success?

Growing demand for autonomous, attributable systems is creating clear buying lanes. Unsurprisingly, autonomous systems in the unmanned aircraft system sector have taken the largest share of investment and contracts in 2025. For example, in July, Shield AI formed a partnership with RTX to embed autonomy into loitering munitions and sensors. In October, Anduril Industries' Collaborative Combat Aircraft for the US Air Force took its first flight. Also in October, Skydio won a $7.9 million contract with the US Army for its X10D system under the Short Range Reconnaissance Tranche 2 program. Leading startups to watch include Anduril, Shield AI, and Skydio.

Which AI subsector in your coverage is underappreciated today but whose customer traction you expect to accelerate the most in 2026 or 2027? What catalysts will drive its takeoff?

Autonomous maritime systems: The AUKUS push and rising cable-/energy-infrastructure threats are pulling autonomy beneath and across the waves. Anduril's Ghost Shark program is a major catalyst; Australia committed AUD 1.7 billion, with deliveries expected in 2026. Meanwhile, the US Navy's large and medium unmanned surface vehicle and modular attack surface craft programs are reshaping buying lanes and piggybacking on US shipbuilding capacity as autonomy becomes a force multiplier. Startups to watch include Anduril (for its Ghost Shark and Dive programs), HavocAI (for its collaborative autonomy stack), Blue Water Autonomy (for its autonomous warships), and Saronic Technologies (for its surface and undersea autonomous vessels).

If you were deploying a new seed-stage VC fund and could select only four AI subsectors in your coverage to invest in, which would you choose and why? Rank them from 1 to 4, with 1 being your favorite.

Ranking	AI subsector	Rationale
1	Autonomous maritime systems	Naval power remains a major strategic driver, and there is also commercial upside around undersea cables and critical infrastructure. The navigation, communications, and rugged-environment challenges mean the field is still in its early stages and underappreciated.
2	Drone swarms	The leap in edge computing and autonomy means land/sea/air drone swarms can make decisions and coordinate without central control, enabling attritable systems and new force multipliers. Drone swarms are still hard to execute well, so they are an early investment opportunity.

Ranking	AI subsector	Rationale
3	AI-enabled defense manufacturing	Strengthening the industrial base is a secular trend. Though the subsector is competitive, there is still alpha in bespoke applications and degrees of autonomy in manufacturing components; this links defense, supply chain resilience, and dual-use opportunity.
4	Space situational awareness	With growing satellite constellations and orbital congestion, autonomous maneuvering, debris avoidance, and intelligence in space are key. This subsector is still niche compared with earth-domain systems, but the upside is significant.

Which AI subsectors in your space appear to be the most overheated with capital and/or competition and will likely see disproportionate value destruction for the startups that do not differentiate?

The drone space is arguably overheated: The Russia-Ukraine war has triggered a surge of drone startups, with dozens of new players emerging and intense competition for contracts and manufacturing scale. Similarly, AI-enabled cybersecurity is crowded. It is also hard to displace incumbent cyber giants that have entrenched customer relationships and massive data moats. Unless a startup can truly differentiate, these areas risk significant value destruction.

Which traditional, non-AI competitors in your coverage will likely be fully outcompeted by AI-native competitors in the next 10 years if they do not rapidly adopt AI functionalities?

Legacy drone makers reliant on human pilots are already being challenged by autonomous leaders such as Anduril and Shield AI. Conventional radar and sensor firms face similar pressure as AI-first systems such as CHAOS Industries' radars detect and react far faster than legacy platforms. Incumbents across surveillance, analytics, and training simulators risk the same outcome; AI-native firms will outperform unless traditional players integrate AI quickly.

In which AI subsectors are companies most likely to remain private longer, and in which are they likely to seek exits in 2026? Beyond a tight IPO market, what other industry-specific, macroeconomic, or geopolitical factors should be considered?

AI subsectors with long research & development (R&D) cycles or sensitive tech, such as hypersonics and autonomous weapons, will likely stay private. These deep-tech areas have abundant private capital and strong government backing, so they have little IPO pressure. Security constraints and long development timelines also push exits further out. In contrast, more mature segments may seek 2026 exits. Space and satellite AI players are already moving, as seen with Firefly Aerospace's 2025 IPO. AI-enabled manufacturing companies could also go public sooner given their sticky, SaaS-like revenue. Established defense AI software firms may pursue IPOs or strategic M&A as they scale.

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OUTLOOK

E-commerce

Which AI subsector in your coverage has been the most successful at taking share in 2025? What is driving its success?

Product search and discovery via answer engines has been the standout AI subsector in 2025. The convergence of GenAI and commerce, initiated by ChatGPT plug-ins in 2023, accelerated in 2025 via partnerships across Perplexity, OpenAI, Shopify, Walmart, and commercetools, plus agent protocols from Google, Visa, and Mastercard, among others. Adobe Analytics reports a tenfold increase in referral traffic from answer engines as Google concedes low-value queries.[2, 3] Key open questions center on monetization, interoperability, and platform economics. Customer support via platforms such as Intercom, Sierra, and Decagon are also driving cost savings.

Which AI subsector in your coverage is underappreciated today but whose customer traction you expect to accelerate the most in 2026 or 2027? What catalysts will drive its takeoff?

LLM-native ad networks: Advertising via GenAI and LLMs is the elephant in the room for consumer tech. Sponsored listings on Google and Amazon enabled the wedge use case for Perplexity and ChatGPT, as rising ad density pushed consumers toward consolidated, ad-light search experiences over the cluttered "10 blue links." Further, the profitability of retail advertising ($56 billion at Amazon and roughly $4 billion at Walmart in 2024) established a precedent for LLM monetization. As OpenAI, Anthropic, and others seek scaled monetization, LLM-native ad networks will emerge as a logical extension. Retail media network (RMN) 2.0 startups such as Koah and CloudX are beginning to attract capital, while legacy RMN 1.0 players were disrupted in early 2025 when Amazon opened its DSP and SSP infrastructure as a service.

If you were deploying a new seed-stage VC fund and could select only four AI subsectors in your coverage to invest in, which would you choose and why? Rank them from 1 to 4, with 1 being your favorite.

Ranking	AI subsector	Rationale
1	Agentic commerce infrastructure	Commerce is an on-ramp for every major platform shift, from the internet to mobile, to cloud, and now to GenAI. Core infrastructure across payments, identity, fraud, loyalty, and inventory systems will be rebuilt, enabling autonomous transactions in the future.
2	RMN/advertising technology 2.0	As conversational/agentic interfaces become the default, ad stacks will evolve. Walmart and Amazon have built multibillion-dollar businesses as ad platforms, and a new wave of startups is building this infrastructure for agents.

2: "How the Google Antitrust Trial Is Already Changing Online Search," Bloomberg, Leah Nylen, May 9, 2025.
3: "The Explosive Rise of Generative AI Referral Traffic," Adobe for Business, Abigail Winchell, May 23, 2025.

Ranking	AI subsector	Rationale
3	Identity/trust layers	Infrastructure for identity protection, transaction consent, and authentication for machine-to-machine interactions is a prerequisite to agentic commerce.
4	Next-generation brands	Post-direct-to-consumer brands such as Rhone, Grüns, and Olipop are generating SaaS-like return profiles across wellness and lifestyle. Next-generation brands will leverage AI-driven efficiencies to exploit product or distribution advantages, scaling faster with leaner teams in crowded, high-velocity categories.

Which AI subsectors in your space appear to be the most overheated with capital and/or competition and will likely see disproportionate value destruction for the startups that do not differentiate?

The $500 million search-as-a-service category (cloud platforms enabling customizable search functionality into apps and websites without building the infrastructure) appears challenged as investors and consumers shift their interest to discovery engines over branded properties and merchant-side demand slows. Further, emerging GEO/AEO visibility platforms risk becoming features within incumbent platforms, as Amplitude recently demonstrated. Consumer-facing, domain-specific search platforms also face structural headwinds in attribution and monetization as horizontal platforms such as ChatGPT and Perplexity integrate commerce functionalities. Second, the marketplace enablement subsegment ($1.3 billion in venture capital raised to date) faces an existential threat as websites and marketplaces risk waning relevance in the agentic era.

Which traditional, non-AI competitors in your coverage will likely be fully outcompeted by AI-native competitors in the next 10 years if they do not rapidly adopt AI functionalities?

