

# How Vertical Software Onboards AI



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**Bain's Philip Meicler and Scott Kirk discuss how vertical software platforms' deep ties to industries and data position them well for AI.**

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**By Chris Nolter**

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**Nvidia Inc.**'s (NVDA) pledge to invest up to \$100 billion investment in OpenAI LP sets a high water mark for investments in AI large language models.

In the middle market, however, vertical software makers are helping companies with the heavy lifting of AI, tailored to their industries and data.

As the AI craze continues, sponsors that have invested in vertical software platforms, such as **Bain Capital Tech Opportunities**, are bound to benefit as they seek exits.

Vertical software makers are well positioned to help companies move into AI given their deep ties to the sectors they serve, **Bain Capital Tech Opportunities** partner Philip Meicler said.

"With mission critical systems that are deeply ingrained in the processes of customers, you earn a lot of trust, and you earn the right to extend the value proposition you're delivering," Meicler said. "Within some of these niches, the training data to develop that customer knowledge isn't broadly available."

Others have suggested that vertical software can be a haven for investors as they seek defensible platform investments amid an AI-driven SaaSageddon.

"Vertical software is one pocket of software that is likely to be viewed as 'AI-proof' (for now), given the deep domain, regulatory nuance, and workflow expertise required to be successful," **RBC Capital Markets** analyst Rishi Jaluria wrote in an Oct. 1 note.

About 70% of AI funding so far has gone to horizontal companies — such as OpenAI LP, Anthropic PBC and Databricks Inc., the analyst estimated.

Industry-specific software platforms that can draw on deep data streams and embedded systems have an advantage over horizontal SaaS companies that offer more generalized tech, another software investor said.

For its part, BCTO backs vertical software-as-a-service companies such as construction management platform **Buildertrend Solutions Inc.**, legal tech company **iManage LLC** and sports technology platform **Hudl**, or Agile Sports Technologies Inc.

The team is investing out of \$2.4 billion **Bain Capital Tech Opportunities** Fund II LP. Portfolio companies typically range between \$30 million and \$200 million in sales.

"Incumbency is a massive competitive advantage, but it needs to be treated with a healthy amount of paranoia," **Bain Capital Tech Opportunities** partner **Scott Kirk** said, noting the sensitivity of data. "The traditional moat for vertical software businesses has been redefined and upstarts are putting incredibly healthy pressure on incumbents to deliver at a pace and level of ROI that is upleveling whole categories and creating game changing experiences for end customers."

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### **Firm at a Glance:**

- **Bain Capital Tech Opportunities** Fund II LP is a concentrated \$2.4 billion mid-market growth software strategy, allocated across 10 to 12 investments.
  - Typically, portfolio companies are between \$30 million and \$200 million in revenue; some have grown beyond \$200 million.
  - BCTO typically looks at companies growing by at least 30% annually.
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Founded in 2006, Omaha-based **Buildertrend Solutions Inc.** developed a construction management software platform for builders remodelers and contractors. Bain and **HGGC LLC** backed the company in December 2020.

"A company like Buildertrend serves 20,000 residential general contractors — a customer base it has built and maintained for decades. Incumbency is a real competitive advantage in leveraging AI," Meicler said.

*"Incumbency is a real competitive advantage in leveraging AI."*

BAIN CAPITAL TECH OPPORTUNITIES PARTNER PHILIP MEICLER

"It ties back to deep understanding of the customer and having tens if not hundreds of thousands of interactions with a customer segment that's really difficult to find training data for," he said.

Likewise, portfolio company iManage provides software for 2,500 law firms, 40% of the Fortune 100 and knowledge workers in other sectors. Offerings range from managing email to risk mitigation and setting up AI assistants.

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## Vertical SaaS Platforms:

Each of the businesses below generates several hundred million of dollars in annual recurring revenue, according to a source familiar with the matter.

- Sports: Bain backed **Hudl** in May 2020.
  - Construction: Bain and **HGGC LLC** sponsored Buildertrend in December 2020.
  - Legal and knowledge work: Bain invested in Chicago-based **iManage LLC** in April 2023.
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"Standing adjacent to over 10 billion documents in the cloud, we believe the company has structural advantages to deliver differentiated insights, search and summarize documents," Meicler said.

## Multi-Constituent SaaS Networks

The ability of vertical SaaS networks to extend into new markets and customers is a selling point.

"Multi-product, multi-constituent SaaS companies are uniquely valuable," Kirk said. "Our team often looks for businesses that have built a purposeful suite of products within a seam of the market that is loved. They are uniquely positioned to extend to other constituents, whether that is our customers' customers, suppliers, employees or end consumers."

The global sports arena has provided portfolio company **Hudl** with new geographies and markets to grow its platform.

**Hudl** provides video and analytics tech to more than 315,000 teams in soccer, basketball, rugby and other sports, most recently adding the Cambodian Premier League in mid-September.

"Hudl's done a great job of taking a lot of the game film that's captured on **Hudl** cameras and using ML to break down the statistics that helps coaches and players prepare and game plan better," Meicler said.

The portfolio has grown from game planning to processes such as recruiting, integrating integrated data from various school and professional leagues.

"Picture a world where a coach is looking for a winger in a third league," Meicler said. "They're able to tap into **Hudl** content, to hone in on the players that could be the best fits for their team within the [English Premiere League] but also in all of the leagues that feed into the EPL."

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PEOPLE

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Scott Kirk

Phil Meicler