



WHITE PAPER

**ENTERPRISE SOFTWARE**

# Investing in the Engine of Innovation



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# Introduction

Enterprise software powers the core functions of today's business economy. As global computing capacity expands, businesses are increasingly relying on software to optimize operations, unlock new growth opportunities and stay competitive.

Software remains the largest and fastest-growing sector in the global economy. For wealth advisors seeking to improve the resiliency and diversification of client portfolios, we believe that understanding the nuances of this sector is paramount.

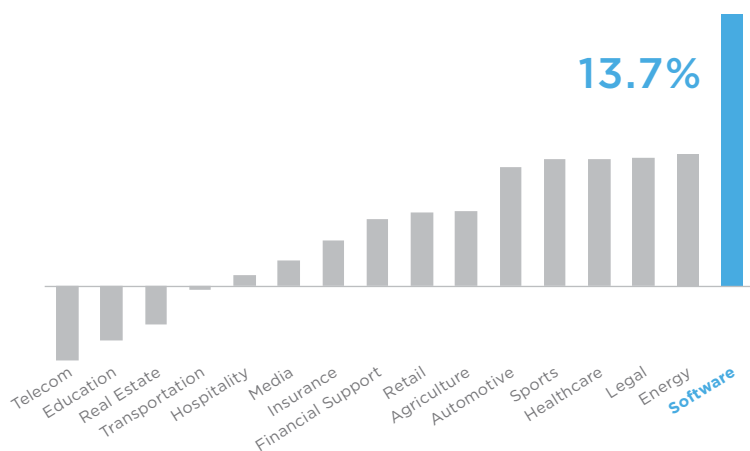
This article explores the unique characteristics of enterprise software, the trends driving its growth and the factors advisors should consider when identifying the right partner for private enterprise software investments.

# ~96%

of the opportunity in enterprise software lies in the private markets.<sup>1</sup>

## THE LARGEST AND FASTEST-GROWING SECTOR

2018 - 2024 INDUSTRY GROWTH RATE<sup>2</sup>



2024 MARKET CAP ESTIMATE<sup>2</sup>



Financial Services  
**\$15.2TN**

Healthcare  
**\$10.7TN**

Energy  
**\$6.6TN**

Retail  
**\$6.5TN**

Automotive  
**\$3.1TN**

Insurance  
**\$2.9TN**

## What Is Enterprise Software?

Enterprise software refers to technology solutions specifically designed to address the mission-critical operational and strategic needs of businesses. These tools can support individual users as well as entire teams, focusing on tasks ranging from sales management and scheduling to procurement and human resources.

While some enterprise software solutions integrate multiple functions, many are more specialized or vertically focused to drive efficiency and optimize critical workflows that are specific to certain sectors. To meet the needs of organizations, enterprise software solutions are developed with scalability, security and business continuity in mind.