Though they have attracted over $2 billion in venture capital to date, reviews platforms such as Podium and Birdeye face structural headwinds as LLMs aggregate, summarize, and repackage the totality of online reviews. Marketplace enablement providers (RMNs, assortment expansion enablers, merchant onboarding enablers, and so on) must redefine their value as the relevance of first-party websites evolves in an agentic future. Loyalty programs are strategically critical but require deeper integration into LLM shopping flows. Customer service will remain a cost center, but LLMs can improve performance by delivering faster resolutions, automating repetitive inquiries, and lowering escalation rates.

In which AI subsectors are companies most likely to remain private longer, and in which are they likely to seek exits in 2026? Beyond a tight IPO market, what other industry-specific, macroeconomic, or geopolitical factors should be considered?

Vendors that are more deeply embedded within the commerce stack (such as product information management providers, ERPs, order orchestration engines, and reverse logistics providers) face extended exit timelines given complex implementations; entrenched incumbents, such as SAP and Manhattan Associates; and constrained merchant bandwidth. Additionally, livestream commerce platforms face renewed pressure as TikTok maintains its US operations. Tariff-driven cost absorption continues to limit merchant technology investments.[4] Unlike defense, cybersecurity, or crypto—sectors benefiting from political alignment under the Trump administration—e-commerce tech lacks comparable policy tailwinds, tempering exit momentum heading into 2026.

4: "who has paid the us tariffs so far?" LinkedIn, Ian Bremmer, October 2025.

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OUTLOOK

Gaming

Which AI subsector in your coverage has been the most successful at taking share in 2025? What is driving its success?

AI adoption in game development reached nearly 90% in 2025, reflecting broad-based integration rather than a single breakout use case, with overall adoption growth effectively flat year over year.[5, 6] General-purpose tools for code completion, art prototyping, and content moderation saw steady adoption as LLM reliability and cost efficiency improved. Industry-specific applications in quality assurance (QA) and playtesting gained momentum given gaming's complex edge cases, long development cycles, and expanding live-operations pipeline. Overall, AI adoption was horizontal across content creation, infrastructure, and testing workflows, which can accelerate production timelines and shrink budgets in time. Leading startups in AI game development include General Intuition, Pika, Decart, Anuttacon, Luma AI, and Midsummer Studios.

Which AI subsector in your coverage is underappreciated today but whose customer traction you expect to accelerate the most in 2026 or 2027? What catalysts will drive its takeoff?

World models: Gaming has a history of stress-testing emergent technologies, most notably GPUs, which propelled NVIDIA into a global powerhouse. In the LLM era, game environments are used as sandboxes for testing multimodal AI, as seen in recent research from Google, Tencent, Stanford University, and others. Though still experimental, "world models" could produce infinitely dynamic, player-responsive experiences that could revitalize industry growth by enabling novel forms of interactive entertainment. Unlocking this potential will require richer, large-scale 3D datasets; greater computing efficiency; and improved memory persistence. Leading startups in world models include Decart, World Labs, and General Intuition.

If you were deploying a new seed-stage VC fund and could select only four AI subsectors in your coverage to invest in, which would you choose and why? Rank them from 1 to 4, with 1 being your favorite.

Ranking	AI subsector	Rationale
1	World models	In time, world models would present a new paradigm for AI-driven game design, enabling dynamic, persistent virtual worlds and novel gameplay.
2	AI-enabled service providers	Costly aspects of game development, including QA and localization, create opportunities for automation via AI. Think: a next-generation Keywords Studios.

5: "The AI Advantage: Why 90% of Developers Are Already Using AI to Innovate," Google Cloud, August 18, 2025.
6: "2025 Unity Gaming Report," Unity, March 17, 2025.

Ranking	AI subsector	Rationale
3	Emerging-market developers	Teams in Turkey, Singapore, and Brazil combine lower development costs with strong technical talent and AI-native development to produce novel play patterns, powering the industry's next generation of developers.
4	SaaS for distribution/ monetization	AI-enabled gaming platforms such as k-ID, Appcharge, Xsolla, and Neon modernize game distribution, using AI to optimize compliance, fraud detection, and pricing while reducing reliance on legacy app-store ecosystems.

Which AI subsectors in your space appear to be the most overheated with capital and/or competition and will likely see disproportionate value destruction for the startups that do not differentiate?

Within our gaming VC ecosystem market map, the content development subsegment—encompassing intelligent characters, asset creation, localization, and more—appears overheated, having attracted nearly $1 billion in venture capital to date. While AI-native production tools can enhance developer efficiency and expand margins, they are unlikely to produce near-term venture-scale outcomes. Most developers currently rely on general-purpose tools such as ChatGPT, Claude, or Runway rather than early vertical-SaaS winners, such as Harvey in legal tech or Unity during mobile gaming's golden era. Large studios remain protective of proprietary IP, UGC platforms such as Roblox are internalizing GenAI capabilities, and consumers are not yet willing to pay premiums for AI-generated content.

Which traditional, non-AI competitors in your coverage will likely be fully outcompeted by AI-native competitors in the next 10 years if they do not rapidly adopt AI functionalities?

Across creative industries, big-budget content production is acutely exposed to AI-driven cost containment and automation. Gaming is no exception as development costs for AAA titles spiral toward $250 million to $700 million, with Grand Theft Auto VI reportedly nearing $1 billion. Staff credits on open-world titles have more than doubled over the past decade, yet consumers remain unwilling to pay higher prices amid an oversupply of content.[7] Without a platform shift that resets user acquisition costs, traditional publishers face precarious unit economics. AI will increasingly streamline production costs at the high end of the cost spectrum and raise the quality floor at the low end, exposing legacy developers to competition with more nimble developers.

7: "The State of Video Gaming in 2025," Epyllion, Matthew Ball, November 2, 2025.

In which AI subsectors are companies most likely to remain private longer, and in which are they likely to seek exits in 2026? Beyond a tight IPO market, what other industry-specific, macroeconomic, or geopolitical factors should be considered?

Gaming is encumbered by elevated IPO expectations and the broader private-for-longer paradigm. The Q3 2025 LBO of Dream Games, one of the fastest-growing companies in the sector's history, occurred six years after its founding, while more traditional candidates such as Epic Games and Discord are either disinclined or disincentivized to list. Other candidates such as Niantic Labs and Dream11 have faced diminished exit outlooks: Niantic divested its gaming unit to Scopely, while Dream11 faces regulatory headwinds via India's abrupt ban on real-money gaming. Gaming tech platforms, which have raised $3.4 billion in the trailing 12 months ended Q3 2025, face modest TAMs and often use gaming as a beachhead to extend their scale horizons. With comparatively few gaming unicorns and less liquidity pressure in the sector relative to the broader SaaS ecosystem, aggregate demand for gaming exits is constrained as incumbents fortify their balance sheets and instead focus on distribution innovation.

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OUTLOOK

Enterprise SaaS

Which AI subsector in your coverage has been the most successful at taking share in 2025? What is driving its success?

The customer service & support subsector within customer relationship management (CRM) has seen AI companies achieve the greatest market-share gains in 2025. Success has been driven by quantifiable ROI from automating high-volume, and often costly, human interactions, which are endemic in current customer service models. With an overwhelming majority of customer interactions expected to be AI powered in the next few years, even basic agentic AI solutions today are autonomously resolving tickets, reducing operational costs significantly. This has created a strong base of high demand for adoption. Leading AI-native startups in customer service & support are Sierra, Lorikeet, PolyAI, Cresta, Ada, and Crisp.

Which AI subsector in your coverage is underappreciated today but whose customer traction you expect to accelerate the most in 2026 or 2027? What catalysts will drive its takeoff?

Supply chain planning within the supply chain management sector is the most underappreciated subsector today, but we believe that its customer traction is expected to accelerate dramatically in 2026 and 2027. We see significant catalysts across the horizon for this subsector, including escalating geopolitical trade friction and tariff uncertainty, regulatory compliance (including Scope 3 data), and rising cost pressures on working capital. All of these catalysts are unpredictable and require a massive investment in supply chain resilience across nearly every industry. We believe AI's ability to perform predictive demand forecasting and network optimization is becoming mission critical. Startups to watch are those building agile, AI-powered copilots for planning. These include ThroughPut, Mammoth-AI, Firstshift, RELEX, and Pando.

If you were deploying a new seed-stage VC fund and could select only four AI subsectors in your coverage to invest in, which would you choose and why? Rank them from 1 to 4, with 1 being your favorite.

