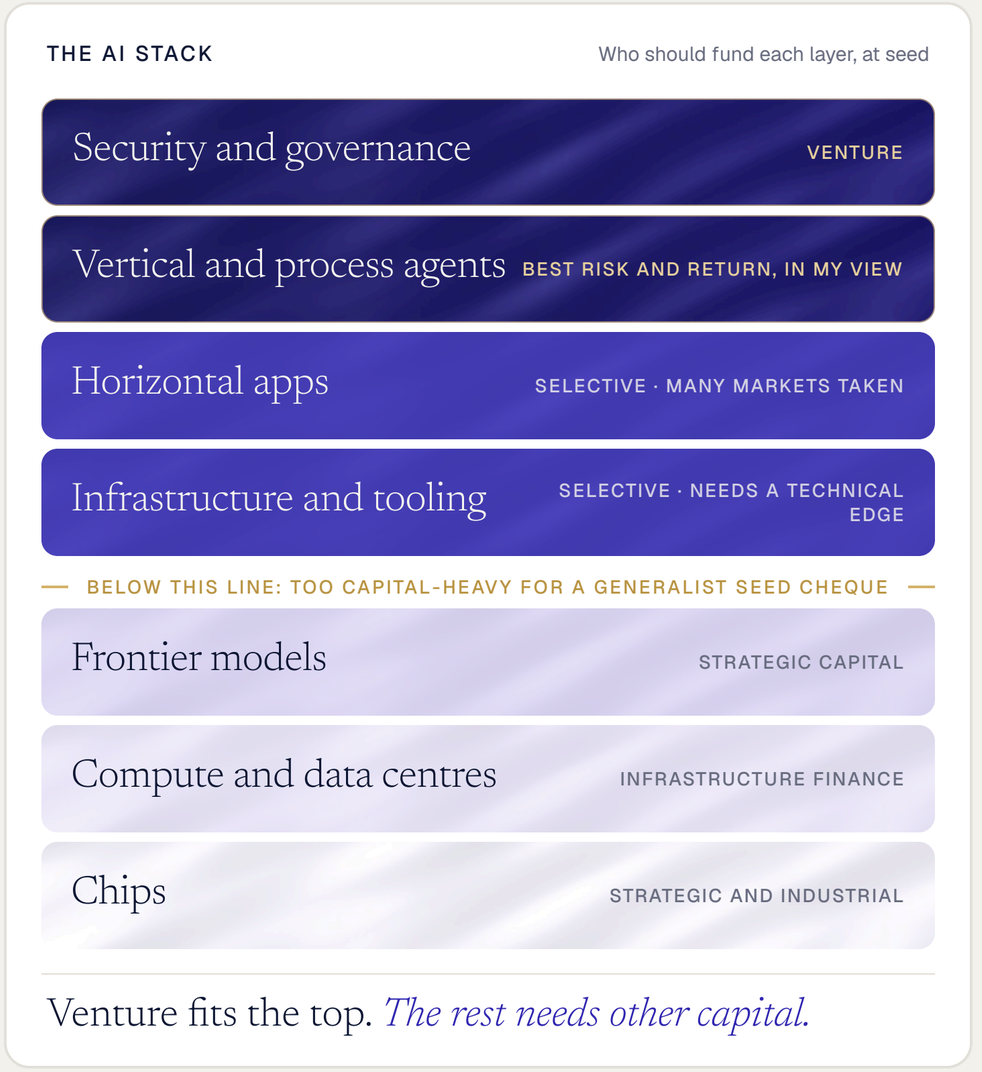
NOVEMBER 2026

Where venture wins in AI.

Which parts suit venture capital, and which need other kinds of capital.

Barry Downes Managing Partner, SVV svv.ai/barry



What we see from *3,000 AI companies a year.*

We read more than 3,000 AI companies a year and back a handful at pre-seed and seed.
My views line up with where I invest, so check them against the evidence.

WHERE THIS VIEW COMES FROM	SURE VALLEY VENTURES
INVESTING IN AI SINCE	2017
AI COMPANIES READ A YEAR	3,000+
STAGE	Pre-seed and seed

PART ONE

The stack, layer by layer

Which kind of capital each layer needs, and the risk and reward of each.

PART TWO

Where venture wins

Which industries are still open, and how to find your own.

PART THREE

What to ask a manager

The risks to screen for, where public capital is additional, and seven questions.

The question is where public venture capital earns its best return in AI.

