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MARKETS & FINANCE | INVESTING

Now Wanted in Silicon Valley: Ho-Hum Businesses With Thin Profit Margins

Venture-capital firms are bringing AI and dealmaking to accounting, property management and other unglamorous fields

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General Catalyst is pouring hundreds of millions of dollars into services businesses, says Marc Bhargava, a managing director. PHOTO: KIMBERLY WHITE/GETTY IMAGES FOR TECHCRUNCH

Forget virtual-reality headsets and brain-chip implants. Silicon Valley is coming for boring businesses that do lots of clerical work.

The prospect of artificial intelligence automating administrative tasks is attracting venture capitalists to ho-hum professions such as accounting, customer-service centers and property management. Tech entrepreneurs have raised hundreds of millions of dollars to retrofit these businesses with AI tools and drive up their profitability.

The playbook also involves startups adapting one of Wall Street's favorite practices: the roll-up. Private-equity firms refined the model of merging businesses in sectors such as car washes and heating and air conditioning outfits and using greater scale to cut costs. Much of the capital these new startups raise is similarly going to fund buyouts of businesses, which are "rolled up" into one operation.

"These services businesses, many of them ultimately globally just barely break even, so they haven't got a lot of attention from VC investors," said Marc Bhargava, a managing director at General Catalyst, a venture firm planning to pour hundreds of millions of dollars into these types of investments. "That's going to change."

The startups in this new field add to the growing universe of places where investors can get exposure to the theme of AI transformation, beyond companies like chip maker Nvidia. Other ways people have expressed bullishness on AI's potential include buying shares of power producers, turbine makers, manufacturers of data-center equipment and other providers of AI infrastructure.

Among the flushest new players bringing AI to quiet professions is Long Lake Management Holdings, a startup founded 13 months ago. Since then, Long Lake has raised \$600 million plus from investors and acquired around a dozen companies that collectively employ about 1,400 workers, people familiar with the company said.

Long Lake's first deals were for businesses that manage the operations of homeowners associations. Those management companies are now adopting AI tools for tasks like generating presentations for HOA board meetings. It is targeting an expansion into other industries, including human-resources services.

Another startup that attracted venture funding is Crete Professionals Alliance, which has acquired multiple regional accounting and professional-services firms. Crescendo, which launched last year, bought out a customer-service company that had over 3,000 workers its first deal. Dwelly, a British property-tech startup, did a deal last year for a home-rental agency that managed over 1,000 properties.

Venture capitalists are investing in roll-up efforts while the broader market for more traditional startup fundraising hasn't returned to previous highs. U.S. startup investment volume last year was 41% lower than in 2021, according to PitchBook data. That year, low interest rates and demand for digital services during the pandemic drove record levels of activity.

A big exception is the multibillion-dollar investment rounds into high-profile AI companies like OpenAI and Anthropic. Some investors in those startups are also backing the efforts to bring AI to less glamorous sectors. Josh Kushner's Thrive Capital, which owns a significant chunk of OpenAI, funded Long Lake and Crete.



Thrive Capital CEO Josh Kushner is looking to leverage AI in previously overlooked companies. PHOTO: JEMAL COUNTESS/GETTY IMAGES FOR FORTUNE MEDIA

Bhargava of General Catalyst said his firm dedicated \$1.5 billion to the strategy in recent years and is looking to write checks of at least \$100 million for each project it backs. The firm has invested in seven startups pursuing AI-enabled rollups, including Long Lake and Crescendo.

Some of the entrepreneurs behind these startups come from Wall Street. Long Lake was co-founded by Alex Taubman, who spent a decade at Oaktree Capital Management. He also worked at the investment firm that managed his family's wealth, much of which came from the luxury-mall operator they founded, The Taubman Company.

But some of the new startup tactics will look foreign to traditional buyout investors. Private-equity firms, for example, historically used borrowed money

to fuel their dealmaking while maintaining ultimate control. Venture firms are backing startup founders that retain majority ownership of the businesses, which are so far avoiding debt.

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