Ranking	AI subsector	Rationale
1	Customer service & support	Customer service & support is a massive, well-defined market with a clear path to demonstrating ROI through automation, and it presents a significant opportunity in the shift to autonomous, agentic resolution.
2	Supply chain planning	Supply chain planning is a strategically critical area where complexity has surpassed human scale, and geopolitical tailwinds are forcing innovation. AI-driven optimization offers immense, quantifiable value.
3	Enterprise search	Enterprise search presents a horizontal platform opportunity to solve the universal problem of fragmented enterprise knowledge, creating a sticky, high-value "operating system" for internal data.

Ranking	AI subsector	Rationale
4	Compliance	Compliance is a nondiscretionary budget item where increasing regulatory complexity, even for AI itself, makes AI-powered automation for monitoring and reporting essential infrastructure.

Which AI subsectors in your space appear to be the most overheated with capital and/or competition and will likely see disproportionate value destruction for the startups that do not differentiate?

The AI & data science platforms subsector (within the analytic platforms sector) and the marketing subsector (within the CRM sector) appear most overheated. The former is dominated by capital-intensive foundation model builders like OpenAI and Anthropic, making it nearly impossible for new entrants to compete. The marketing subsector is saturated with undifferentiated AI content and personalization tools, many of which are thin wrappers around third-party APIs, leading to intense competition and a high risk of value destruction for startups that fail to establish a unique data or workflow moat.

Which traditional, non-AI competitors in your coverage will likely be fully outcompeted by AI-native competitors in the next 10 years if they do not rapidly adopt AI functionalities?

Traditional, non-AI competitors in the analytics & BI platforms subsector (within the analytic platforms sector) are the most likely to be fully outcompeted by AI-native competitors in the next decade. The core value proposition of legacy BI, especially manual dashboard creation and static reporting, is being rendered increasingly obsolete by agentic AI and natural language querying. The paradigm is shifting from users navigating to a dashboard to insights being delivered conversationally and contextually within their workflows, a fundamental disruption that many legacy platforms are architecturally unprepared for.

In which AI subsectors are companies most likely to remain private longer, and in which are they likely to seek exits in 2026? Beyond a tight IPO market, what other industry-specific, macroeconomic, or geopolitical factors should be considered?

Subsectors with horizontal, capital-intensive platform dynamics, such as AI & data science platforms (within the analytic platforms sector) and enterprise search (within the other application software sector), are most likely to remain private longer, fueled by large private funding rounds to achieve market dominance. On the other hand, AI companies in vertical-specific subsectors with clearer paths to profitability, such as compliance (within the other application software sector) and financial management systems (within the ERP sector), are more likely to seek exits in 2026 through IPOs or acquisitions by PE and strategic buyers. Beyond the tight IPO market, the key driver is the platform war: Incumbents are driven to acquire these point solutions to quickly integrate AI features and defend their ecosystems.

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OUTLOOK

Infrastructure SaaS

Which AI subsector in your coverage has been the most successful at taking share in 2025? What is driving its success?

The create/code-gen subsector has seen the most significant share gains in 2025. This success is driven by the immediate, quantifiable productivity gains from GenAI. Tools for code generation, auto-completion, and automated bug fixing provide a clear ROI in a market with a persistent shortage of senior engineering talent. Startups such as Cursor, Tabnine, and Replit are key players to watch, though the category is heavily influenced by Microsoft's GitHub Copilot, which has validated the market's massive appetite.

Which AI subsector in your coverage is underappreciated today but whose customer traction you expect to accelerate the most in 2026 or 2027? What catalysts will drive its takeoff?

ITOps management is the most underappreciated subsector for AI infrastructure SaaS startups today because it underlies the collective processes, services, and tasks responsible for maintaining an organization's technology environment. The catalyst for its acceleration is the unmanageable complexity of multicloud and distributed systems. For quite some time now, humans have not been able to manually parse the volume of logs and metrics to quickly and efficiently find root causes of failures. AI operations (AIOps) is shifting this subsector from reactive alerting to predictive, self-healing infrastructure, where AI can anticipate and remediate failures before they cause downtime. Startups such as BigPanda, Selector, ScienceLogic, LogicMonitor, and Harness are well positioned to lead.

If you were deploying a new seed-stage VC fund and could select only four AI subsectors in your coverage to invest in, which would you choose and why? Rank them from 1 to 4, with 1 being your favorite.

Ranking	AI subsector	Rationale
1	Data management software	AI has a fundamental "garbage in, garbage out" problem. Seed-stage companies creating tools for AI-specific data quality, governance, and vector data management are a critical picks-and-shovels play on the entire current and future ecosystem.
2	API first	AI models are consumed via APIs. The infrastructure to secure, monitor, and scale these AI-centric APIs is a non-negotiable, high-growth layer.
3	ITOps management	AIOps is moving from a buzzword to a necessity. The ROI from preventing downtime is massive, and the market is still in its early stages.
4	Verify	While the create subsector is hot, the verify subsector is next. AI that can autonomously generate and execute complex test suites will be a game-changer for software quality.

Which AI subsectors in your space appear to be the most overheated with capital and/or competition and will likely see disproportionate value destruction for the startups that do not differentiate?

The create/code-gen subsector is unequivocally the most overheated. While successful, it is now saturated with "Copilot for X" startups that are often thin wrappers on foundation models. These companies lack deep, defensible moats. The dominant incumbents, primarily Cursor and Microsoft/GitHub, have unparalleled data and distribution advantages, which will likely lead to widespread commoditization and value destruction for undifferentiated startups in this space.

Which traditional, non-AI competitors in your coverage will likely be fully outcompeted by AI-native competitors in the next 10 years if they do not rapidly adopt AI functionalities?

Legacy vendors in ITOps management are the most vulnerable. Companies built on static dashboards and manual, ticket-based workflows will be completely outcompeted. AI-native platforms will not just alert a human; they will predict the failure and autonomously remediate it. This shift to self-healing infrastructure is a capability that legacy architectures cannot easily replicate, rendering their model obsolete within a decade.

In which AI subsectors are companies most likely to remain private longer, and in which are they likely to seek exits in 2026? Beyond a tight IPO market, what other industry-specific, macroeconomic, or geopolitical factors should be considered?

Startups in database management systems will likely remain private longer. For example, building a new, AI-native database, a next-generation vector database, or a distributed system is a capital-intensive R&D endeavor requiring patient, long-term capital. Conversely, AI-native startups in the create and API-first subsegments are prime M&A targets for 2026. The strategic driver is the platform war: Incumbents such as GitLab, Atlassian, and infrastructure giants must acquire these point solutions to plug immediate GenAI and security gaps, making acquisition the fastest route to market.

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OUTLOOK

Fintech

Which AI subsector in your coverage has been the most successful at taking share in 2025? What is driving its success?

The CFO stack has seen exceptional AI adoption compared with other fintech segments. As of Q3 2025, our data showed that 49% of US-based CFO stack companies were authentic AI fintech companies in the US. The segment also leads all US enterprise fintech segments in AI adoption count, accounting for 25% of all AI-enabled enterprise fintech companies.

AI-driven spending management and forecasting tools have been the breakout category, capturing share from legacy ERP modules. Their success stems from GenAI's ability to automate expense classification, scenario modeling, and compliance reporting. Examples of startups in this space include Ramp, Trovata, Rillet, Zip, MakersHub, Collective, and Fieldguide.

Which AI subsector in your coverage is underappreciated today but whose customer traction you expect to accelerate the most in 2026 or 2027? What catalysts will drive its takeoff?

AI adoption in payments has been limited thus far (just 21% of US payment companies qualify as true AI adopters), but infrastructure players in the sector will be interesting to watch in 2026 as agents become further entrenched in money movement. Payment firms, retailers, and LLM providers are beginning to bet on agentic commerce. This shift in the purchasing convention coincides with growing institutional adoption of stablecoins, which we believe have a strong chance of becoming the default rail for AI-driven transactions.

As such, watch for companies building the infrastructure to support AI agents, including handling autonomous payments, identity, and integration with on-chain rails. Some include Stripe, Coinbase, Skyfire, Payman, Nevermined, Paygentic, Natural, nekuda.ai, Rail, and Credyt.

If you were deploying a new seed-stage VC fund and could select only four AI subsectors in your coverage to invest in, which would you choose and why? Rank them from 1 to 4, with 1 being your favorite.

