## KEYNOTE INTERVIEW

Vista Equity Partners on maintaining exit momentum in an uncertain tech market



Long-term value creation will be crucial to overcoming exit challenges within the tech sector, says Vista's founder, chairman and CEO Robert Smith

Software and technology specialist Vista Equity Partners announced the sale of technology spend-management platform Apptio to IBM in June for \$4.6 billion. Here, Vista founder, chairman and CEO Robert Smith explains why the exit environment in the tech sector continues to offer opportunities for private equity firms despite the recent market upheavals.

#### What is your approach to engaging with financial and strategic buyers to facilitate exit transactions?

Whether you're exiting to a strategic or financial buyer, or even the public markets, all investors are looking for

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the same thing; companies with enduring market value that will continue to appreciate in the years to come. Other recent software exits for us, aside from our recent Apptio deal, include the sale of Cvent and Ping Identity.

We've completed more than 600 enterprise software private equity transactions, representing nearly \$300 billion in transaction value. This creates pattern recognition that allows us to identify and source companies with conviction and understand how best to scale an organization, before accelerating the corporate maturity of our companies to expand revenue and EBITDA growth. This has produced a strong appetite for Vista companies from buyers who are looking for investments that can sustain and grow in value.

#### How are you viewing the current exit market and Vista's position within it?

How any investor can respond to the current environment depends on the decisions they made at the top of the market, and we believe we're in a strong position. We decelerated deployment when valuations were at their peak, deploying a quarter less capital from 2020 through 2022 than in the prior four years, which is when a lot of new investors were pumping money into enterprise software.

We've taken advantage of the recent softening, taking several companies private including Avalara, Citrix, Duck Creek and KnowBe4. We've also managed to maintain momentum when it comes to exits, completing or signing 18 monetizations and generating \$18 billion in total value since November 2021.

#### How does your investment approach differ for investing within the lower and mid-markets?

Our investment approach isn't reliant on the dynamics within the public markets, it's just an additional lever for consideration. For our Endeavor and Foundation funds, we've remained focused on paying a fair price, and sometimes this means buying businesses at a material discount to the high-growth public software-as-a-service sector. At other times, it means paying what an A-plus asset is worth. In the end, we look for opportunities to drive value for our investors in either scenario because of the value we create through product innovation, go-to-market success and operational excellence.

We can transact with executives and founders because they see the value of working with us to de-risk the future of their businesses and maximize their own success. As a testament to this, our founder network is one of our strongest sources of referral. It supports us in our sourcing and M&A processes across our funds, whether through introductions or recommendations or enabling us to bypass the formal investment process – indeed, three-quarters of our deals are founder-led or founder-influenced.

### Do you have any advice for how GPs can work with their portfolio companies to not only mitigate risk but also to capitalize on opportunities? With macro headwinds and softening

in the economy, some pressure on new bookings growth and elongated sales cycles may be expected for companies in the quarters ahead. Overall, companies that can navigate the challenges of the current economic climate will be those that are able to balance stability and productivity. By taking a proactive approach to these issues, GPs can help their companies position themselves for long-term success in a rapidly changing business environment.

"We focus on helping our companies adapt quickly to changing market conditions and emerging risks by focusing on prioritization, risk management, contingency planning and scenario analysis"

Looking back, we've taken very similar approaches through different market cycles. For example, when covid-19 hit, none of our companies required rescue financing, even in highly impacted industries like hospitality and events.

Today, companies are facing competition from both traditional market rivals and new entrants. This puts pressure on businesses to maintain high levels of productivity and innovation, while still trying to keep costs under control. We're also experiencing a period of rapid technological change, which is forcing companies to adapt to new business models and find new ways of working.

To navigate these challenges, GPs should help their companies take a proactive approach. We focus on helping our companies adapt quickly to changing market conditions and emerging risks by focusing on prioritization, risk management, contingency planning and scenario analysis. To stay competitive, we also help our companies to embrace new technologies and find ways to leverage them to drive productivity and efficiency. This means investing in automation, artificial intelligence and other emerging technologies.

You mentioned technological competitiveness - how are you viewing the opportunity for

#### generative artificial intelligence as it relates to investing in enterprise software?

Innovation is a constant presence in our world. We had previously been supporting our companies with the transition to a cloud environment, and as powerful as generative AI may now be, we will manage this technology disrupter as we have others - by applying our learnings from one company to the benefit of another and offering the full support of Vista's product and technology team to guide strategy and risk management. In fact, our approach to value creation has included support for adopting and innovating AI and machine learning tools and systems for several years.

Generative AI is still in the very early innings for the private markets, but it represents an opportunity to augment existing products and productivity levels, as well as the performance of developers and other key players within enterprise software organizations. We've formed an 'AI Council' comprised of Vista portfolio CEOs to assess and strategically respond to the emerging product and business trends driven by AI, and several of our companies have already leveraged the technology.

#### What do you view as the single greatest investment opportunity in this sector in the coming months and years?

I believe enterprise software will likely continue to be the most productive tool introduced into the business economy for years to come, and its value will only intensify as proprietary datasets are harvested into digestible information to help inform business decisions. Between the outsized productivity potential of enterprise software, the mission-critical nature of software systems, and the sustained digital transformation of the business economy, I continue to believe that investing in enterprise software remains the best use of capital in the financial markets.