

FPE: Success Through Focus





We are FPE,

an investment firm established to be a platform for the founders and business leaders of software, data and software services companies to achieve their ambitions.

We are certain that B2B software is the right sector to be investing in now, for the next decade, and beyond.

We have over 100 years of collective experience of investing in the B2B software sector, and since we came together as a team nearly 15 years ago, our conviction in the software business model has only grown. In this time we have developed our capability as a platform that supports companies operating in this eco-system to reach the next stage of their maturity.

100

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We are confident that the next decade represents further investment opportunity. Even in the most-forward looking sectors, we are still in the foothills of the digital transformation of businesses, whether that be the adoption of cloud-based solutions or realising the power of data.

For example, FPE has invested in multiple B2B vertical sectors and horizontal applications. One such horizontal application being Enterprise Resource Planning (ERP) software. ERP is considered to be a fundamental business system for mid to large companies, however only 23 percent of companies currently use a cloud-hosted ERP system.

The modern software business model of charging subscription access to standardised, cloud-hosted software provides predictability of future revenue, and allows businesses to grow profitably and with strong cash flows as revenue accelerates ahead of costs.

Software companies, and their partner channels, are even more attractive to investors when their product is fundamental or mission-critical to client operations and integrated into a broader IT ecosystem, as they benefit from a protected and sustainable competitive advantage.

However, the funding options available to leaders of smaller, bootstrapped software companies have historically been limited to: venture capitalists, who can be put off by niche software products that lack the potential to be unicorns; smaller private equity firms that take a general approach to sectors and require significant education up-front whilst providing limited value post-investment, and; corporate acquirers that may offer a good price on day one but remove the opportunity for founders to benefit from future success.

When we established FPE, we identified a gap in the funding market to provide specialist investment and support to smaller software companies. This document is our “manifesto”; a declaration of our beliefs, approach and commitment to the founders and business leaders that we partner with.

Our commitment to the business leaders that we invest behind



Sector specialists

We aren't software engineers, and we won't pretend to know as much as you about your market niche. However, we have collectively invested in over 30 software and software-services companies, so when you meet us for the first time you should expect us to know something about your market, your competitors, and what will drive future value in your business. You should also expect us to have a view, informed by experience, on the defining decisions that will make your company more successful and valuable.



Committed

We partner with founders and managers who value an open and trusted relationship with their investor. We will leave you to the day job, but engage wholeheartedly on the big, strategic decisions and be available when required to chat through the mundane and the exciting. We will react calmly when storms inevitably arrive and share the responsibilities and ups-and-downs of scaling a small business, with professionalism but also a smile and good humour.



Knowledgeable

We focus on a single phase of a company's growth in the software sector. We have built years of experience, knowledge and expertise through this focus, which means we will catch-on quickly, understanding the areas where focus can bring success in your company, and be a genuine value-adding contributor to your success, helping you reach the right conclusions quicker.



Empathetic and fair

In all our dealings together, you can expect us to be fair, empathetic and consistent in our approach. The key to any successful business is its people, and people thrive when communications are clear and common and collective goals are set. We only invest in a handful of businesses, and we commit wholeheartedly to each one.

Why we focus on UK & Irish headquartered businesses

Building relationships with the leaders of the businesses we invest in is central to the success we have achieved to date, and proximity to people remains vital even in a world of virtual meetings. We are fortunate that the UK and Ireland are dynamic, vibrant places to establish and build outwards from.


In terms of talent, the UK is the third largest technology market globally after US and China with over 3 million people employed in the technology industry and nearly 1 million of those in software¹. Similarly, Ireland is a leading European technology hub, with the sector employing over 160,000 people, and being the home to the European headquarters to some of the world's largest software companies.

Over a third of all capital invested in software in Europe is invested in the UK and Ireland², and this has created the formation of a large number of software companies and a deep talent pool versus other European countries. Today, there are nearly 4,000 software and services companies in the UK alone with more than 20 employees³ and 98% of those are privately owned.

However, both the UK and Ireland have so far failed to consistently create software companies that are able to compete with their US counterparts, and too often smaller software companies end up being the acquiree rather than the acquiror.

To bridge this gap, specialist software investors like FPE can play a key role in by helping entrepreneurs navigate the risks and challenges of scaling from £5-10m of revenue to £25m+. Successfully navigating this stage creates jobs, intellectual property, digital skills, and ultimately contributes to a healthier economy, with growth beyond the shores of its original base.

4,000



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What do we look for?



We invest behind two software-centric business models.

1

Product-led

Be it a software or data product offering, we look for businesses that generate £3m+ of recurring subscription revenues, with the potential to grow profitably and sustainably, and create highly defensible position within a clearly defined market.

2

Service-led

Whether aligned to a vendor or agnostic, we invest in software solution providers that deeply understand the needs of end customers and have built a leading position in their ecosystem. We look for businesses generating £1-4m of EBITDA operating in attractive markets with strong margin potential.

We don't believe in 'pivots', raising excessive capital, scouring every corner of the globe for customers, or shooting for 1% of a large but ill-defined or unproven market.

We define success as building a growing, sustainably profitable company, which is a recognised leader in its defined niche market, whether that be local or international.

The industry and business characteristics we look for in our companies are beyond the stage of venture capital risk. We want proven product-market fit and existing customer demand, an underlying market growth driven by first time software adoption, or generational technology upgrade cycles. Our companies will have proven they can generate profit, but want to combine that ability with sustainable top line growth.

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Our approach to creating value



We partner with companies that have received little to no external capital to date, and support them through the next stage of their growth.

We call this Second Stage of Growth.

In our opinion, following Geoffrey Moore's "bowling alley" analogy⁴ is the most effective route through the Second Stage; focus on dominating a specific market niche (knock over the first "pin") before moving on to the next. To pass successfully through Second Stage of Growth, a company should:

- Choose a target-defined market to excel in
- Focus relentlessly on product positioning & repositioning
- Build a marketing strategy to align with that position
- Select the most appropriate price and distribution channel
- Build systems and process to drive consistency of growth.

To enable this to happen, we believe that business leaders need to commit to investment in a combination of **people, product and process**.

A clearly defined and well understood market brings a wide variety of benefits:

- Understanding the needs of a market more deeply
- Building better solutions for customers
- Out-maneuvring competitors
- Achieving shorter sales cycles
- Achieving greater efficiency of sales and marketing spend.

All of this means more predictable revenue growth, sustained profit, and faster equity value creation.

We call this Success Through Focus.

For example, in our product-led business model investments we typically consider vertically focused (i.e. customer or market specific) software offerings to be more attractive as an investment proposition than a horizontal offering. Whilst the theoretical total addressable market (TAM) of a vertically focused software company may be smaller than that of a horizontal offering, it will be more clearly defined, and there will be a greater opportunity for a small-to-mid sized software company to win enterprise grade customers, take a leadership position and deliver profitable growth.

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To find out more about us
and the companies we have
partnered with, please visit
www.fpecapital.com