Ranking	AI subsector	Rationale
1	Payment infrastructure for agentic commerce	This subsector has a massive addressable market that may see revitalized growth from upcoming catalysts: agentic payments, stablecoin adoption, and real-world asset tokenization.
2	CFO stack	The CFO stack has the highest concentration of AI-enabled companies among fintech segments. Automation can create sticky, high-value products in a previously entrenched sector. The subsector has opportunities to displace incumbent ERPs, differentiate with data, and verticalize.
3	Capital markets	There are strong opportunities for both GenAI and traditional machine learning (ML) to transform trading and operations by automating data analysis and post-trade workflows, reducing settlement friction, and modernizing legacy infrastructure.
4	Regtech	This is a smaller segment but has the highest AI penetration in fintech. It has strong use cases in compliance automation and risk detection, with on-chain finance and agentic payments driving next-gen trust and fraud solutions.

Which AI subsectors in your space appear to be the most overheated with capital and/or competition and will likely see disproportionate value destruction for the startups that do not differentiate?

The CFO stack and capital market segments currently hold high shares in AI penetration and VC funding. However, startups in these areas see high feature parity as they target the same upgrade cycles. They may converge on similar automation use cases such as reporting, reconciliation, and data ingestion, leading to overlapping functionality and pricing pressure. Without proprietary data, domain depth, or workflow ownership, their products risk rapid commoditization. Durable value can come from vertical specialization, defensible data advantages, and deep integration into enterprise systems.

Which traditional, non-AI competitors in your coverage will likely be fully outcompeted by AI-native competitors in the next 10 years if they do not rapidly adopt AI functionalities?

Companies still relying on manual workflows, static rule-based automation, or limited data-driven insights will lose ground as AI-native platforms deliver real-time analytics, smart forecasting, and seamless workflow integration. In our view, many of these at-risk companies will be in legacy ERP, accounting, capital markets software, and regtech. Their rigid architectures and static data models limit real-time analytics, automation, and cross-system intelligence, which is precisely where AI-native challengers excel.

In which AI subsectors are companies most likely to remain private longer, and in which are they likely to seek exits in 2026? Beyond a tight IPO market, what other industry-specific, macroeconomic, or geopolitical factors should be considered?

Regtech firms will likely remain private longer. They operate in a saturated market, facing evolving regulations, complex integrations, and lengthy sales cycles that require significant institutional trust—factors that slow revenue growth and delay public market readiness.

In contrast, payments and capital markets firms with strong recurring revenue and fast user growth may seek exits sooner. Large incumbents in these segments are pursuing M&A not only to modernize infrastructure and capture agentic workflow capabilities but also to accelerate growth in otherwise maturing markets. Payments specifically will see heightened acquisition activity as players look to build out new on-chain infrastructure.

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OUTLOOK

Carbon & emissions tech

Which AI subsector in your coverage has been the most successful at taking share in 2025? What is driving its success?

Though not strictly an AI subsector, technologies to reduce the energy use and carbon emissions of AI have seen some large VC deals in recent quarters, assisted by megadeals from Crusoe in particular. Crusoe initially focused on crypto mining using stranded energy assets but has since pivoted into the datacenter space following the sale of its bitcoin mining operations.[8] Insatiable demand for AI inference computing and datacenters' high-profile energy requirements are leading developers to seek ways to optimize energy usage or generate their own energy on-site. The range of technologies in the space is somewhat broad, including a large subset that focuses on a more application-specific variant of conventional building energy efficiency technologies. These take general-purpose energy-efficient lighting, heating, and cooling technologies—plus energy management systems—and refine them for datacenters, particularly focusing on cooling solutions. Other leading startups include Lancium, Nautilus Data Technologies, and Accelsius.

Which AI subsector in your coverage is underappreciated today but whose customer traction you expect to accelerate the most in 2026 or 2027? What catalysts will drive its takeoff?

Subsurface resource identification/detection: Though there have been a few high-profile deals in the space—mostly from KoBold Metals—there are relatively few developers of technologies that use either AI or a combination of AI and additional proprietary sensor technology to identify likely subsurface deposits of metals and mineral resources. Other startups such as Earth AI use a similar approach to KoBold Metals, while companies such as Ideon Technologies combine AI with novel in-ground sensor technologies. Subsurface mineral detection technologies will likely be in higher demand in the near future, given the supply chain challenges driven by geographic concentration of certain critical minerals in regions such as China and Southeast Asia, which can limit access to these minerals in response to tariff policies. Some of these technologies also have applications in oil & gas energy and power and potentially geothermal siting.

8: "NYDIG to Acquire Crusoe's Bitcoin Mining Operation Crusoe to Scale Vertically-Integrated AI Infrastructure Solutions," Crusoe, March 25, 2025.

If you were deploying a new seed-stage VC fund and could select only four AI subsectors in your coverage to invest in, which would you choose and why? Rank them from 1 to 4, with 1 being your favorite.

Ranking	AI subsector	Rationale
1	Datacenter decarbonization	Though decarbonization is a little out of favor (particularly in the US), the growth we have seen in datacenter capacity, coupled with concerns that datacenters will either cause significant carbon emissions or increase energy costs for other consumers, means datacenter energy-efficiency technologies, such as immersion cooling systems for datacenter-specific hardware, and more general built environment technologies, such as energy-efficient cooling and lighting, will likely see considerable interest in the next few years.
2	Subsurface resource identification/ detection	The supply chain concerns we have seen from the start of 2025 have increased the importance of alternative supply chains for critical mineral resources. Companies using AI to interpret data to identify new mineral deposits could allow for the creation or expansion of domestic supply chains.
3	Building energy optimization	As part of the refocusing of climate tech toward resilience and cost-saving measures, optimizing building energy usage using AI-integrated management systems provides benefits to users regardless of their thoughts on decarbonization.
4	Geographic data interpretation (for carbon projects, agriculture, ecosystem protection, and so on)	This area contains technologies that have broad applications across a range of sectors in addition to those in carbon technologies, often including data interpretation for municipal or defense purposes.

Which AI subsectors in your space appear to be the most overheated with capital and/or competition and will likely see disproportionate value destruction for the startups that do not differentiate?

In the carbon & emissions tech space, we would not say there are any subsectors overheated with capital. Datacenter decarbonization is probably the most well-represented area from the perspective of VC deal value, though a significant portion of this comes from Crusoe's substantial megadeals. We would be surprised to see significant value destruction in the space, though.

Which traditional, non-AI competitors in your coverage will likely be fully outcompeted by AI-native competitors in the next 10 years if they do not rapidly adopt AI functionalities?

"Fully outcompeted" is likely a stretch—in the built environment space, we will see building energy optimization tech developers increasingly incorporate AI into their systems to assist with improving optimization, allow more granular analysis of factors in building energy systems, and learn user/inhabitant behaviors. We expect that most

participants in the space will either acquire or develop their own AI capabilities, as many of the larger companies in the space are already well established in their respective geographies.

In which AI subsectors are companies most likely to remain private longer, and in which are they likely to seek exits in 2026? Beyond a tight IPO market, what other industry-specific, macroeconomic, or geopolitical factors should be considered?

If we are considering the US specifically, exits in the carbon & emissions tech space are very limited and have been for a number of years. We are not expecting any specific space to see many exits—from AI-focused companies or otherwise—though the building energy efficiency space is more likely to see exit activity: probably a few IPOs from the larger companies with broad geographic and hardware/software coverage, and M&A from smaller companies.

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OUTLOOK

Clean energy

Which AI subsector in your coverage has been the most successful at taking share in 2025? What is driving its success?

Power-grid management and renewables integration: This is quite a wide subsector, including technologies that predict, monitor, and control power grids, often focusing on distributed resources (local energy generation and storage, and/or demand response assets). AI is used to integrate new datasets and improve predictions for energy consumption and production. Success of this space is largely driven by the potential value in optimizing energy consumption and managing increasingly complex grids with higher penetrations of intermittent renewables and other distributed energy resources. Datacenters have relatively stable energy requirements, and the power-grid challenges of datacenter growth are largely focused on adding energy capacity. However, if this additional capacity comes from solar and wind sources, there could be an increased need for technologies to integrate distributed energy sources. Startups in this space include Peak Power, Urbint, and Gridware.

Which AI subsector in your coverage is underappreciated today but whose customer traction you expect to accelerate the most in 2026 or 2027? What catalysts will drive its takeoff?

AI applications in hardware monitoring and diagnostics for maintenance purposes are somewhat underappreciated, partly due to their lower penetration in renewables. Only recently have we seen large-scale renewable energy installations approaching the end of their lives, and renewables' distributed nature and exposure to the elements makes asset-health monitoring more critical and challenging for existing approaches.

