

PE Hub

By: Karishma Vanjani
PUBLISHED: 14 September 2021

PE DEALS

Five Questions with Vista Equity Partners' Rachel Arnold

Co-head of Vista's \$1bn Endeavor Fund, Rachel Arnold, talks about valuation dynamics and ways to bring in and retain diverse talent

Vista Equity Partners' Rachel Arnold sat down virtually with PE Hub to talk about the firm's strategy and ways the PE industry can bring in and retain diverse talent. Earlier this year, she was promoted to senior managing director and co-head of the Endeavor Fund at Vista. She's been with Vista for over 18 years, working as an operating executive in roles ranging from marketing to interim CEO.

Q What are the key trends that Vista's Endeavor Fund is investing in?

At a high level, our fund invests in early-stage, high-growth, high-potential businesses, typically in the \$10 million to \$30 million revenue range. In our Endeavor fund today, we have ten portfolio companies. These are companies that are in a really unique stage of their life cycle. They have product market fit and real potential in a well-defined market.

Our fund has the flexibility to do both majority and minority investment. [But] we prioritize the quality of company and our ability to really help them be more successful, regardless of structure. It's less about a current trend and more about where we see a leadership that we believe we can help.

And so, whether it's a minority or a slight majority or a buyout, our goal has always been to maximize potential by building and growing market value



Rachel Arnold, senior managing director and co-head of Endeavor Fund, Vista Equity

through product superiority, sustainable growth and operational excellence. To give you an example of how that works, before we even begin working with a company, we first really focus on getting to know the founders and identifying areas inside of the business where innovation, expansion and operations can be advanced. That could be something as simple as, you know, 'I've never hired a CFO before' to how should I think about a sales compensation plan to how do we think about pricing and packaging as we bring new products to market. We really want to ensure that there's that alignment in terms of how the business can grow and scale.

Q Why doesn't the Endeavor Fund just focus on early-stage growth companies or just make just growth investments? Why have a fund that does both - minority and majority?

We don't do a lot of seed and early-stage investments because the product market fit hasn't been established. We can support the growth of a company regardless of structure, as it goes through each stage. That [flexibility] is at the end of the day most supportive to the founders.

We start getting serious about the potential to invest in a company as it comes close to crossing the \$10 million in revenue mark. Over the years, we have found that's a really critical growth, kind of an inflection point. It's a point where you can very confidently understand the product market fit, the sustainability and the scalability of what can come for a business. With our other funds, we invest into multi-billion-dollar revenue companies and through each of our vehicles we see an opportunity to cover many stages of the software life cycle.

Q Valuations of enterprise software companies beat most other industries. Do you envision the competition to level off at some point?

I think if you take a step back and you look at the common attributes of these companies, such as the stickiness of the subscription-based revenue model

PE Hub

or the mission criticality of enterprise software, it's clear that these businesses are incredibly valuable.

What we've seen proven over the past 12 to 18 months, especially in the virtual environment, is that the business of enterprise software matters significantly as we think about long-term global growth. Significant capital flows into digital platforms have really created an environment where software is projected to remain the fastest growing sector globally for the foreseeable future. As investors have become more aware of the durability and value of this asset class, that has really bolstered what we're seeing externally in the market, and we don't expect that to change.

With these factors in mind, it's not surprising to see this valuation dynamic in the market. Obviously, no one knows exactly what the new valuation normal will be but what we do know is that there's no shortage of capital for software companies.

Q What is your advice to young females starting out in the private equity industry?

My advice often to new entrants, regardless of gender, is to really understand and find what you love about working in private equity, evaluate why you're doing this and how it contributes to meaningful outcomes and find that alignment of values with the organization and your teammates. For females specifically, I think seek out role models and mentors to help you navigate your career.

In general, diversity – beyond responsibility and being the right thing to do – is intrinsically linked to returns. Our shared success can only be enhanced by embracing the differences that everyone brings to the table.

For me, one takeaway is really that this notion of building an inclusive path to leadership isn't optional. As asset managers, we must embrace the value of talented experience and rely upon achievements and demonstrable results versus the perceived and often biased requirements that I would say are frankly dated at this point.

Q How can PE firms retain talent at the top tier?

I think it really is about engagement

as well as retention programs that embrace diversity. Now whether those are the seemingly obvious leadership and development programs that identify talent, or trainings that prioritize ally-ship, leaders need to challenge themselves to frame talent in a new way, and prioritize demonstrable results across.

I think all of those items together create an environment that is more supportive. It's those types of commitment, those types of discussions that also create the connectivity across an organization, raise awareness but also bring folks along and make them feel valued and [show them] that they have an opportunity here to continue to grow. I think that this is also something that has changed in the last five to ten years.

It's not something as simple as a checklist and I wish there was a quick fix. I think this is going to be something that is more of a journey for all of us in the industry. It needs to be a long-term commitment. This is about the future of the industry and how we work as firms and a team. ■