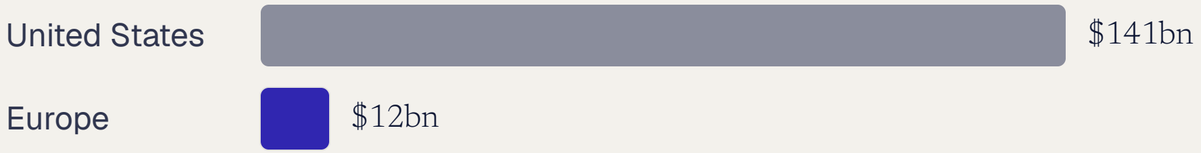
A personal view, for information only: not investment advice or an offer of any fund · every source is in the field guide, Investing in AI

Most venture capital now goes to AI, *and most of that to a few companies.*

AI VENTURE · 2026 — GLOBAL AND US

AI SHARE OF GLOBAL VC, Q3 2026	US VALUE IN $100M+ ROUNDS, H1 2026	FORBES AI 50 CAPITAL IN TWO LABS	US SHARE OF GLOBAL AI VC
64%	87.5%	~80%	77%
$102bn of $159bn	Fewer, larger rounds	OpenAI and Anthropic	Since 2023. Europe: 11%

LATE-STAGE AI FUNDING, 2025



Take Europe as the example. It trails the US at every stage, and by most at the late stage. The US figure includes OpenAI's $40bn and Anthropic's $16.5bn rounds; without them it is still about seven times Europe's (my calculation). **About three-quarters of European AI funding goes to applications.**

Crunchbase Q3 2026 · PitchBook-NVCA H1 2026 · Forbes AI 50 2026 · Dealroom/Prosus, Mar 2026

AI is moving from helping with the work *to doing it.*

Most companies now use AI. Very few have changed how the work gets done.
By “agent” I mean software you brief like a colleague: it does the whole job and hands it back for sign-off.

TODAY | THE SHIFT — Same claim: hours become minutes, and the handler checks and approves

TODAY · AI THAT ASSISTS

“Summarise this claim file.”

Useful. Ten minutes saved. **The claim is still the handler’s to process.**

THE SHIFT · AI THAT DOES THE WORK

“Process this claim end to end: check the policy, gather the evidence, draft the settlement. Cite everything.”

An agent runs the whole workflow and returns the finished work, **with every source cited, for sign-off.**

WHO GAINS

As firms hand over more work, value moves away from the model

AGENT-FIRST COMPANIES
Built to do the whole job. Being formed now, at seed.

THE SYSTEM AROUND THE MODEL
The workflows, controls and memory a firm builds. This is what improves over time.

MODELS
Powerful and getting cheaper. Anyone can rent the same model.

The best model won’t win. The best operating system will.

Agents get paid *out of the wage bill.*

Software sold tools and took a small share of what a job costs. Agents sell **finished work** and are priced against salaries.

THE MARKET, TO SCALE

US wages a year · BLS 2024

$11.7T



$450B

core business software and its upkeep, a year (Bessemer, 2025)

SaaS captured 1–5% of an employee's cost

tools: the human still does the job

Vertical AI examples capture 25–50%

completed work: drafted contracts, processed claims, closed books (Scale Venture Partners)

That is why vertical AI is sized at **≥10× legacy vertical SaaS** (Bessemer, Jan 2026).

WHAT THIS CHANGES AT SEED

They can charge per job done

Revenue grows with the work completed, priced against the salary it replaces.

What protects them is built around the model

Their workflow, customer knowledge and records are their own, and get better with each job.

BLS QCEW 2024 · Bessemer, AI systems of action, May 2025 · Scale Venture Partners · Bessemer, Vertical AI, Jan 2026

PART ONE

Each layer needs a different kind of capital.

The higher up you go, the less capital a company needs, and the better it suits a venture cheque.

Venture fits the top of the stack.
The rest needs other capital.

LAYER	WHAT IT IS	CAPITAL THAT SUITS IT
Security and governance	The checks every agent must pass before it goes live: identity, guardrails, audit trails	**Seed and Series A venture**
Vertical and process agents	Software that does a whole job: **Legora** and **Harvey** in law, **Sierra** in customer service, **Cursor** in coding	**Seed and Series A venture:** best risk and return
Horizontal apps	Assistants for every employee: **ChatGPT Enterprise**, **Microsoft Copilot**, **Glean**	Selective venture, then growth capital
Infra and tooling	The software between models and apps: data, connections, testing	Selective venture, hard technical edge only
THE LINE · WHAT A SEED CHEQUE CAN BUY		
Frontier models	The large models everything runs on: **OpenAI**, **Anthropic**, **Google**, **Mistral**	Strategic and late-stage capital, or the state
Compute and data centres	Where models are trained and run: the **Microsoft**, **Amazon** and **Google** clouds; **CoreWeave**, **Nscale**	Infrastructure finance and debt
Chips	The processors: **Nvidia**, and challengers such as **Fractile**	Strategic and industrial capital

What sits inside *the four areas venture can back.*

Agents for one industry, agents for one business function, the tools agents need, **and AI security.**

○ YEAR SHOWN: WHEN WE EXPECT A SEED COMPANY CAN START WINNING CUSTOMERS THERE

01 · VERTICAL — Vertical agent platforms

Built for one industry: the software does the routine work and the professional makes the decisions.