If you were deploying a new seed-stage VC fund and could select only four AI subsectors in your coverage to invest in, which would you choose and why? Rank them from 1 to 4, with 1 being your favorite.

Ranking	AI subsector	Rationale
1	Grid management & distributed energy resource management	Encompassing technologies to optimize use of intermittent renewables and energy storage, these technologies can also provide small-scale entities the ability to participate in demand response mechanisms.
2	Clean energy tech for AI applications	Though not strictly an AI subsector, one of the core influences of AI on the clean energy space is the increased demand for new energy sources, and while these do not have to be clean energy, falling costs of clean energy have made technologies such as solar and wind some of the most practical new additions to power grids, particularly when coupled with energy storage technologies such as lithium-ion battery energy storage systems. Outside of this, geothermal technologies and SMR nuclear technologies are being hailed as ideal for datacenter applications because of their consistent power outputs.

Ranking	AI subsector	Rationale
3	Solar design & planning	Surveying sites that have complex topographies allows for optimized clean energy installations that are not negatively affected by nearby buildings, trees, and elevation differences. For solar installations in particular, design and planning solutions can optimize energy outputs and reduce self-shading panels, particularly on uneven terrain (whether this is uneven ground or uneven roofing).
4	Monitoring & hardware diagnostics	This includes asset-health elements covered in the previous question, plus asset performance and optimization. It can apply to all scales of clean energy installation (utility scale, commercial & industrial, and residential).

Which AI subsectors in your space appear to be the most overheated with capital and/or competition and will likely see disproportionate value destruction for the startups that do not differentiate?

Though it may not be strictly an AI subsector, we are seeing significant capital going toward SMR development, with AI energy demands as a core market segment due to SMRs' stable power output and smaller sizes suitable for colocation. Value destruction is more likely to be driven by SMR developers' failure to commercialize—to the point of standardized reactor manufacturing rather than FOAK projects—than it will be by differences in reactor designs. Developers are designing/using a broad range of reactor types, but because many of the benefits of SMRs are dependent on standardization and production efficiency, there is somewhat of a rush to commercialize ahead of competitors. AI/datacenter use cases are seen as a driver of development, providing early opportunities.

Which traditional, non-AI competitors in your coverage will likely be fully outcompeted by AI-native competitors in the next 10 years if they do not rapidly adopt AI functionalities?

The monitoring & hardware diagnostics category, plus solar & wind optimization platforms, are the most likely candidates for this, though we would still be hesitant to say that non-AI systems will likely be fully outcompeted by AI-native ones.

In which AI subsectors are companies most likely to remain private longer, and in which are they likely to seek exits in 2026? Beyond a tight IPO market, what other industry-specific, macroeconomic, or geopolitical factors should be considered?

Solar planning, monitoring, and optimization technologies will likely see more exits than other spaces, given their appeal as strategic acquisition targets for existing solar developers looking to expand their coverage. The regionality of the solar technology space (somewhat more so for the residential solar technology space) also lends itself to this, though at the moment there are not a huge number of companies focused on these applications.

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OUTLOOK

Medtech

Which AI subsector in your coverage has been the most successful at taking share in 2025? What is driving its success?

AI-powered patient monitoring systems have gained meaningful share in 2025 as health systems adopt predictive analytics for early deterioration detection and continuous vital-sign monitoring. These platforms enhance workflow efficiency by automating routine monitoring tasks, identifying high-risk patients for intervention, and supporting ongoing postdischarge monitoring. And as reimbursement for remote monitoring expands, these tools are becoming a standard feature of high-quality care. Leading startups include BioIntelliSense, Current Health, Aidoc, and VitalConnect, while acquisitions of others such as BioTelemetry and Vivify Health indicate strong strategic interest from large incumbents, including Philips and UnitedHealth Group.

Which AI subsector in your coverage is underappreciated today but whose customer traction you expect to accelerate the most in 2026 or 2027? What catalysts will drive its takeoff?

AI-powered cardiology imaging remains underappreciated within the broader medtech investor landscape despite receiving significant investor interest. Heartflow's public listing and recent clearance by the US Food and Drug Administration for its next-generation plaque analysis diagnostic should accelerate adoption and reimbursement momentum into 2026. The subsector is currently dominated by emerging players such as Heartflow, Elucid, and Cleerly rather than established incumbents. Over the next few years, we expect strong traction for predictive medical imaging broadly, and we see a key role for cardiology imaging, including AI plaque analysis.

If you were deploying a new seed-stage VC fund and could select only four AI subsectors in your coverage to invest in, which would you choose and why? Rank them from 1 to 4, with 1 being your favorite.

Ranking	AI subsector	Rationale
1	AI precision medicine	AI precision medicine presents a large market opportunity, with a global TAM in the tens of billions of dollars and growing rapidly. The subsector has clear exit potential (as seen with Tempus AI) and partnership possibilities across biopharma and diagnostics.
2	AI imaging diagnostics	This subsector has rapid pathways to commercialization, existing reimbursement traction, highly scalable business models, and a strong ROI to health systems.
3	AI surgical robotics	High barriers to entry create advantages for early AI leaders. The subsector can build on broader growth of medical robotics and rising demand for surgical efficiency.
4	AI-powered smart implants	AI-powered smart implants represent the next evolution in remote patient monitoring and post-op care. They will appeal to patients and providers seeking the most advanced orthopedic technologies.

Which AI subsectors in your space appear to be the most overheated with capital and/or competition and will likely see disproportionate value destruction for the startups that do not differentiate?

AI precision medicine has become a crowded investment space as capital floods into genomic and biomarker-driven models that may still be years from broad clinical adoption. While we are bullish on the space and see significant long-term market potential, there is unlikely to be room for dozens of smaller players chasing similar opportunities. We see value concentrating around platforms that integrate multiomic data into actionable treatment guidance and ones that integrate most effectively into provider workflows. Consolidation is also likely as incumbents move to acquire companion diagnostic capabilities.

Which traditional, non-AI competitors in your coverage will likely be fully outcompeted by AI-native competitors in the next 10 years if they do not rapidly adopt AI functionalities?

Traditional device makers that remain tied to fixed hardware innovation cycles risk being outcompeted by AI-native competitors building data-driven platforms. Medical devices without connected software are increasingly vulnerable to competition from emerging market entrants offering digital capabilities. In orthopedics, for example, demand is rising for smart implants and software-connected devices that deliver continuous feedback to patients and surgeons. Surgical workflow is another area of disruption as AI-powered navigation and instrument-tracking systems gain traction and challenge incumbents.

In which AI subsectors are companies most likely to remain private longer, and in which are they likely to seek exits in 2026? Beyond a tight IPO market, what other industry-specific, macroeconomic, or geopolitical factors should be considered?

AI surgical robotics companies will likely remain private longer given capital intensity and regulatory hurdles. While robotics are well established in the operating room, fully autonomous systems will take time to gain trust from both patients and surgeons. In contrast, AI imaging diagnostics are positioned for earlier exits as health systems seek out workflow efficiency and emerging imaging platforms look to scale faster.

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OUTLOOK

Agtech

Which AI subsector in your coverage has been the most successful at taking share in 2025? What is driving its success?

AI-driven biologicals (biocontrol and bionutrients) are disrupting crop protection by compressing development timelines. GenAI platforms design biological molecules computationally, predicting efficacy before field trials, whereas the pre-AI process entailed more trial and error. Quercus Biosolutions, Micropep, and Bindwell use AI to discover designer miniproteins and micropeptides, matching chemical efficacy with faster regulatory approval and environmental advantages. Syngenta's partnership with TraitSeq accelerates development by identifying biomarkers predicting biostimulant performance.

Which AI subsector in your coverage is underappreciated today but whose customer traction you expect to accelerate the most in 2026 or 2027? What catalysts will drive its takeoff?

Ag biotech powered by AI and CRISPR is agtech's most underappreciated subsector, and it is positioned for accelerated traction in 2026 and 2027. The synthetic biology agriculture market will reach $3.8 billion by 2025, growing at a 22% CAGR to $10.3 billion by 2030.[9] Three catalysts will drive takeoff: the Synthetic Biology Advancement Act authorizing $30 million in federal grants through 2030 for CRISPR and AI-powered crop development;[10] AI & ML platforms cutting crop development timelines from more than 10 years to three to five years; and major partnerships between ag giants (such as Corteva, Bayer, and Mars) and biotech startups. Leading startups include Pairwise ($155 million raised to date), co-founded by CRISPR inventors; Inari Agriculture ($2.2 billion raised to date), creator of the SEEDesign platform; Profluent Bio ($130 million raised to date), partnered with Corteva; and Phytoform Labs ($5.7 million raised to date), creator of the CRE.AI.TIVE platform.

