

# LARGE DEAL/DEAL OF THE YEAR

## Vista Equity

By Luisa Beltran

2019



**Brian Sheth (left), Vista Equity's co-founder and president, and Steve Lucas, CEO of Marketo.**  
Photos courtesy of the firms.

**Steve Lucas**, head of **Marketo**, remembers the first time he met **Robert Smith**, co-founder, chairman and CEO of **Vista Equity Partners**.

It was July 2016. Lucas, a sales and marketing executive with a strong product background, was looking for his next career move. He had spent several years at **SAP**, most recently as president in the enterprise platform and analytics.

Lucas walked into the restaurant at the **Ritz Carlton Hotel** in Denver to meet with the billionaire investor. This was one of the last steps in the interview process. Smith was seeking a CEO for a portfolio company, **Marketo**.

Smith is known in the industry for his success investing in enterprise software — and his style is legendary. The PE executive was dressed in a midnight blue pinstriped suit and matching vest. “This was casual Friday for Robert Smith,” Lucas said with a laugh. “Man, can he rock a three-piece suit.”

They spent two hours talking about everything from blockchain to AI to marketing. Lucas asked the Vista CEO, a former chemical engineer and ex-**Goldman Sachs** banker, what he expected from Marketo. Smith said only two words: “Innovation and growth.”

That was the motivation Lucas needed. Days later he met with **Brian Sheth**, Vista co-founder and president, and told him how he loved thinking about how to outinnovate his competitors. “Okay, I

think the interview is done here,” Sheth said. Lucas officially joined Marketo as CEO that October.

Marketo in 2016 was growing fast — and had missed expectations. The company in August of that year had reported a \$20.8 million second-quarter net loss and in April it had reported a Q1 loss of \$18.4 million, according to SEC filings. Marketo was unprofitable, with Ebitda in negative territory, when Vista acquired it for \$1.8 billion in October 2016.

Marketo is the San Mateo, California, provider of cloud-based marketing-automation software to businesses. Vista realized it needed to switch focus. Marketo had targeted small-to-medium businesses but hadn’t extended into enterprise software, a source said.

“We could see [Marketo] was struggling to advance,” said a person with knowledge of the deal. Marketo was facing competition from heavyweights like **Salesforce.com**, which it wasn’t fully prepared for, Lucas said.

One of Vista’s first steps was to expand Marketo’s management team. The buyout shop ended up bringing in 14 senior execs, including Lucas and **Mark Miller** of **Sabre Holdings**, to revamp Marketo.

The company opened a Denver office, adding 350 people in a year. The location helped cut the cost-per-employee 30 percent while boosting employee retention, engagement and productivity.

Marketo became profitable in late

### SNAPSHOT

**Company:** Marketo

**Legal adviser:** Kirkland & Ellis

**Financial adviser:** Morgan Stanley

### WHY THEY WON

- Marketo’s revenue jumped about 64 pct to near \$400 mln
- EBITDA swung to positive
- Marketo added 800 new large, enterprise customers
- Sale to Adobe returned \$2.5 bln net cash to Vista investors

2017. This allowed it to refinance its debt, Lucas said. Marketo got an “incredible interest rate” on an oversubscribed loan, which led the company to pursue M&A, he said.

It bought **Bizable**, which supplies marketing-performance-management software, the following April. (Marketo acquired **ToutApp** in April 2017 for a reported \$30 million plus a \$20 million earnout.)

During the two years of Vista’s ownership, the company grew its sales staff by 64 percent, while adding 800 large enterprise customers and 150 contractors in India. Staff jumped nearly 37 percent to more than 1,300 people. This caused revenue to spike about 64 percent to near \$400 million while Ebitda swung to positive.

Marketo in summer 2018 received interest from multiple parties, Lucas said. The company hired **Owen O’Keefe** of **Morgan Stanley** to run a process. Most of the demand came from strategics, Lucas said.

**Adobe** ended up winning the auction, buying Marketo for \$4.75 billion. The deal returned about \$2.5 billion in net cash to Vista, the biggest profit realized by a portfolio company in Vista’s history.

“This wasn’t a story where everything was perfect,” Lucas said. “We had our slogs, we had our fights to get through. But we got through it as a team.”