



TITAN CAPITAL PARTNERS

INDUSTRY INSIGHTS

THE VERTICAL SOFTWARE LANDSCAPE

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BEYOND HORIZONTAL MARKETS

THE ISRAELI VERTICAL SOFTWARE LANDSCAPE

Capitalizing on their horizontal expertise, Israeli software companies are making significant progress into the vertical software arena. While horizontal software can be useful for a wide array of industries and more general use cases and represents the bread and butter of the Israeli industries (cyber, storage etc.), vertical SaaS is a relatively new and emerging segment in software in Israel. Vertical software is more custom tailored to cater to the needs and problems of a specific industry. As a testament to its popularity, we saw a significant increase in the number of Vertical SaaS companies in Israel.

Israeli companies are making their way into the vertical software area. We've highlighted some of the industry leaders in the vertical software space and key Israeli players that are notable challengers. We've noted some of the opportunities and challenges for vertical software in Israel and which vertical segments may see the emergence of strong Israeli players.

A Vertical
Software
Arena

With this relatively new and emerging segment in software, we've outlined some of the factors that make vertical software attractive for investors:

1. Greenfield opportunity — most legacy industries are still well behind in their adoption of digitization solutions and are seeking software solutions to address domain specific pain points, digitize their assets, and automate business processes in order to create a competitive advantage in the marketplace. This process of digitization of industries can cause the emergence of new intermediaries, break apart old value chains, blur industry boundaries, and create a “winner takes it all” dynamic which is important for VC investors.
2. Lower competition intensity — vertical focused software markets tend to be smaller than horizontal markets. This causes them to often be “overlooked” by large investors who are seeking opportunities that can absorb large quantities of capital. The lack of competition enables sales teams to be more efficient as they do not need to “stand out of the crowd”, and consequently, they are able to achieve higher profit margins and higher returns on invested capital.
3. Higher switching costs — vertical software solutions tend to have a higher degree of customization, with companies continuously building additional features to better serve their target market. This can require specific training that creates additional costs and friction for customers should they consider replacing vendors.
4. Reluctance to change — an entry barrier to the vertical software market is the customer's ambivalence towards change. These customers are typically not technology-advanced and therefore, they are more hesitant to change how they frequently operate. This type of reluctance is generally referred to in business books as “sourcing costs”. Vertical software vendors tend to have a more stable market share because they do not face intense competition, and therefore are not incentivized by the next “new thing”.
5. Fintech revenues — vertical software companies can accumulate a significant amount of information as their solution is embedded in the customer workflow. This creates a variety of potential upsells including payments, lending and more. Because the vendors have a deep understanding of the business and business processes, they are well positioned to offer complimentary fintech solutions.
6. AI models — large language models can be trained on customer specific data sets to extract vertical specific insights and solve vertical specific problems. With the implementation of vertically specific AI models, the user experience becomes better and simpler, facilitating easy adoption for the nontechnical personnel. With a potential productivity boost, many companies will likely choose to “leapfrog” to the newest vertical vendors that are best suited for their use cases and skip pre-LLM native vendors. Because of this, the AI infrastructure shift could serve as a catalyst to a new wave of digitization, generating attractive opportunities for VCs.