If you were deploying a new seed-stage VC fund and could select only four AI subsectors in your coverage to invest in, which would you choose and why? Rank them from 1 to 4, with 1 being your favorite.

Ranking	AI subsector	Rationale
1	Biologicals (bionutrients and biocontrol)	AI-driven biologicals compress R&D timelines from more than 20 years to two years via computational design, enabling startups to discover efficacy-proven biocontrol and bionutrient solutions and minimize expensive field trials. Strategic acquirers (such as Bayer, Syngenta, and Corteva) actively consolidating biological portfolios creates clear exit paths. Regulatory tailwinds favor biopesticides over synthetics, reducing approval costs and timelines.

9: "Synthetic Biology in Agriculture and Food Charting Growth Trajectories: Analysis and Forecasts 2025-2033," DiMarket, September 16, 2025.
10: "S.2695 - Synthetic Biology Advancement Act of 2025," US Congress, September 3, 2025.

Ranking	AI subsector	Rationale
2	Precision agriculture software	Precision ag software provides faster disease detection than manual scouting with over 95% accuracy. Precision sprayers achieve herbicide savings compared with broadcast spraying. AI continuously learns from millions of acres, improving recommendations. Traditional methods rely on agronomist intuition; manual scouting takes more than 50 hours per 1,000 acres. Software scales to infinite farms at zero marginal cost.
3	Ag robotics	Without AI, robots cannot distinguish weeds from crops or diseased plants from healthy plants—making autonomous operation impossible. Deep learning enables real-time decision-making at speeds of over 10 mph across variable terrain. AI plus computer vision replaces human labor entirely, cutting labor and input costs. Blue River Technology's $305 million exit validates $300 million+ robotics outcomes achievable only via AI-driven precision.
4	Farm management software	GenAI copilots transform farmers from data collectors to strategic decision-makers. LLMs synthesize over 50 data sources (such as weather, soil, market prices, and equipment logs) into actionable insights instantly. Without GenAI, farmers navigate dashboards manually; with GenAI, asking "What should I spray next week?" returns an optimized recommendation in seconds. The subsector is nascent, but winners will be AI native from inception, unlike retrofitted solutions.

Which AI subsectors in your space appear to be the most overheated with capital and/or competition and will likely see disproportionate value destruction for the startups that do not differentiate?

Drone-based crop monitoring faces value destruction risk as the market consolidates around more than 50 competitors offering commoditized AI-powered drone solutions. Hardware margins collapse for independent drone startups because commodity platforms such as DJI Agras cost only $15,000 to $25,000, while open-source AI models (such as YOLOv8) are freely available to any competitor, eliminating software differentiation as a defensible competitive advantage. Drone-as-a-service models such as Leher (managing 35,000 acres) achieve faster ROI (18 to 24 months) than hardware startups (three to five years), collapsing the TAM for independent drone manufacturers. Large agtech platforms such as Climate FieldView (owned by Bayer), John Deere Operations Center, and Sentera (acquired by John Deere) maintain powerful industry moats by integrating machine and imagery data at scale, creating the default enterprise solution that marginalized independent drone startups lacking integration into these dominant ecosystems. Startups without proprietary AI (such as custom pest prediction or yield forecasting) or distribution networks will struggle to grow revenue and raise capital.

Which traditional, non-AI competitors in your coverage will likely be fully outcompeted by AI-native competitors in the next 10 years if they do not rapidly adopt AI functionalities?

Agricultural input distributors: The ag retail sector comprises more than 21,000 retailers and distributors,[11] with consolidation accelerating: Only 206 "big dealers" operate 2,656 stores.[12] Seven major retailers (Nutrien Ag Solutions, GROWMARK, Helena Agri-Enterprises, CHS, J.R. Simplot, Wilbur-Ellis, and GreenPoint AG) control approximately 60% to 90% of crop input sales.[13] Precision AI platforms (such as Granular, Climate FieldView, and Cropwise) now provide variable-rate fertilizer recommendations directly to farmers, bypassing retailer agronomists. Corteva (owner of Granular), Bayer (owner of Climate FieldView), and Syngenta (owner of Cropwise and Taranis) have integrated vertically into direct-to-farmer digital advisory, threatening traditional retailer advisory roles. Industry consolidation has accelerated as larger retailers adopt AI; smaller operators without digital capabilities face competitive pressure. Independent retailers currently capture approximately 25% of the agricultural retail market,[14] those that lack AI capabilities are being pressured.

In which AI subsectors are companies most likely to remain private longer, and in which are they likely to seek exits in 2026? Beyond a tight IPO market, what other industry-specific, macroeconomic, or geopolitical factors should be considered?

AI-driven biologicals and gene-editing startups will remain private longer due to extended R&D timelines (three to five years or longer to proof of concept), stringent regulatory requirements, and field trial complexity incompatible with public market scrutiny. Companies like Pairwise prioritize strategic partnerships with agrochemical giants (such as Corteva and Bayer) over IPOs—a signal that biotech founders view acquisition by established input suppliers as the optimal exit path rather than independence. AI-driven precision ag software and robotics, conversely, are pursuing near-term strategic M&A exits. Through Q3 2025, the farm management software and robotics segments each led agtech exits with five transactions YTD, compared with three exits each for the finance & insurance, animal biotech, field Internet of Things (IoT), and crop genetics segments, demonstrating software and robotics' commercial maturity. Strategic acquirers—Corteva (owner of Granular), Bayer (owner of Climate FieldView), Syngenta (owner of Cropwise and Taranis), and John Deere (owner of Sentera)—are consolidating digital and autonomous capabilities. In 2025, agtech exits are occurring entirely through M&A (38 transactions) and buyouts (five transactions), with zero IPOs. We believe that precision ag software and robotics companies with proven unit economics will pursue strategic exits in 2026, while biotech will remain private as it awaits regulatory milestones and yield validation.

11: "Top 10 Ag Retailers With the Most Facilities in 2024," CropLife, January 8, 2025.
12: "Big Dealer Consolidation Continues in 2024," Farm Equipment, Ben Thorpe, May 10, 2024.
13: "Agriculture Concentration Data," Farm Action, July 2024.
14: "Strategic Changes Shaping a New Ag Input Retail Industry," Purdue University, Dr. Luciano Thomé e Castro, Dr. Allan Gray, and Dr. Lourival Carmo Monaco Neto, October 18, 2021.

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OUTLOOK

Supply chain tech

Which AI subsector in your coverage has been the most successful at taking share in 2025? What is driving its success?

The deployment of AI agents across various facets of logistics and supply chain operations, including front-facing tasks such as automating inbound calls and brokerage quotations as well as optimizing routes and delivery routines, is already having a bottom-line impact. AI-native startups such as Augment, just out of stealth mode last spring and founded by teams steeped in decades of supply chain tech development and deployment, have hit the ground running with AI agent solutions for logistics firms such as RFX and Arrive. Despite an ongoing freight recession and flat revenue environment, traditional firms such as C.H. Robinson and XPO are reporting dramatic improvements in profitability and productivity driven by AI implementations.

Which AI subsector in your coverage is underappreciated today but whose customer traction you expect to accelerate the most in 2026 or 2027? What catalysts will drive its takeoff?

The physical movement of goods through supply chains typically goes in one direction, but the disparate data and information within supply chains move in multiple directions and remain opaque to many participants. Startups attacking the supply chain data problem, such as Auger in enterprise supply chain management (ESM), are combining teams with decades of supply chain tech experience to build new AI tools for Amazon and other logistics leaders that can capture, coordinate, and condense disparate data across supply chains to spur decision-making and operations. More mature startups such as Altana, also in ESM, and project44 in freight tech are building tools to enhance visibility, optionality, and efficiency across supply chains as global trade variables become more dynamic.

If you were deploying a new seed-stage VC fund and could select only four AI subsectors in your coverage to invest in, which would you choose and why? Rank them from 1 to 4, with 1 being your favorite.