- **Public sector** — central government opens 2029
- **Health care** — scribes established · trials 2027
- **Finance & insurance** — claims 2026 · banking 2027
- **Professional services** — OPENS 2026 audit, tax
- **Information & security** — security operations
- **Transport & logistics** — supply chain & logistics 2028
- **Science & research** — OPENS 2026 lab and discovery
- **Manufacturing** — OPENS 2028 plant operations
- **Energy & utilities** — OPENS 2028 grid operations
- **Construction** — OPENS 2029 estimating, sites
- **Retail & hospitality** — commerce and guest operations
- **Education & media** — learning and media production

02 · CROSS-INDUSTRY — Process agents

Agents that run one business function end to end, across industries. Coding is the largest so far, and already has leaders.

- **Sales & revenue** — pipeline, execution, forecasting
- **Partner & channel revenue** — partner and channel programmes
- **Marketing & AI search** — campaigns and AI search visibility
- **Customer service & success** — service, retention, engagement
- **Finance & accounting** — OPENS 2026 close, audit, tax
- **Compliance, risk & onboarding** — onboarding and risk checks
- **Procurement & supply chain** — OPENS 2028 sourcing, ordering
- **HR & people** — hiring, onboarding, workforce
- **Legal & contracts** — drafting, review, obligations
- **Operations automation** — back-office work end to end

03 · ENABLING — Agent infrastructure

- **Connecting agents to systems** — APIs, middleware, integration
- **Agent payments & identity** — how agents pay and prove who they act for
- **Testing, simulation & deployment** — before an agent is trusted in production
- **Efficient models & training** — smaller, cheaper, faster models
- **Data, media & tooling APIs** — what agents consume and produce

04 · SECURITY — AI security & trust

needed by every layer above

- **Encrypted inference** — models that never see the data in clear
- **Enterprise AI security** — detecting AI-driven attacks
- **AI-agent security** — identity, permissions, runtime guardrails
- **AI governance & compliance** — EU AI Act, audit trails, model risk
- **Supply-chain security** — model and data provenance, poisoning

BELOW THE LINE

Foundation-model training · hyperscale compute — Capital-intensive, built by large technology firms. The line is set by how much capital it takes.

Back industry agents and the tools they need. Build security into the product from the start.

Sovereign AI and venture AI need different tests.

BELOW THE LINE · INFRASTRUCTURE AND SOVEREIGN · EUROPE AS THE EXAMPLE

€200bn — InvestAI mobilisation target, including €20bn for AI gigafactories.

€21bn+ — Mistral's valuation at its €3bn Series D, led by Samsung, with the Scaleup Europe Fund co-leading.

$800bn+ — Hyperscaler capital expenditure expected in 2026.

ABOVE THE LINE · VENTURE CAPITAL

63% — Start-ups' share of enterprise application-layer AI spend in 2025.

<18 mo — Legora, from $1m to $100m of annual recurring revenue.

$3.5bn — All vertical AI spend in 2025, against $11.7T of US wages.

Judge national model programmes on national goals and commercial discipline; hold venture programmes to returns and additionality.

European Commission and EuroHPC · Orrick, Sep 2026 · Hargreaves Lansdown · Menlo Ventures · Legora

PART TWO

Most of the market is still open.

We mapped about a thousand industries. In almost all of them,
no AI company has pulled ahead yet.

Of 1,012 industries, *nine have a clear AI leader.*

One square per industry in the 2022 North American classification (six-digit NAICS). **A vertical is an industry and its workflow: claims handling inside insurance, conveyancing inside law.**



100 are contested and 169 are open today.

Start with *the industries you already know.*

WHERE THE OPEN VERTICALS CLUSTER

- Financial-services operations
- Compliance
- Insurance distribution
- Public administration
- Policing and justice
- Building safety
- Property
- Wholesale distribution

Regulated, paperwork-heavy work bought locally. A fixed regulatory deadline turns a pilot into a contract.

FOUR STEPS FOR YOUR OWN COUNTRY

1. List the large industries at home where you have deep expertise.
2. Mark those with a national regulator, procurement system or language a US vendor can’t easily serve.
3. Check whether a local company leads, or only foreign players.
4. Ask your managers who leads the first rounds there.

