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Bain Capital Tech Opps seeing 30-40% productivity gains from GenAI engineering tools

'This enables a pretty dramatic acceleration of development timelines and product roadmaps', says Darren Abrahamson, partner at Bain Capital Tech Opportunities

Generative AI is swiftly changing how Bain Capital Tech Opportunities goes about its business, both in adoption by its portfolio companies and impacting its investment thesis, partner Darren Abrahamson told PE Hub Europe in the latest of our 2024 outlook series with senior dealmakers.

"Nearly every company" in the firm's portfolio has incorporated GenAI tools into their engineering teams, leading in many cases to productivity gains of 30-40 percent, said Abrahamson. GenAI's potential to enhance cyberattacks is also creating growth potential for cybersecurity companies that can tackle the threat.

Darren Abrahamson, Bain Capital Tech Opportunities

Q Tell us about the type of companies that Tech Opps invests in?

Tech Opportunities invests to help growing technology companies reach their full potential. We leverage decades of experience investing across four primary verticals: application software, infrastructure and cybersecurity, fintech and payments, and healthcare IT.

We identify and invest in founders and management teams who are innovatively solving important problems for their customers in large and growing markets. We have a flexible mandate which includes both minority growth investments and control buyouts. Irrespective of our ownership stake, we engage deeply on a strategic and operational level with each company we invest in to help them grow and scale.

In 2022, we launched a dedicated Tech Opportunities team based in Europe to back compelling companies across the region. This builds on Bain Capital's more than 20 years of experience in European technology as a firm.

Q What were your best investments of 2023?

In 2023 we invested additional capital into two of our portfolio companies in Europe, SumUp and Ataccama. These are companies that we initially backed in 2022 that are performing very well and offer significant continued organic and inorganic growth potential.

In the US, we invested in three founder-backed companies in the legal technology, cybersecurity, and wealth-tech sectors. Interestingly, none of these companies had previously raised institutional capital from traditional venture or private equity funds. This is quite common for us – and in fact a substantial number of our investments globally are made into founder-owned and founder-run businesses who are seeking more than just capital. In these situations, our ability to align on a vision for the future of the company, and then provide the guidance and operational resources to help achieve that vision, is a key differentiator and often leads to proprietary investment opportunities, or situations where we are picked as partners even over competing firms offering higher valuations.

Q What does your deal pipeline look like for 2024?

Our pipeline for both buyout and growth investments is strong, and we think the current environment is a compelling one in which to invest. In particular for our approach, which relies on deeper diligence and higher engagement to drive value, more complex and dynamic markets create more interesting opportunities relative to what we experienced over, for example, the 2019-2021 period.

Following significant market re-ratings such as the one we experienced from 2021 into 2022, we find that it takes 12-18 months for investment activity to pick up, as gaps between buyer and seller expectations on value begin to align. As a result, we saw an increase in the number of assets in market in the second half of 2023 and we expect that volume to accelerate heading into 2024.

In 2023 we saw significantly more buyout opportunities than we did growth capital opportunities, but we expect the late-stage growth market will pick up in 2024 for two reasons. First, we see the market becoming more comfortable with down rounds, especially if there is a need for capital to facilitate M&A or a desire from investors for liquidity. And second, there are some higher quality companies who have grown enough that they can raise at comparable or higher valuations than their last rounds, and who may still need additional capital to see them through to IPOs or exits.

Q In which sub-sectors do you see most potential going into 2024?

We are thematic investors and we utilise the significant vertical depth and expertise of our team and Bain Capital's global technology platform. To pick three areas (of many) that we are focused on heading into 2024:

First, we see clear opportunities to leverage learnings from our decades of investing in vertical software businesses in the US market. This includes both deep knowledge within sub-verticals (for example, construction software) that can be applied to new geographies, as well as broader areas of value creation such as helping companies to expand into adjacent product areas such as payments.

Another opportunity we are focused on is in the fintech space, where a very significant change in the valuation and funding environment has created interesting opportunities to drive market consolidation and more aggressive M&A strategies.

Finally, there continue to be an ever-increasing number of cybersecurity risks, which GenAI is beginning to make even more challenging for companies to deal with. Businesses with novel technology approaches to cyber-defence continue to have a lot of growth potential even in a tighter budget environment, and we have substantial experience in helping cybersecurity companies scale globally

Q How do the European and US markets differ in those sub-sectors?

It really differs by sub-sector. The macro environment is clearly diverging and so you are seeing some more pressure on growth in Europe versus the US. For example, the growth rates of payments companies which are tied to consumer spending has held up much better in the US than Europe, broadly speaking. In other areas like data infrastructure or cybersecurity, you tend to see more similar secular trends and growth across geographies.

One broader theme we have noticed in Europe is that companies tended to remain slightly more disciplined on the cost side during 2020/2021, and so while many companies in the US are still having to cut costs to get to profitability, many we are looking at in Europe have been run profitably for several years and thus have less need to dramatically shift how they operate in order to navigate through the current market environment.

Q Is GenAI going to change the world in 2024 or is it more of a long-time bet?

We believe GenAI will be one of the most transformative technologies of our lifetimes – and will impact almost every business and industry in quite profound ways. We're in the early stages of understanding its full implications, along with associated risks and opportunities. Nonetheless, its significant impact is already visible in certain areas.

Nearly every company in our portfolio has incorporated GenAI tools across their engineering teams, and many are seeing productivity gains of 30-40 percent. This enables a pretty dramatic acceleration of development timelines and product roadmaps. We have seen some companies who have automated the majority of first-line customer support queries, which greatly enhances customer satisfaction and allows employees to tackle more complex – and more intellectually interesting – support issues.

And finally, all of our companies are exploring how to integrate GenAI into their products to increase value to customers and ultimately revenue, though the pace and impact of this varies quite a bit by industry, in part due to data privacy concerns. Across all of these dimensions – and others – we anticipate an even greater impact from GenAI in 2024 as the underlying speed and quality of AI models continues to improve, and as organisations figure out new ways to utilise the technology in new and different ways. ■