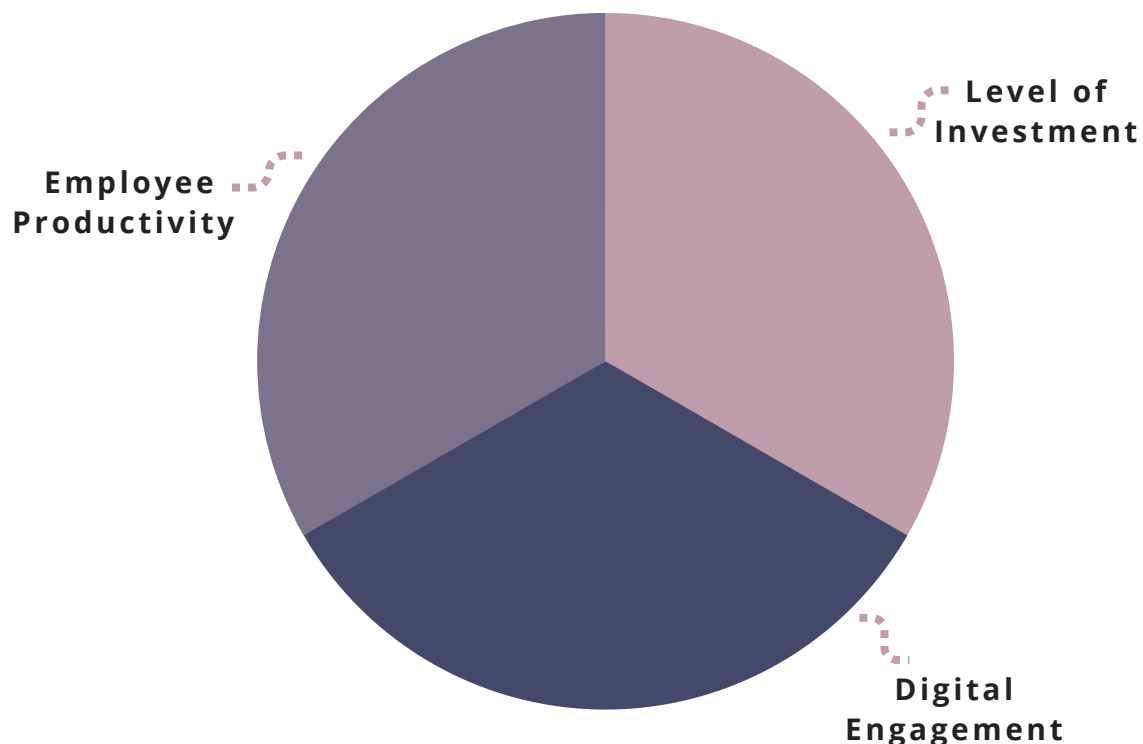
An Attractive
Segment for
VC Investors

SEEKING THE NEXT OPPORTUNITIES

Identifying the next opportunities in vertical SaaS requires having a grasp on potential market size, growth rate, deal flow volume level, and competition intensity. However, to truly recognize white spaces, one needs to dive further and investigate the fundamentals of the vertical and its level of domain specific pain points that can be digitized.

Understanding the level of digitization in a specific vertical is complex and involves heavy research. The McKinsey Global Institute (MGI) assesses three overall factors:

Digitization Factors (MGI)



1. Level of investment — understanding the magnitude of investments that companies channel into hardware, software, data, and IT services. This involves a thorough understanding of how extensively companies are incorporating digital elements into their physical assets, such as smart buildings, connected vehicle fleets, and big data or IoT systems for equipment, systems, and supply chain optimization.

2. Digital engagement — understanding how deeply companies interact with both customers and suppliers in the digital realm. Leading companies in various sectors employ digital payments, digital marketing, and design-driven product development extensively. They also leverage software for managing back-office operations and customer relationships which includes utilizing e-commerce platforms and sometimes their own platforms. These companies integrate social technologies into their core business processes to engage with customers and partners.

3. Employee productivity and ease of use — what truly distinguishes the leaders in this category is their ability to provide employees with an easy-to-use tool that directly improves their productivity, convincing them it is worth the hassle to learn how to use and implement the product. Employee commitment to the implementation and usage of digital tools can overall enhance productivity.