Ranking	AI subsector	Rationale
1	Cobots for warehouse automation (part of AI for warehouse automation)	Training and deployment of warehouse robotics is expensive, limiting the domain to leaders such as Amazon and Walmart. Yet even these companies see sizable portions of their employee base devoted to warehousing with seasonal surges. AI-trained cobots orchestrated by warehouse workers can democratize deployment with lower costs while spurring productivity and safety.
2	Autonomous pallets & racking in warehouse automation	Amazon's acquisition of Kiva Systems over a decade ago spurred a revolution in warehouse robotics. Today, startups such as Mytra—just out of stealth in mid-2024— have automated entire racking and palleting systems, multiplying warehouse density and efficiency. Traditional logistics firms such as ArcBest are building automated pallets with technology partners to tackle bottlenecks such as truck loading and unloading at the dock.

Ranking	AI subsector	Rationale
3	Supply chain data visibility	Data across layers of supply chains remains opaque. Capturing and coordinating data across myriad data types and platforms has stymied the industry for decades. GenAI tools that can pull together disparate data to augment decision-making can unlock significant value across supply chains.
4	AI agents for supply chains	AI agents are being designed and deployed to offload tedious work from frontline operators across the 200,000 shippers, 900,000 trucking companies, and 20,000 brokerages across the US. Startups such as Augment have built systems to make and receive calls, manage email, and upload data and documents, orchestrating across point solutions to boost productivity among third-party logistics operators.

Which AI subsectors in your space appear to be the most overheated with capital and/or competition and will likely see disproportionate value destruction for the startups that do not differentiate?

Capital-intensive aspects of supply chain operations, such as managing dedicated airfreight fleets and trucking assets, have not been particularly kind to VC investors since money flooded into the sector in 2020. Convoy went bankrupt trying to expand beyond initial efforts to optimize the LTL sector. Flexport struggled through layoffs and senior management departures as it tried to "blitzscale" its way into a larger share of the logistics pie. Many facets of supply chain and logistics remain capital-intensive and traditionally yield relatively low margins. Many traditional areas that initially appeared ripe for disruption have proven resistant to change.

Which traditional, non-AI competitors in your coverage will likely be fully outcompeted by AI-native competitors in the next 10 years if they do not rapidly adopt AI functionalities?

In the next several years, trucking firms that do not adopt autonomous solutions will be vulnerable. Regulations limit trucker hours, but autonomous trucks can run longer, more safely, and with greater energy efficiency. The cost per mile for autonomous solutions looks to drop dramatically over the next few years, exposing a larger share of the industry.

In which AI subsectors are companies most likely to remain private longer, and in which are they likely to seek exits in 2026? Beyond a tight IPO market, what other industry-specific, macroeconomic, or geopolitical factors should be considered?

Supply chain data challenges have stymied the industry for decades, and AI tools offer solutions, but progress toward implementation could remain incremental over the near term. We expect recent AI-native startups such as Auger to remain private for longer. By contrast, a number of autonomous trucking startups are seeking exits. Kodiak Robotics went public in September, and Einride is looking to go public in 2026.

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OUTLOOK

Mobility tech

Which AI subsector in your coverage has been the most successful at taking share in 2025? What is driving its success?

Autonomous transport, specifically trucking: The number of autonomous driving companies has narrowed over the past couple of years as traditional automotive original equipment manufacturers (OEMs) pulled the plug, but Waymo and a number of Chinese companies, including Baidu and Pony.AI, are ramping up rides and deployment. Specific niches such as autonomous yard trucks (as seen with Outrider and FERNRIDE), Class-8 trucks (as seen with Waabi, Kodiak, Aurora, and Einride), and middle-mile logistics (as seen with Gatik) are gaining traction.

Which AI subsector in your coverage is underappreciated today but whose customer traction you expect to accelerate the most in 2026 or 2027? What catalysts will drive its takeoff?

Autonomous driving niches such as middle-mile logistics (as seen with Gatik) and autonomous yard trucks (as seen with Outrider, ISEE, and HubPilot) will likely have a bigger commercial (and profitable) impact over the near term. Goldman Sachs estimates the autonomous vehicle trucking market will grow from $130 million in 2026 to $17.8 billion in 2030 as costs per mile decline and regulators become more comfortable with the technology.[15]

If you were deploying a new seed-stage VC fund and could select only four AI subsectors in your coverage to invest in, which would you choose and why? Rank them from 1 to 4, with 1 being your favorite.

Ranking	AI subsector	Rationale
1	Autonomy & perception software	Synthetic training data can provide far more edge cases and situations (crashes, obstacles, and so on) that one would never recreate with real data feeds. Models can be trained faster with data that is more robust by orders of magnitude.
2	Automotive AI agents	Interactive voice chatbots provide drivers with vehicle, navigation, shopping, and maintenance information. They coordinate multiple automotive subsystems and connectivity to converse with drivers like J.A.R.V.I.S. from the Iron Man franchise. OEM pilots to date have fallen short of the mark.
3	AI research tools to sort and screen novel battery materials and molecular formulations on massive scale	The energy density of lithium-ion batteries has plateaued, and Chinese manufacturers have locked up material supply chains. Efforts with solid-state batteries and other novel approaches have been too costly and time-consuming. Like Google DeepMind's AlphaFold probabilistically sorting and sifting through trillions of possible protein shapes, AI tools to generate novel battery chemistries and materials could drive significant breakthroughs in energy density, cost, and manufacturing scalability.

15: "The Autonomous Vehicle Market Is Forecast to Grow and Boost Ridesharing Presence," Goldman Sachs, July 3, 2025.

Ranking	AI subsector	Rationale
4	Automotive manufacturing cobots	Automotive manufacturing lines are highly complex and efficient yet rigid and inflexible. AI-trained cobots working alongside and orchestrated by line workers can spur productivity and product variation. Lessons learned amid the complexity of automotive manufacturing lines can be replicated in other manufacturing environments. BMW has been one of the early adopters of cobots, with tasks including fastening, component positioning, and quality inspections.

Which AI subsectors in your space appear to be the most overheated with capital and/or competition and will likely see disproportionate value destruction for the startups that do not differentiate?

Autonomous driving startups, fueled by various AI technologies, have burned through more than $100 billion over the past decade, while the promise of Level 5 autonomy continues to recede on the horizon. Waymo and a handful of Chinese competitors continue to push the frontier, building ride miles and training data, but hardware and software cost variability make viable service business models elusive. Differentiated approaches that solve specific business issues across supply chains and transportation networks look to achieve commercial viability more readily.

Which traditional, non-AI competitors in your coverage will likely be fully outcompeted by AI-native competitors in the next 10 years if they do not rapidly adopt AI functionalities?

Trucking looks particularly vulnerable. Safety regulations limit drivers' hours to a fraction of the day, while autonomous trucks roll 24/7. Autonomous trucks can operate with greater fuel and energy efficiency as well as safety. The trucking industry already faces a shortfall of tens of thousands of drivers. As cost per mile for autonomous trucking continues to decline, the traditional trucking model looks defenseless.

In which AI subsectors are companies most likely to remain private longer, and in which are they likely to seek exits in 2026? Beyond a tight IPO market, what other industry-specific, macroeconomic, or geopolitical factors should be considered?

Waymo will likely remain private and under Alphabet's wing while training and additional deployment of its services across cities continue to consume considerable capital. Hardware and software costs have to drop along a defensible trajectory that points to a viable business model before the company considers a public listing. Meanwhile, autonomous trucking firms are already listing, with Kodiak listing in September 2025 and Einride recently announcing plans for listing in 2026. With continued traction across business partners, other likely candidates seeking listing in the near term include Gatik and Outrider.

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OUTLOOK

AI

Which AI subsector in your coverage has been the most successful at taking share in 2025? What is driving its success?

Foundation model companies have held the bulk of AI deal value in 2025 as capital has moved toward foundation model providers such as Anthropic, OpenAI, and xAI. Investors are prioritizing the foundational layer because of explosive demand from corporations, startups, and government for on-demand intelligence. Horizontal platforms offer broader scalability and can serve multiple sectors without requiring domain-specific customization. Emerging players such as AI21 Labs illustrate how newer model builders are beginning to attract meaningful attention as investors look beyond the largest incumbents for differentiated architectures. The rise of sovereign AI has further reinforced this pattern of investment consolidation around a limited number of large-scale model builders. With only a limited number of LLMs available at scale, capital formation remains heavily concentrated in the US.

Which AI subsector in your coverage is underappreciated today but whose customer traction you expect to accelerate the most in 2026 or 2027? What catalysts will drive its takeoff?