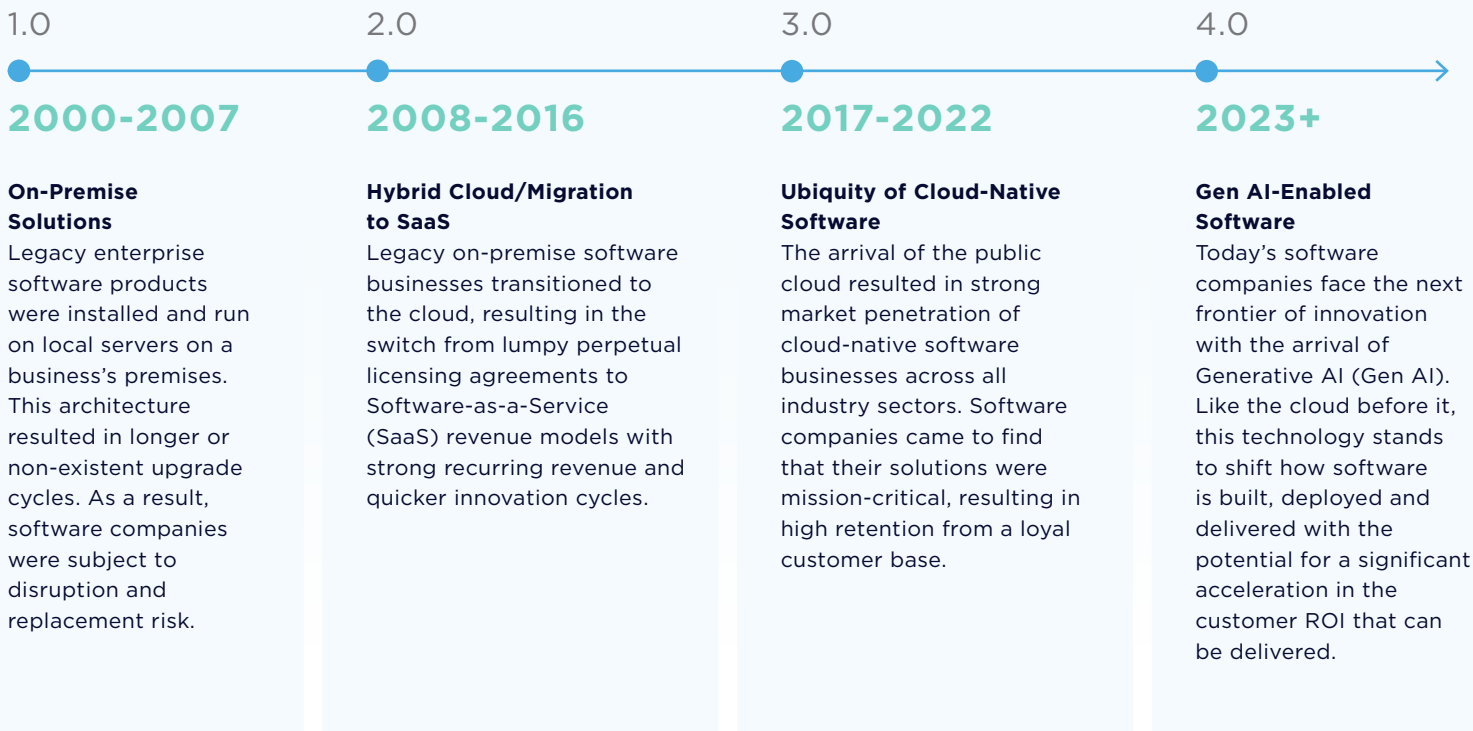
The return on investment (ROI) of enterprise software products is one of its most compelling aspects. Compared to other potential investments a business could make, enterprise software often offers stronger returns by automating repetitive tasks, improving decision-making through real-time insights and reducing operational costs. From enabling sales and managing logistics to supporting core banking systems and healthcare operations, enterprise software plays an indispensable role across industries.

Because enterprise software is deeply embedded within a company's infrastructure, businesses rely heavily on these platforms to function smoothly. This deep integration makes enterprise software not only integral but also challenging and costly to replace, further enhancing its value as a long-term investment.

<sup>1</sup> Vista proprietary research in collaboration with third party independent consult, as of 09/2024.

<sup>2</sup> Vista proprietary research in collaboration with third party independent consult, as of 09/2024. All market cap data as of 06/30/2024. The industries listed above are provided for informational purposes only and are intended to serve as representative examples of market capitalization by industry for the relevant time-period. This list does not purport to be complete, and its contents were determined on a subjective basis. Actual results may differ materially from projections and there can be no assurance that any historical trends will continue during the life of any Vista Fund. Please see Important Disclosures for additional information regarding estimates and projections included herein.

# Software Evolution Over Time



## Portfolio Benefits of Enterprise Software

Beyond the attractive ROI, enterprise software offers several additional compelling portfolio benefits for investors, including diversification, stability and resilience.

