



**Forecasting the Unpredictable:  
Challenges for Investors in the  
RegTech Space**

*RegTech is an attractive and growing sector. But investors need to understand the unique demand dynamics to avoid false signals during diligence.*

## EXECUTIVE SUMMARY

For SaaS investors accustomed to the relatively smooth growth curves of traditional enterprise software (driven by predictable budget cycles and the secular tailwind of digital transformation) entering the RegTech software space presents a fundamentally different challenge, and one that many SaaS investors initially miss.

The demand curve for many RegTech point solutions is not always linear, programmatic, or steadily compounding. Instead, it is often stochastic: irregular, externally triggered, and beyond the direct control of the vendor. While many RegTech solutions are adopted proactively, often purchasing decisions are driven by external forces such as changes in regulatory mandates or internal audit findings.

This inherent characteristic introduces structural risks that are frequently underestimated by investors applying standard SaaS heuristics to opportunities in the RegTech space. The following article outlines the unique problems stochastic demand drivers present to both investors and operators in the RegTech market relative to other categories of SaaS.

Successful vendors circumvent this challenge over the long-term by leveraging flexible sales and implementation capabilities, multi-product offerings, high-levels of customer embeddedness, and strong distribution partnerships.

## Demand is Predictable – Until it Suddenly Isn't

RegTech companies often resemble SaaS businesses in structure, with cloud-based delivery, recurring revenue, and scalable platforms. But the nature of customer demand requires a more nuanced understanding. While a large portion of RegTech adoption may be planned as part of firms' broader compliance, risk, and operations budgets, the market is also characterized by periodic surges in demand triggered by regulatory changes, enforcement activity, or external events. These reactive, often time-sensitive purchase cycles introduce an element of unpredictability that investors should understand and factor into go-to-market strategy, resource planning, and growth expectations.

|                              | Traditional SaaS                                                                | RegTech                                                                                                                   |
|------------------------------|---------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------|
| <b>Demand Triggers</b>       | Internal business needs: growth, productivity, cost reduction                   | Primarily regulatory obligations; often embedded in budget cycles, but periodically spiked by external triggers           |
| <b>Nature of Demand</b>      | Generally proactively planned, driven by desire to improve business performance | Mostly proactive during steady states, but subject to surges and slowdowns tied to regulatory changes or enforcement risk |
| <b>Buyer Motivation</b>      | Value creation: <i>"How do we grow or become more efficient?"</i>               | Risk mitigation + efficiency: <i>"How do we stay compliant and reduce cost or exposure?"</i>                              |
| <b>Urgency Drivers</b>       | Budget timelines, strategic initiatives                                         | Compliance deadlines, enforcement events, law changes; often outside the buyer's control                                  |
| <b>Demand Predictability</b> | Generally smooth and forecastable                                               | Mostly stable, but with intermittent spikes driven by rule changes or regulatory scrutiny                                 |

While a sizable portion of RegTech demand may be embedded in annual compliance budgets, periodic event-driven surges triggered by regulatory changes, enforcement trends, or jurisdictional shifts can distort year-to-year growth visibility. Effective forecasting requires understanding not only the run-rate demand but also the firm's ability to capitalize on these stochastic inflection points. Successful RegTech firms build infrastructure that can capture both steady-state growth and episodic demand inflections.

## Demand Is Often Triggered by External Events

Unlike core SaaS categories such as CRM, ERP, payment platforms, or collaboration tools where demand is driven by internal efficiencies, internal strategic planning cycles, growth, or digital transformation, RegTech software adoption is often reactive, shaped by external events that are unpredictable and often out of the buyer's direct control. This is especially true for specialized point solutions across areas like regulatory reporting, trade surveillance, third-party risk, policy management, audit readiness, and others.