Foundation models built for agentic AI remain an underappreciated subsector. These are general-purpose models optimized for autonomous, multistep workflows rather than single-shot tasks. Adoption is beginning to shift from single-shot inference to autonomous agents that can coordinate and complete multistep workflows across industries. That evolution is creating demand for an operational layer centered on governance, safety, and continuous observability that current ML operations stacks cannot support. As enterprises test larger agent workloads, software development tools built for agent management are set to become a meaningful horizontal spending category. Notable startups in the space include Imbue, SuperAGI, and LangChain.

If you were deploying a new seed-stage VC fund and could select only four AI subsectors in your coverage to invest in, which would you choose and why? Rank them from 1 to 4, with 1 being your favorite.

Ranking	AI subsector	Rationale
1	Foundation models	Foundation model providers continue to attract the most interest because their products are becoming the default infrastructure for a growing share of enterprise AI workloads. Their scale, model performance, and integration depth position them to capture long-run demand across sectors, giving them clearer business durability than most application-layer startups. Over time, profitability should expand as inference becomes a recurring utility service, agentic workflows increase model usage density, and enterprises lock into multiyear computing platform commitments that compound revenue rather than reset it each cycle.

Ranking	AI subsector	Rationale
2	Robotic process automation (RPA)/AI automation platforms	AI-driven automation platforms are gaining traction as enterprises test agentic workflows that exceed the limits of legacy RPA, with select early-stage vendors landing six-figure pilots and faster follow-on rounds. These platforms use foundation models to interpret context, make decisions, and autonomously execute multistep business processes, allowing them to automate tasks that traditional rule-based tools cannot support.
3	Vertical AI for sales & marketing	Sales & marketing shows fast adoption because outbound personalization and intent-driven tools deliver immediate revenue impact and have short sales cycles.
4	AI for cybersecurity automation	Cybersecurity automation is expanding as enterprises increase their spending to defend against AI-enabled attacks and secure emerging model and agent workflows.

Which AI subsectors in your space appear to be the most overheated with capital and/or competition and will likely see disproportionate value destruction for the startups that do not differentiate?

Certain parts of consumer AI are showing clear signs of overheating in two areas: chatbots and thin-wrapper applications built on existing LLMs, particularly personal assistant bots, wellness companions, study helpers, and productivity chat apps that rely on near-identical model outputs. Both categories have attracted rapid capital inflows despite limited differentiation and high sensitivity to foundation model pricing. Small model labs in the consumer tier face similar pressures as computing requirements rise and distribution remains fragmented. Startups without proprietary data, defensible workflows, or deeply integrated industry workflows will likely see disproportionate value destruction.

Which traditional, non-AI competitors in your coverage will likely be fully outcompeted by AI-native competitors in the next 10 years if they do not rapidly adopt AI functionalities?

Outdated healthcare administration systems (such as paper-based Epic holdouts) risk obsolescence against AI platforms like Abridge for scribing and diagnostics, which slash errors by 75% and enable predictive care.[16] Manufacturing giants with siloed IoT systems often lack real-time visibility across production lines, which limits their ability to coordinate maintenance, output, and inventory. AI-native supply chain and factory optimization platforms integrate sensor data and machine telemetry into a unified decision layer. These systems automate scheduling and throughput adjustments and have delivered efficiency gains of just over 30% as automation demand rises.

16: "The Future of Healthcare Documentation: Why Ambient Clinical Intelligence Is Transforming Patient Care in 2025," HealOS, July 4, 2025.

In which AI subsectors are companies most likely to remain private longer, and in which are they likely to seek exits in 2026? Beyond a tight IPO market, what other industry-specific, macroeconomic, or geopolitical factors should be considered?

Small and medium-sized foundation model developers will likely remain private longer because they depend on sustained capital, long R&D timelines, and strategic or sovereign investors that are not seeking near-term liquidity. Recent multibillion-dollar financings for OpenAI, Anthropic, and xAI support this pattern. OpenAI may be the exception to this and pursue a public listing because it will need significantly more capital as its revenue and burn rate rise, and private markets can only supply so much. Vertical applications in cybersecurity automation, industrial AI, and healthcare AI are more likely to target 2026 exits because they benefit from clearer enterprise workflows and faster revenue visibility. Faster revenue visibility means customers move from pilots to paid contracts more quickly, which shortens sales cycles and improves predictability. The divergence reflects patient sovereign AI capital flowing to model builders and regulated-sector demand consolidating around mature vertical vendors. In sectors such as cybersecurity, healthcare, and industrial automation, buyers prefer established systems that meet compliance, reliability, and audit requirements.

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OUTLOOK

Cybersecurity

Which AI subsector in your coverage has been the most successful at taking share in 2025? What is driving its success?

Application security, specifically AI protection, is demonstrating strong momentum. This segment targets security needs unique to AI systems, including defenses against adversarial attacks, prompt injection, and model theft. Enterprise demand is rising as GenAI deployments drive requirements for dedicated model-level safeguards. Startups worth monitoring include but are not limited to CalypsoAI, HiddenLayer, and Vectra AI.

Which AI subsector in your coverage is underappreciated today but whose customer traction you expect to accelerate the most in 2026 or 2027? What catalysts will drive its takeoff?

Within application security, we see DevOps security platforms as underappreciated despite their growing strategic importance as AI-assisted coding expands. Specifically, open-source vulnerabilities and software supply chain risks are amplified by GenAI code generation. Demand is set to increase as dependency hallucinations, package-spoofing attacks, and requirements for software bill of materials and secure-by-design practices become more common. Independent vendors gaining traction include Endor Labs, Snyk, and OX Security.

If you were deploying a new seed-stage VC fund and could select only four AI subsectors in your coverage to invest in, which would you choose and why? Rank them from 1 to 4, with 1 being your favorite.

Ranking	AI subsector	Rationale
1	AI protection	AI protection is arguably the fastest-growing need as enterprises secure models against adversarial prompts, theft, and misuse; consolidation validates demand.
2	DevOps security platforms	AI-assisted coding expands dependency risk, creating sustained demand for AI-native software composition analysis (SCA) and static application security testing (SAST) reinvention.
3	Web application protection	Legacy WAF and rule-based API tools are vulnerable to AI-generated polymorphic attacks, opening space for adaptive defenses.
4	Software supply chain security (within DevOps security)	Package integrity and build-pipeline security gain urgency as AI accelerates code generation and dependency drift.

Which AI subsectors in your space appear to be the most overheated with capital and/or competition and will likely see disproportionate value destruction for the startups that do not differentiate?

AI protection has gained share in 2025 as enterprises prioritized safeguards for LLM deployments. The subsector's trajectory is now defined by rapid consolidation, primarily through M&As—much like the rest of the cybersecurity market—with multiple pure plays acquired by major security vendors seeking to embed model-defense capabilities into broader platforms. This shift indicates that demand for AI-specific protections will continue to grow, but the opportunity for independent startups is narrowing as these features become standard across application and cloud security suites. The outlook for 2026 and 2027 remains strong in aggregate, though dominated by incumbent-led acquisitions rather than by standalone startups.

Which traditional, non-AI competitors in your coverage will likely be fully outcompeted by AI-native competitors in the next 10 years if they do not rapidly adopt AI functionalities?

Traditional vendors in web application protection and DevOps security platforms: Legacy WAFs and rule-based API defenses are already challenged by polymorphic, AI-generated attacks that evade static signatures. In DevOps security platforms, classic SCA and SAST tools from Veracode, Checkmarx, Sonatype, and others struggle with the dependency growth and hallucinated packages introduced by AI-assisted coding. Without meaningful adoption of AI-driven detection, contextual analysis, and automated remediation, these incumbents risk significant erosion in relevance by the early 2030s.

In which AI subsectors are companies most likely to remain private longer, and in which are they likely to seek exits in 2026? Beyond a tight IPO market, what other industry-specific, macroeconomic, or geopolitical factors should be considered?

Within the application security segment, we expect AI protection to be positioned for an active exit cycle in 2026 as corporate M&A continues. The 2025 acquisition wave from incumbents such as SentinelOne and Palo Alto Networks indicates sustained appetite for model-defense capabilities, making M&A the most likely path for emerging vendors. DevOps security platforms are expected to stay private longer, with mature players such as Snyk evaluating IPOs only if strategic offers do not materialize, given slower technical differentiation. Consolidation trends, rising cybersecurity spending, and geopolitical scrutiny of AI and supply chain risks all reinforce a market environment that favors strategic sales over extended independence.

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