### 1. End-Market Diversification

Enterprise software is not an industry vertical. Rather, it is a highly productive tool that is used across nearly every industry – from healthcare and education to logistics and financial services, providing exposure to and spreading risk across multiple industries. For example, software used in healthcare might focus on patient management, electronic medical records or billing systems, whereas in logistics, software might optimize supply chains, track inventory or manage fleet operations. This broad industry diversification enhances the resilience of enterprise software investments, as enterprise software companies are not correlated to one another and derive revenue from varied customers and end markets.

### 2. Stability in Uncertain Markets

Enterprise software demonstrates resilience during economic downturns. Unlike consumer-facing technologies or hardware, software solutions are essential to core business operations, ensuring that companies can still manage compliance, control costs and maintain efficiency even when budgets tighten.

### 3. Predictable Revenue Through Recurring Models

Software revenue growth is non-cyclical and driven by secular forces. The prevalence of long-term contracts and subscription-based models contribute to the predictability of revenue streams. This structure not only provides high customer retention and low churn but also enables seat expansion, where software revenues grow as client businesses expand, adding more users over time. Additionally, software companies can unlock further revenue growth by up-selling additional capabilities as they develop new features.

#### 4. Capital-Efficient Scalability and Profitability

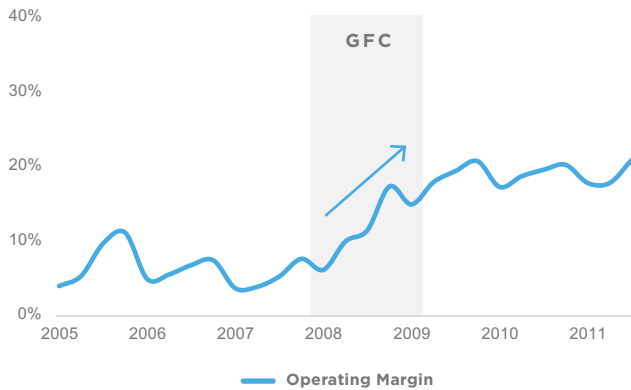
Enterprise software companies typically achieve gross margins above 70% with minimal capital expenditures<sup>3</sup>. Their business models rely on human capital, software and cloud infrastructure rather than large-scale physical assets, making it easier to scale rapidly. This capital efficiency allows companies to continually invest in innovation and focus on improving their product offerings.

#### 5. Low Correlation With Traditional Markets

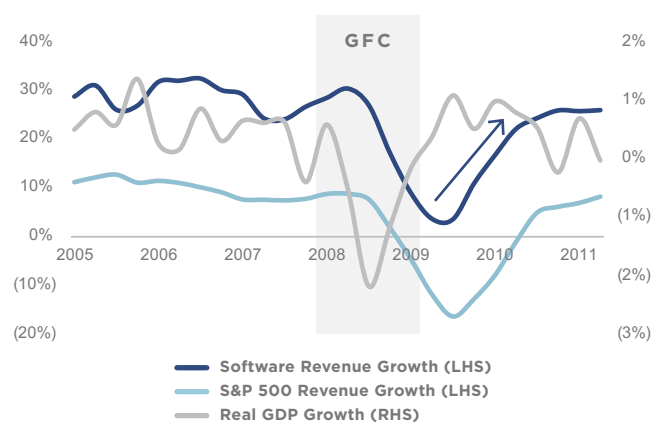
In addition to its diversification across end markets, enterprise software also adds a layer of portfolio diversification through its low correlation with public markets. Software revenue has a 0.08 correlation with the Russell 3000<sup>4</sup> and a 0.12 correlation with other software companies, reducing exposure to market-wide volatility<sup>5</sup>. This makes enterprise software a valuable low-correlation asset in an investor's portfolio, complementing traditional equity and bond allocations and adding another layer of portfolio diversification.

### SOFTWARE MARGINS EXPAND DURING CYCLES AND PERSIST THROUGH RECOVERY<sup>6</sup>

Margins expand during periods of decelerating growth demonstrating the **operating leverage** inherent in software businesses and the flexibility to shift from new customer sales to renewal sales.