Because these triggers can vary by jurisdiction, industry vertical, and political environment, RegTech software demand often materializes in short, volatile bursts, not steady streams. While strong growth opportunities exist in the RegTech space, growth often emerges in discrete steps rather than following a steady, linear trajectory. One year may be defined by a rush of RFPs after a new rule is finalized; the next, that same market segment may go completely quiet. This presents challenges not just for forecasting revenue, but for aligning GTM resources, managing sales capacity, and maintaining operational efficiency over time.

In addition to planned upgrade cycles, demand triggers in the RegTech space also frequently include:

### New Or Revised Regulations

A rule change or clarification can create a narrow and urgent window of demand. When these mandates drop, firms often scramble to become compliant within months. But once the deadline passes and firms settle on solutions (or manual workarounds), demand can fall off sharply and remain dormant until the next change.

### Regulatory Enforcement Changes

A high-profile fine reported in the news, a sudden regulatory sweep by a new political administration, or critical public audit finding at a key competitor can often jolt compliance teams into action. Suddenly, automation or control tooling becomes a priority. But this behavior is reactive, not part of a planned tech roadmap by the buyer. Demand often fades once perceived risk declines.

### Turnover In Key Roles

New Chief Compliance Officers, GCs, or Risk Officers often reevaluate tooling, especially if they bring prior vendor relationships or see gaps in current processes. But this makes the pipeline person-dependent and vulnerable to sudden stops if personnel changes again.

### Industry-specific Flashpoints

Sometimes sector-specific issues (e.g., ESG scrutiny in asset management, operational resilience in banking, or data privacy enforcement in tech) create temporary surges in demand. But again, these are often regional, episodic, and hard to scale predictably.

### Internal Breaches Masked As Budgeting Decisions

Often, the real trigger for a RegTech point solution purchase is an internal failure: a near-miss, a data breach, or a critical non-public audit finding. But these drivers are rarely disclosed, and virtually impossible to predict. Instead, adopters may cite "strategic prioritization" or "budget availability," when in reality the decision was reactive and urgent, but reputationally sensitive.

To be clear, the RegTech software market is **attractive and growing**, supported by strong secular tailwinds such as increasing regulatory complexity, globalization, and rising stakeholder scrutiny.

*RegTech is an attractive and growing sector, not a random one.*

However, the underlying *nature* of the demand can still be highly episodic: growth often comes in large, uneven waves triggered by external events, which makes business management and forecasting more complex than in traditional SaaS categories.

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## Sales and Pipeline Forecasting May Be Unreliable

In traditional SaaS models, sales forecasting relies on relatively consistent demand signals: headcount increases, expansion into new geographies, or product roadmap alignment. In the RegTech space, particularly for specialized point solutions, those signals are often absent or misleading. Instead, the sales pipeline is largely contingent on external events, many of which may not occur, may arrive later than expected, or may be interpreted differently by different buyers. As a result:

### **Pipeline quality is more fragile**

What looks like a healthy funnel of opportunities may, in reality, hinge on a regulation that hasn't been finalized, a risk event that didn't materialize, or a compliance lead who suddenly left. These aren't the typical stages in a funnel, they're gates in the process, and the vendor often has no control over whether they open.

### **Sales cycles are more erratic and momentum-sensitive**

A deal that's moving quickly can stall overnight due to a legal reinterpretation, budget pullback, or leadership turnover. Conversely, deals that appeared dead can reignite with a surprise enforcement action or internal audit finding. This volatility makes pipeline conversion rates hard to benchmark and sales team performance difficult to evaluate using standard SaaS metrics.

### **Traditional sales KPIs may lose relevance**

Metrics like lead velocity, coverage ratio, and even average sales cycle length are skewed by the episodic nature of demand. A single large deal driven by regulatory urgency may mask months of inactivity. Quarter-to-quarter comparisons become misleading without a contextual lens.



The result is a fundamental misalignment between forecast models and market behavior. GTM teams that scale aggressively based on perceived demand often find themselves overextended in down cycles, while conservative teams may be under-resourced during sudden surges. This creates a constant tension between agility and efficiency and puts significant pressure on leadership to time hiring and spending with precision that the market rarely allows.

