Private markets saw a record-breaking increase in deal values and volumes in 2021, and now 2022 has set its own records for volatility - how has this impacted enterprise software investing and Vista’s strategy?

Robert F Smith: While the investment industry is experiencing changing and sometimes challenging market dynamics, we continue to believe that investing in enterprise software is one of the best uses of capital anywhere in the financial markets. Our conviction in our investment strategy remains high, irrespective of the market backdrop.

At Vista, our approach has always been rooted in discipline and selectivity, which bodes well in the current environment. As an investor, we take a long-term view, deploying capital at a measured pace during the life of a fund – for example, the deployment duration across our Flagship Fund averages more than five years. We invest exclusively in enterprise software but consider a balance of deal volume and diversification across industries and geographies when we develop a portfolio composite. This means we can conservatively hedge against concentration risk and ensure we are well-positioned and insulated, despite market dynamics.

Why has Vista chosen to focus only on investing in enterprise software? What criteria do you look for and what would prevent you from investing in a business?

Monti Saroya: We invest in enterprise software because we believe it is the most productive and transformative business tool on the planet. The world saw this during the pandemic when enterprise software tackled some of
“Our approach has always been rooted in discipline and selectivity, which bodes well in the current environment”

ROBERT F SMITH

“What do you view as the single biggest obstacle to creating value in an enterprise software organisation?

MS: We believe that our ability to evolve our infrastructure and our approach to value creation over time, while building our network of executives and portfolio companies, has really set our strategy apart. We connect founders, CEOs and management teams not only with capital, strategic counsel and operational resources, but with each other—combining and compounding their ambition and expertise to maximise their opportunities. Through constant collaboration with our portfolio companies, we grow as investors to reflect and propel both enterprise software and the digital economy forward.

However, this model requires a shared vision of success, one that is uniquely applied and adapted to each of our companies and their strategic ambitions. We find that it is most successful in organisations with strong management teams who take ownership and accountability of the opportunity in front of them.

These teams are forward-leaning; they view our investment as a true partnership and engage in the value creation process, thinking critically about how the best practices we’ve cultivated can work within their specific businesses. These teams have an ability to ruthlessly prioritise, and they speak candidly about what’s working and what’s not to identify the initiatives that will unlock the most value in their businesses.

“Vista’s founder network is one of our strongest sources of referral”

MICHAEL FOSNAUGH

our greatest challenges – from remote collaboration to online banking to distance learning – helping us navigate into the new normal.

But even in the current environment, businesses are expected to increase their IT spending over the next six to nine months and beyond, indicating that IT and software spending is less discretionary today than it was in prior cycles. As a result, it’s expected that enterprise software will continue to be the fastest-growing sector in the global economy with a market capitalisation of more than $3+ trillion by 2026, according to Vista research.

Enterprise software offers business leaders inherent value, helping them improve productivity, provide cost savings and identify valuable insights. As an example, we estimate that our portfolio companies’ products average a 640 percent return on investment. This productivity and the resulting ROI make enterprise software especially sticky for its customers.

However, not all software investments are created equal. As one of the most active enterprise software investors of the last decade, we understand the dynamics of how software companies operate, the systems needed for success, what makes a successful management team and how to scale and accelerate the corporate maturity of these businesses. We look for market leaders
and category creators, and help them enhance their position through operational excellence, investing in product innovation and enabling a path for sustainable growth.

Q How can private equity firms navigate returning capital to investors in today’s markets?

Michael Fosnaugh: The high valuation environment over the last few years will likely have the greatest impact on private equity managers who deployed capital with less selectivity, focusing on the potential for multiples expansion and short-term returns, rather than the underlying fundamentals of companies.

On the flip side, investors who focused on picking the right assets – where you can drive performance and sustainable growth through operational changes within your control – at the right price, have created optionality and opportunity in the current exit environment and well into the future.

Focusing on the right assets requires a broad and deep investment pipeline, as well as an expert due diligence process to identify the investments with the highest potential and certainty for strong results for investors. Currently within our Flagship Fund, we are tracking more than $250 billion in total equity pipeline value across public and private companies. However, finding companies that meet the requirements of partnering with Vista is a rigorous process. We decline about 95 percent of the deals that we evaluate.

We maintain this selectivity because of the strong referral network we’ve built among founders and CEOs who recognise the value that Vista can offer beyond capital. If we count the investments Vista has made over the last three years, almost 70 percent have been led by or influenced by a founder and nearly 90 percent of these founders are still involved in the company in some capacity. Vista’s founder network is one of our strongest sources of referral, and it has enabled us to identify and attract numerous potential investments outside the standard process.

Founders choose Vista because of our operating infrastructure and expertise. As pioneers in enterprise software investing, Vista designed a unique operating model and codified common insights – called Vista Best Practices – for our companies to leverage, all built upon our understanding of how enterprise software companies run best.

We’ve honed this approach over hundreds of transactions and thousands of founder and management teams relationships to create an ecosystem of collaborative and collective intelligence. In working with Vista, founders and management teams can unlock access to this competitive advantage for their businesses.

Our recent monetisation events in software companies Ping Identity, Datto and iCIMS are a testament to this approach. For example, under Vista’s ownership, Datto grew its customer base to more than 19,000 over the course of our investment, while iCIMS increased its user base by over 30 percent.

Q What do you see as the biggest opportunities, given the current market dynamics?

MF: We have built an infrastructure through our investment platform and global technology ecosystem that strives to deliver market-leading results to all our stakeholders despite the market environment. In the last 18 months, our firm has deployed more than $15 billion and returned over $14 billion in capital to our investors, representing in excess of $105 billion in transaction value.

We remain excited about the opportunities within enterprise software but there are three areas where we are concentrating our efforts from a risk/reward perspective. First, we are watching several public businesses that may consider a take-private transaction. These businesses have operational improvements they could make without the quarterly scrutiny of the public markets.

Secondly, we are vetting several opportunities in companies where we see the potential to impact operations and create a path to positive EBITDA within our near-term holding period. Finally, we are viewing smaller competitors that have better products than legacy players and are well-positioned to take market share with the right operational support.

The times ahead may be unprecedented, but we continue to hone and advance our investment approach to execute on the opportunities in enterprise software with discipline and at scale.

“We invest in enterprise software because we believe it is the most productive and transformative business tool on the planet”

MONTI SAROYA

Robert F Smith is Vista’s founder, chairman and CEO, and Monti Saroya and Michael Fosnaugh are co-heads of Vista’s Flagship Fund.