VERTICAL SOFTWARE: LEADING PLAYERS & NOTABLE ISRAELI CHALLENGERS

Software Verticals	IT Spend as % of Revenue	Growth Rate	Leading Players	Leading Israeli Challengers
Healthcare	4.3%	6.0%	Epic Systems, Oracle Cerner, McKesson Corporation	Diagnostic Robotics, Aidoc, Viz.AI, MDclone, Vi labs
Manufacturing	1.0%	6.8%	Siemens AG, Dassault Systemes, Plex Systems, Infor, DELMIAworks	Magic Software, Augury
Retail	7.0%	9.0%	Lightspeed, SAP SE, Shopify, Vend, Square, Brightpearl	Trax Retail, Onebeat, Nexite, Retailix
Insurance	5.0%	5.6%	Guidewire Software, Applied Systems, Vertafore, Snapsheet, Oscar	Novidea, Earnix, Next Insurance, Sapiens
Financial Services	10.0%	9.3%	nCino, SS&C Technologies, Riskalyze, Backstop Solutions, Addepar	Agora, Cherre, Argyle, Home365, eToro, Pagaya Investments
Education	3.6%	9.6%	Blackboard, Instructure (Canvas), Google Classroom, Khan Academy, Lynda, Udemy, Coursera	Masterschool, Graduway
Real Estate	4.0%	8.9%	Zillow, CoStar Group, Argus Financial Software	Jones, Guesty, Daisy, Landa
Hospitality & Restaurants	8.7%	8.6%	Oracle (MICROS), Agilysys, Sabre, Amadeus, Toast	Tabit, HyperGuest, Splitty, Navan (TripActions), ForNova, TravelPerk
Construction	1.3%	5.9%	Autodesk, Procore, Oracle (Aconex), Trimble	Buildots, Versatile, Locusview, SiteAware, Veev
Transportation & Logistics	1.8%	5.7%	SAP, Oracle, JDA Software, Infor, Trimble, SES	Via, Freightos, Bringg, Moovit, OptiBus, Waze
Legal	3.1%	7.4%	LexisNexis, Thomson Reuters, Clio, Relativity, LegalZoom, DocuSign, Oneflow	LawGeex, Darrow, Certora, Lexense, Flare
Media & Entertainment	7.0%	7.5%	Adobe, Autodesk, IBM, Brightcove, Dolby, Comcast	WSC Sports, Pixellot, Verbit
Agriculture	2.5%	11.8%	DeHaat, Agworld, Farmbrite, Mobbie, PickApp	Taranis, CropX, FieldIn, Agritask

OPPORTUNITIES AND CHALLENGES FOR VERTICAL SOFTWARE IN ISRAEL

Vertical software startups offer a unique advantage as they do not necessarily have to be headquartered in the Bay area but closer to the industry's hub. Often, the founders of these companies have extensive domain knowledge in their chosen industry. This profound knowledge allows them to pinpoint industry shortcomings and create tailored vertical solutions. Their comprehensive market insight and strong understanding of both local and nonlocal industry dynamics aids in crafting robust business strategies for swift market entry.

To that end, we believe Israel has proven that it can build strong, competitive global industries that could serve as a breeding ground for quality vertical software companies in certain sectors.

POTENTIAL FOR STRONG AND EMERGING SECTORS

- Agriculture — Israeli irrigation product producers, such as Netafim, Rivulis and others are capturing the largest market share in the world in their respective categories. Israeli producers have honed their knowledge of the different types of arable lands and hold direct and indirect ties with almost all the big farmers globally. This high level of understanding customer behavior and their pain points as well as a strong familiarity with the target market, will breed great vertical software solutions.
- Defense — Israeli companies such as Elbit, Rafael, and Israel Aerospace Industries are well positioned to provide local and global companies with defense electronics (ex: helmets for fighter pilots) and military grade equipment (ex: drones). It would seem logical to have an Israeli established vertical software market in this realm that capitalizes on this specific industry experience. However, a potential challenge for the Israeli defense sector may be that countries might prefer to develop in-house solutions in certain areas rather than sourcing solutions from other countries.

The emergence of vertical software in Israel signifies a promising trajectory in the tech industry. Identifying the next frontiers in vertical SaaS demands a deep understanding of market dynamics, digital engagement, and employee productivity. After exploring the unique advantages that vertical software startups bring to the table, we see that many Israeli companies are evolving into industry leaders in their respective categories.

Israel, with its vibrant and competitive industries like agriculture and defense, exemplifies the potential for nurturing top-tier vertical software companies. The rich domain knowledge of founders and their proximity to industry hubs form the playing field for innovation and swift market entry. While challenges exist, the further development of vertical software in Israel appears promising, offering a strong ground for solutions that cater to industry-specific needs, both locally and on a global scale. The journey to harness these opportunities is ongoing, and as Israel continues to build upon its successes, it holds the potential to be a global leader in the vertical software landscape.