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## Operational Management May Become Resource-Inefficient

In a typical SaaS business, recurring demand and a linear sales funnel enable careful calibration of sales capacity, onboarding resources, and customer support staffing. But in the RegTech software space where demand can be more stochastic, bursty, and often externally triggered, this level of planning precision can break down. Vendors are forced to manage against unpredictable waves of activity, which creates persistent operational friction. Specifically:

**Surges outpace capacity:** When a new regulation drops, or a market-wide enforcement event occurs, vendors may see a sudden spike in RFPs, demos, and onboarding needs. But most RegTech vendors lack the excess sales and implementation bandwidth to capture all that demand quickly, leading to missed revenue, delayed go-lives, and strained internal teams.

**Lulls erode productivity and morale:** During quieter periods, those same go-to-market and support resources can sit underutilized. This creates margin drag, drives up per-unit costs, and contributes to team attrition, especially when high performers feel their pipeline or workload is no longer predictable or meaningful.

**Efforts to smooth the cycle often backfire:** Hiring ahead of demand can leave the company bloated when the wave doesn't arrive. Cutting back during lulls may leave the team under-resourced just as demand returns. This boom-bust staffing cycle undermines scale, erodes institutional knowledge, and prevents the business from building durable operational leverage.

In short, stochastic demand triggers can break the traditional SaaS scalability equation. Fixed-cost models that work well in steady-growth markets become brittle, and the typical assumptions around GTM efficiency, onboarding throughput, and support cost ratios often fail to hold. For operators, this makes resource planning a game of probabilistic guesswork. For investors, it creates risk in both cost structure and delivery reliability.

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## Expansion Revenue as a Critical Growth Driver

In a market where new customer acquisition can be irregular and influenced by unpredictable regulatory and compliance events, successful RegTech vendors must balance two growth engines: expanding within existing accounts and capturing new logos when demand emerges. While net-new sales can be more cyclical, building deep, sticky client relationships and driving expansion revenue helps create a more stable, resilient growth profile, insulating the business during periods of softer new demand.

The most resilient vendors tend to exhibit a few common traits:

### Multi-product Or Modular Offerings

A vendor with adjacent modules, (e.g., surveillance, reporting, vendor risk, policy management) can sell into multiple pain points within the same organization. This not only increases revenue per client, but also creates stickiness as workflows become more integrated.

### High Customer Retention And Embeddedness

In the RegTech space, retention is often less about contract mechanics and more about operational entrenchment. Vendors who become part of core compliance workflows or audit processes are harder to displace, especially when switching carries regulatory risk.

### Cross-sell And Geographic Expansion Motion

Resilient RegTech vendors don't just react to demand in their currently served segments. They are also structurally positioned to scale quickly when similar regulatory needs arise in new geographies, sectors, or client types. By leveraging existing product capabilities, delivery playbooks, and domain expertise, these vendors can move fast to serve emerging markets, capturing growth ahead of competitors and smoothing revenue between demand surges.

### Strategic Partnerships That Extend Reach And Credibility

Resilient RegTech vendors often build partnerships with larger platforms, service providers, or consulting firms to amplify distribution, accelerate sales cycles, and gain trust with risk-averse buyers. These relationships help smaller vendors punch above their weight, particularly when entering new verticals, geographies, or regulated sectors. In a space where credibility and timing matter, well-placed alliances can smooth out lumpy direct demand and drive recurring referral-based revenue.

For investors, this means that valuation and forecasting assumptions must shift. Models that lean heavily on new logo acquisition, traditional CAC/Payback dynamics, or top-of-funnel velocity can break down if they fail to account for the episodic nature of demand. Without a proven expansion engine and demonstrable white space within the client base, vendors may struggle to sustain growth, and multiples based on NRR or sales efficiency may prove overly optimistic.

