

# THE MARKET CONDITIONS THAT AFFECT INVESTMENT

What do investors look for when considering whether to fund a business? There's more at play than your elevator pitch and how you plan to carve out a unique position in the market. Your knowledge of the market conditions that could affect a would-be partner's appetite for investment also plays an integral role in your fundraising success.

## IPO ACTIVITY

With increased market volatility, IPOs are one of the riskiest securities. In fact, the stock market is giving many of Silicon Valley's most promising startups a lackluster reception. If this continues, private companies could begin to feel the fallout of these events, making it difficult to recruit and pay employees, as well as threaten their future interest in startup funding.

**11 OF 49** 

VC-backed U.S. technology companies held IPO events traded **below the per-share value** in 2015

Source: The Wall Street Journal

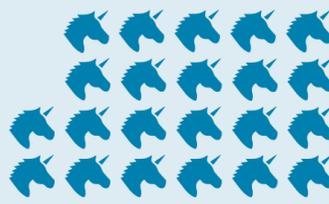
### GOING PUBLIC?

Potential buyers demand better odds.

IPOs are appealing for investors who believe the potential reward outweighs the incremental risk.

## UNICORN TROUBLES

Unicorns are highly sought after by investors for their growth prospects, management, and market value of assets. But often, by the time a company is ready to go public, the valuation it received from venture capitalists does not align with its balance sheet. The success, or failure, of these giants has great influence over the market, and the tech bubble that looms over it.



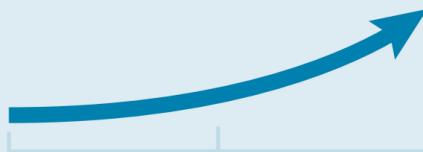
**22**  
SOFTWARE UNICORNS

have a combined valuation of **nearly \$40 billion**

Sources: The New York Times and Dealogic

**\$63.5 BILLION**

in unicorn IPOs alone, if unicorn companies float **25% of their private valuation** through IPOs over the next two years.



**14% HIGHER**

than the average total volume of IPOs, regardless of sector, **over the last two decades.**

## MUTUAL FUND MARKDOWN

Mutual fund markdowns have surprised the venture community. Venture capitalists value companies at what they paid for them; but recently, investors have been discounting their companies after subsequent review of market conditions and performance. These markdowns indicate uncertainty from investors and may stagnate the growth of this fast-growing market.

**-25%**

**Snapchat** discounted

**-31%**

**Dropbox** devalued

\*Source: Fortune



HGOAX carrying preferred shares of 10 privately held companies below its original cost bases through June 2015.

## CONCLUSION

When looking for investment opportunities, investors may be hungry for software companies, but companies are competing with the best of the best. Here are some trends affecting the software industry.

### A CLOSER LOOK AT INVESTMENTS IN THE SOFTWARE SECTOR

#### EARLY-STAGE M&A

Activity is affected by interest rate increases and conflicting economic growth signals. Many fear the 5.6% growth in Q3 2015 is not sustainable.

#### MARGINS & CASH FLOW

Companies with high results will receive firmer valuations.

#### UNICORN RISK

Will continue to rise in 2016, if the gap between pre-IPO and IPO valuations narrow.

#### DIFFERENTIATING FEATURE

Businesses rooted in cloud and SaaS need to define a differentiating feature of their software to pull ahead of the competition.

#### IT SPENDING PROJECTED TO FLATTEN

In 2016, resulting from revenue pressures from multiple industries. Cuts may occur to alleviate resources for other initiatives, like software application.



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