US WAGES, OPEN VERTICALS

$3.15tn

ALL VERTICAL AI SPEND, 2025

$3.5bn

SVV analysis, Oct 2026 (BLS OEWS May 2023 wages) · Menlo Ventures, Dec 2025

What to back at seed, *and what to leave alone.*

INVEST · AT THE FIRST CHEQUE

- **Vertical and process agents in open industries**
  A named buyer and budget, a workflow the company owns, a regulator or language that favours a local team.
- **Security, evaluation and governance for agents**
  Every agent deployment has to pass it, whoever built the model.
- **Infrastructure and tooling, selectively**
  Only with a technical edge the labs and clouds will not copy.

AVOID · OR LEAVE TO OTHER CAPITAL

- **Frontier models, compute and chip fabrication at seed**
  Different capital: strategic, infrastructure finance and industrial.
- **Verticals that already have a leader**
  Legal, coding, contact centres: enter only where the leaders do not serve.
- **Thin wrappers, and services dressed as software**
  A chat product on someone else's model, or people doing the work behind the demo.

DEFENCE AND DUAL-USE

Back the software layer at seed: sensing and analytics, autonomy, secure inference at the edge. **Accreditation takes time, so expect longer timelines. Platforms and hardware need other capital.**

Back companies that do a customer's whole job.

PART THREE

The risks, the funding gap and what to ask.

Most of these risks can be spotted before you invest. Public capital can help first rounds happen when private investors would otherwise hold back.

Six risks, *and what to check for each.*

RISK	WHAT IT LOOKS LIKE
Thin wrappers	A generic chat product on someone else’s model
AI labs move in	The model provider ships the same feature
Margin	AI products project ~53% gross margin for 2026; SaaS 75–85%
Revenue quality	Paid pilots reported as recurring revenue
Project failure	40%+ of agentic projects cancelled by end-2027
Your existing software holdings	Seat-based software that agents replace

WHAT TO CHECK

- CHECK Does it own a workflow and its data?
- CHECK Does value rise as models get cheaper?
- CHECK Margin after inference, per completed job
- CHECK Contracts separated from pilots
- CHECK A narrow task, with a known cost when it fails
- CHECK Which holdings own the workflow?

Margin is the risk most investors miss: running the model is a real cost.

ICONIQ State of AI 2026 · Gartner, Jun 2025 · Wallonie Entreprendre AI call, 2026 · IMF GFSR, Oct 2026

The US leads at every stage.
The pipeline starts at the first round.

Large sums are easier to find once a company is clearly winning. **One priority for public capital is first rounds that private capital would not otherwise lead.**

UNDER €0.5M

Grants, accelerators, angels

Existing funding routes

€0.75–3M

POTENTIAL FIRST-LEAD GAP

First institutional lead

In my experience, generalist funds wait for revenue

SERIES A–B

The next rounds

US capital often prices them

SERIES C+

Growth

Short of the US. New: ETCI 2.0, Scaleup Europe Fund

THE DATA AT EACH STEP · US AGAINST UK, VENTURE INVESTMENT AS A SHARE OF GDP, 2023–25

BBB SMALL BUSINESS EQUITY TRACKER 2026

UK SEED-STAGE DEALS, 2025

−27%

704 deals, the sharpest fall of any stage

SEED · US AHEAD BY

1.15×

Widening; 14.4 months between rounds

EARLY STAGE · US AHEAD BY

1.31×

Series A and B

LATE STAGE · US AHEAD BY

1.35×

US totals heavily influenced by AI megadeals

A company that never finds its first lead never raises a Series B.

BBB Small Business Equity Tracker 2026 (PitchBook; Beauhurst) · EIF, Jul 2026 · EQT, May 2026 · Dealroom/Prosus, Mar 2026

Seven questions *for an AI fund manager.*

1. Which workflows do your companies own, and who at the customer pays and answers for it?
2. Can the agent finish the job, and what happens when it is wrong?
3. Does each company get more valuable as models get cheaper?
4. What is gross margin after inference, per completed job?
5. How do you separate recurring revenue from paid pilots?
6. Show us the companies you passed on, and why.
7. How do entry prices, ownership, dilution and reserves turn into returns at this fund size, and who leads the next round?

Strong and weak answers to each are in the field guide.

Where venture *wins in AI.*

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Every source is in the field guide, *Investing in AI*.

This presentation sets out my personal view as Managing Partner of Sure Valley Ventures (SVV). SVV invests in early-stage AI companies, some of which may benefit from the developments described here. Nothing in it is an offer of, or an invitation to invest in, any fund. It is for information only and is not investment advice.

THREE THINGS TO DO

1. Match capital to the layer.
2. Test the manager’s company and fund economics.
3. Test additionality in your own market.

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