

## [Back to the B2B Software Future](#)

*Vector Capital's Amish Mehta discusses parallels between the dot-com bust and the current B2B software market and the proliferation of middle market PE opportunities.*

The Deal

By Chris Nolter

15 October 2024

As Amish Mehta rejoins Vector Capital Management LP, B2B software market conditions are reminiscent of his first stint at the firm, which started more than 20 years ago.

"Alex Slusky, Vector's founder, and I have stayed close over the years," said Mehta, who came to the firm as a Managing Director and investment committee member in October. "Given where the market was headed, Alex asked me to consider coming back to Vector to join forces to capitalize on what we both feel is perhaps the second most compelling tech investing environment of our careers after 2002."

Numerous parallels exist between the dot-com bust two decades ago and the more recent tech crunch that followed interest rate hikes, Mehta said. After the latest software valuation reset, he estimates, there are about 2,500 to 3,000 potential B2B software deal candidates, including VC-backed companies, corporate spinouts, distressed companies and public companies that could move to the private market.

"That resolution is not going to happen in one or two years," he said. "We think we're going to be talking about this opportunity set 10 and 15 years from now."

Echoes of 2022

Mehta joined Vector in 2002. The investor left in 2014 to launch SQN Investors LP, which focused on public tech companies.

Following the recent tech reset, Mehta unwound SQN recently and shifted back to PE.

"In 2022, the tech landscape shifted pretty significantly and given the challenges of managing an investment vehicle with a shorter-term horizon subject to intense market volatility, I decided to focus more of my energy on private equity investing," he said.

The similarities between the past and the present are numerous.

"The 1999-2000 tech bubble crash was followed by the recession after 9/11," Mehta said. "Today, we had a huge tech boom and another crash driven by interest rates tied to the pandemic."

In the 2002 downturn, he said, there were hundreds of companies with revenue metrics that had dramatically slowed compared to their prior aspirations.

"Today," he said, "there are thousands."

There are parallels on the capital side as well.

"Many companies that got funding probably never should have," he said. "So, today there are overfunded companies, as there were back in 2000 when all those companies were public."

Mehta also sees a parallel in valuation expectations.

"You have many management teams, as you did in 2002, that are ready to embrace the new reality, but venture capitalists raised money at billion dollar-plus marks and don't want to mark assets down," he said.

#### In Search of Silver Medalists

Mehta sees a "massive opportunity" in what he calls "silver medalists," which are companies with between \$40 million and \$150 million in revenue and growth rates that have slowed to below 20%.

These silver medalists may have been worth \$1 billion or \$2 billion on paper before, but today have valuations from \$100 million to \$500 million. However, he suggested, they have the potential to be worth \$1 billion or \$2 billion in the future.

For reference, he said, a "gold medalist" company is worth a billion dollars now, after the market reset, and could be worth \$5 billion to \$20 billion in the years or decades ahead.

"Most of our larger peers that have the skillsets to invest in and turnaround businesses have gotten so big that the \$100 million, \$200 million equity check for business transformation is not their bread and butter anymore," Mehta said. "Accordingly, there is a lot of room for us to play."

#### B2B Software Deal Origination

Attractive niches include infrastructure software, which Mehta said accounts for half or possibly more of Vector's investments; vertical software, or software focused on a single industry; and the fragmented market for DevOps, or software used to by corporate development and operations teams to build and manage software.

Opportunities exist in venture portfolio companies, corporate carveouts, take privates and distressed debt, Mehta said.

In the realm of venture and other private companies, there are approximately 1,800 B2B software makers that haven't raised money for several years and generate over \$40 million in revenue, Vector estimates.

"The vast majority of these businesses are not going to go public or are too small and not run well enough to be viable for strategic buyouts today," Mehta said. "It is precisely in this sector where Vector has been highly successful for the last 20 plus years."

The firm's VC buyouts include the acquisition of Planful Inc., then called Host Analytics Inc., from StarVest Partners LP in January 2019.

Corporate spinouts also present an opportunity.

"In '18, '19, '20, and '21 before the market changed, strategics bought a lot of assets, and many of those companies are now realizing that they probably shouldn't have done that," Mehta said. "We expect to see an increase in carveout activity for the foreseeable future."

Prior Vector carveouts include the purchase of Landesk Software Inc. from Intel Corp. (INTC) in September 2002. Vector sold the business to Avocent Corp. in 2006 for \$416 million.

Buyouts of public companies are another center of interest. Historically, Vector has focused on take-privates below \$500 million in enterprise value.

Examples include Corel Corp., which Vector took private for about \$100 million in 2003, brought public in 2006, took private again in 2010 and sold to KKR & Co. (KKR) in 2019. Mehta was Chairman and CEO of the design software company for a period.

Vector has already been active in the realm of distressed debt, purchasing Riverbed Technology LLC out of bankruptcy in 2023.