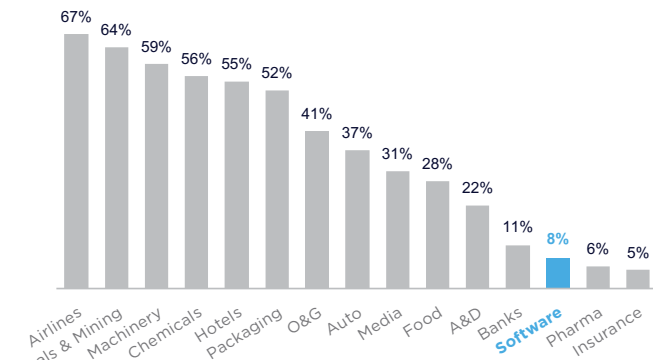


Revenue growth accelerates to pre-recession levels within **2 years** as companies resume delayed growth plans given continued **strong ROI** associated with pursuing digital transformation initiatives.



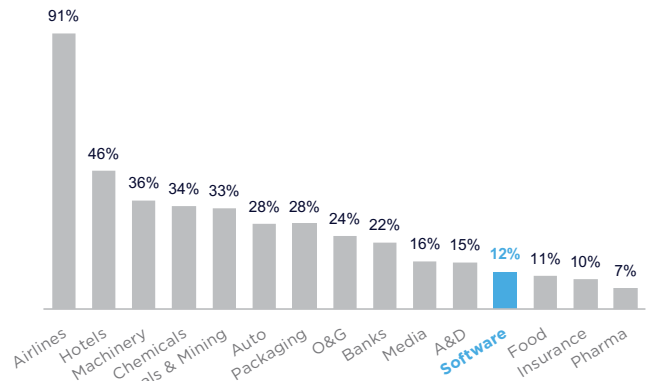
### SOFTWARE EXHIBITS LOW CORRELATION TO THE BROADER MARKET AND OTHER SOFTWARE COMPANIES

#### INDUSTRY MEDIAN YOY REVENUE GROWTH CORRELATION WITH RUSSELL 3000<sup>7</sup>



Software Revenue Growth Is Non-Cyclical and Driven by Secular Forces

#### AVERAGE INTERNAL YOY REVENUE GROWTH CORRELATION<sup>8</sup>



Varied Product Sets and End Markets Drive Industry Diversity Within Software

<sup>3</sup> NYU Stern School of Business, 01/2024, Margins by Sector in the US.

<sup>4</sup> Bloomberg, as of 12/31/2022. For each sector in the Russell 3000, historical correlation between quarterly YoY revenue performance between companies in that sector and the entire index (correlation with index).

<sup>5</sup> Bloomberg, as of 12/31/2022. For each sector in the Russell 3000, historical correlation between quarterly YoY revenue performance between companies in that sector and one another (average internal correlation).

<sup>6</sup> BofA Global Research, S&P 500, St. Louis FRED. The GFC is defined as December 2007 to June 2009. The Tech Bubble Recession is defined as March 2001 to November 2001.

<sup>7</sup> Bloomberg, as of 12/31/2022. For each sector in the Russell 3000, historical correlation between quarterly YoY revenue performance between companies in that sector and the entire index (correlation with index).

<sup>8</sup> Bloomberg, as of 12/31/2022. For each sector in the Russell 3000, historical correlation between quarterly YoY revenue performance between companies in that sector and one another (average internal correlation).

# Key Trends Driving the Software Opportunity Today

## THE RISE OF CLOUD COMPUTING

The shift from on-premise software – where programs are installed and run on a company’s internal servers and hardware – to cloud computing revolutionized enterprise software, helping businesses reduce IT infrastructure costs while increasing operational flexibility and scalability. This revolution accelerated the movement toward the SaaS business model, offering businesses lower upfront costs while providing software companies with reliable, predictable revenue streams through subscription-based income.