## The Investment Implications are Real

For investors evaluating RegTech vendors, it's critical to recognize the impact of stochastic demand drivers on revenue quality and forecasting. A company may show impressive recent growth, but if that growth was driven by a recent regulatory event, a market-specific compliance push, or a short-lived enforcement wave, it may not be repeatable, or even sustainable. This is especially important for younger companies whose historical performance may have occurred entirely within a demand upswing. Without proper normalization, investors risk overestimating the scalability and durability of the current trajectory. Post-investment, the business may face a natural plateau or even contraction not because of execution failure, but because the external trigger that fueled demand has passed.

Conversely, investors may encounter RegTech vendors that appear stagnant or underperforming simply because they've been operating in a down-cycle between regulatory events or buyer urgency triggers. These companies may have solid fundamentals, strong retention, and a well-positioned product, but limited new growth due to the absence of a recent demand catalyst. If well-timed, an investment here could benefit from the next regulatory or market-driven wave, offering upside that isn't obvious in the current financials. Understanding where the company sits in the broader demand cycle is essential to setting realistic expectations and designing an operating model that can flex as the market returns to equilibrium.

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## Considerations When Investing in RegTech

The RegTech software market is undeniably attractive: regulatory complexity is increasing, compliance burdens are intensifying, and firms across asset management, banking, insurance, and corporate sectors are under pressure to demonstrate proactive risk management and auditability. As these demands grow in volume and sophistication, RegTech point solutions are becoming essential infrastructure, especially in regulated verticals. For investors, this creates a compelling backdrop: recurring revenue, critical use cases, and long-term secular tailwinds.



However, RegTech is not a typical SaaS category. Demand in this space is not always linear, and adoption is often triggered by external events such as new regulations, enforcement actions, internal audits, leadership turnover, or investor scrutiny. These external factors can drive demand in bursts as opposed to steady streams. As a result, investing in this space requires a different mindset when evaluating growth, scalability, and post-close performance risk.

## Key Considerations for Investors:

### **Recent growth may be situational, not structural**

If a company is currently in an up-cycle, riding a wave of regulatory urgency or post-enforcement demand, it may show strong top-line growth and sales momentum. But that growth may not be repeatable. Once the external catalyst fades, growth can decelerate quickly, even if execution remains strong. Investors must adjust projections and diligence models accordingly.

### **Underperformance may reflect market timing, not product weakness**

On the flip side, a vendor in a down-cycle may appear stalled or slow-growing, despite having a strong product and satisfied customer base. In these cases, revenue may simply reflect a lull between demand triggers. These businesses can offer significant upside when the next regulatory cycle or buyer urgency wave hits.

### **Sales efficiency metrics may mislead**

CAC, payback period, and pipeline coverage can all look unusually strong (or weak) depending on where the company sits in the demand cycle. Without context, investors risk misinterpreting performance data, either overvaluing momentum or undervaluing latent opportunity.

### **Value creation levers must account for market timing**

Playbooks based on aggressive new-logo acquisition may struggle in periods of low external urgency. Instead, value creation efforts should focus on driving expansion revenue, building product breadth, and improving GTM flexibility to handle volatility in both directions.

### **Timing matters, but fundamentals win**

Despite these challenges, RegTech remains a fundamentally strong sector for investment. Products solve mission-critical problems, retention tends to be high once embedded, and consolidation opportunities exist across fragmented subcategories. The key is recognizing that success in this space is not just about revenue growth, but also about durability, adaptability, and strategic positioning across regulatory cycles.

## CONCLUSION

The stochastic nature of key demand drivers is a foundational operating characteristic of many RegTech software categories. Investors must recalibrate their approach to diligence, valuation, and growth forecasting when assessing these businesses. Success in this sector requires an emphasis on resilience, cross-sell depth, operational flexibility, and a clear-eyed understanding of the limits of traditional SaaS playbooks.

## CALL TO ACTION

At Alpha FMC, we specialize in Financial Services and FinTech diligence engagements that are tailored for regulated environments, structurally complex growth situations, and FS-centric business models. We work closely with our clients to uncover the insights that matter most: clarifying risk, validating upside, and enabling faster and more confident investment decisions.

To learn more, please contact:

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