## GEN AI’S TRANSFORMATIVE POTENTIAL

Gen AI is expanding the value and market potential of enterprise software by automating tasks, enhancing customer experiences and enabling better decision-making through data-driven insights.

Gen AI’s potential extends beyond driving efficiencies in business processes and can accelerate the development of new products and solutions. In fact, many enterprise software companies are beginning to monetize investments in Gen AI capabilities, presenting a significant runway for growth.

We believe that enterprise software companies are uniquely positioned to benefit from this shift because they have sovereignty and dominion over proprietary datasets and workflows, which are critical for delivering highly tailored, industry-specific solutions that meet evolving customer needs. New players trying to gain traction in an incumbent’s market may have less compelling products due to their inability to train Gen AI models on the industry and specific datasets, which make enterprise software solutions powerful.

As enterprise software providers adopt Gen AI, they can gain an advantage by continually innovating and addressing new customer challenges – expanding their total addressable market and reinforcing their value proposition.



**Read more about the transformative impact of Gen AI on enterprise software [here](#).**

# Choosing the Right Software Investor

## SPECIALIST VS. GENERALIST INVESTORS

Wealth advisors guiding clients toward software investments should assess whether an investor focuses on software or employs a broader, generalist approach. Enterprise software is a specialized field requiring deep industry expertise and operational knowledge. Specialist investors not only understand the unique challenges of software companies but are also adept at identifying value across small-, mid- and large-cap companies, tailoring investments to match market conditions and growth potential.

This nuanced approach enables specialist investors to target a wide range of opportunities – from early-stage to mature businesses – that generalists may struggle to replicate. Moreover, specialist investors can provide portfolio company management teams with access to a network of peers, best practices on topics like Gen AI and sector insights that can accelerate their companies’ growth and enhance operational efficiency.

## THE ROLE OF VALUE CREATION

The most effective software investors go beyond deploying capital – they actively implement best practices that optimize operations, enhance innovation and increase market share across their portfolio companies.

Software businesses are especially conducive to repeatable value creation due to their scalable nature, high-margin models and ability to leverage standardized processes across various sectors. Due to consistency in the enterprise software business model, best practices in areas such as product development, pricing and go-to-market strategy can be transferred across companies through repeatable frameworks. Additionally, by continually innovating in both product and approach, software companies can drive meaningful advancements in their offerings and maintain a competitive edge.



# Final Thoughts

Enterprise software can offer a combination of growth potential and reliability, making it an attractive sector for wealth advisors seeking stable, low-correlation investment opportunities. As businesses adopt Gen AI, leverage cloud-based solutions and scale digital transformation efforts, we believe enterprise software will only grow in importance as a strategic productivity enabler.

Beyond strong fundamentals, the sector can offer a compelling investment case. With high customer retention rates, recurring revenue, and infrastructure-like resilience, software companies can weather market cycles more effectively than many other industries.

Capturing the full potential of the enterprise software sector requires more than capital – it demands specialist knowledge and operational expertise. Investors who specialize in software are best positioned to unlock growth, optimize processes effectively and consistently create long-term value for their clients.

## Evaluating Enterprise Software Opportunities

When evaluating enterprise software opportunities, wealth advisors and clients should consider three compelling themes that make the sector particularly attractive.



### MISSION-CRITICAL NATURE

Enterprise software powers essential operations within businesses. These solutions are deeply embedded across company infrastructure, generating stable and recurring revenues – even in downturns. As a result, enterprise software offers resilience, helping portfolios weather economic volatility.



### DIVERSIFICATION BENEFITS

Enterprise software is not a vertical industry, but rather spans a variety of industries, including healthcare, education, finance and logistics. By gaining exposure to multiple sectors, investors can reduce concentration risk and access broad market opportunities.



### GROWTH POTENTIAL

Key trends such as AI integration, cloud migration and global expansion are unlocking new areas of growth within the enterprise software space. We believe these dynamics can ensure the sector continues to evolve and offer meaningful upside for investors.

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