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# VERTICAL SOFTWARE APPLICATIONS

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Our latest Behind the Markets podcast focused on the cloud computing space with three great guests:

- Jamin Ball, vice president at Redpoint Ventures, who started a substack blog called Clouded Judgment to provide updates on public cloud companies and their [earnings](#) trends.
- Steve Zahm, chief culture officer at Procore, a cloud-based platform for the construction industry.
- Brian Feinstein, partner at Bessemer Venture Partners, who focuses on [vertical software companies](#), led Bessemer's investment in Procore, and sits on the Procore board of directors.

Ball generally sees the [valuations](#) in the cloud space being a little rich, with the typical [enterprise value](#) to next 12-month revenue multiple trading in a range of 5x–10x, and the higher growth companies typically ranging from 10x–15x. Right now, the median company Ball tracks is trading around 13 times next 12-month revenues. Those multiples could come back through growth rates picking up or [market capitalizations](#) coming down, or some combination of those two.

The earnings season over the last few weeks has showed how difficult expectations are for these companies, as many of the highest growth companies beat expectations and still struggled after reporting better than expected earnings.

## Vertical Software Companies

Vertical software companies create software for one specific industry, like construction. Each vertical has idiosyncratic needs. While a horizontal company like Salesforce operates across many industries to provide CRM (customer relationship management) software, they have a 20%–25% market share. In a vertical market, a company like Veeva, which goes deep in health care and provides CRM for life sciences, has an 80% market share. Vertical software has more chances to be a “winner-take-all” market, and once you are a market leader, you can cross-sell products.

Procore has done this successfully for the construction industry. Procore started with one product but now offers 12 separate products and effectively serves as the operating system for construction.

Zahm sees construction as one of the least-digitized industries but also the most complex, and one that benefits from becoming conducted online. Procore started as a provider of project management solutions and now has solutions for managing finances and safety-oriented applications.

The Procore mission is to unite the global construction industry in a platform that all partners can connect to in order to digitize the entire construction process. Their core market serves general contractors, builders and facility owners who are doing projects both large and small.

We often hear of overnight success in the technology space, but it took Procore a decade before really accelerating over the last six years. It took time for the internet adoption to spread out to job sites to help facilitate more usage of their platform. Also, when a new generation of general contractors and specialty contractors took over family businesses, these younger leaders understood how digital adoption could provide a competitive advantage. Procore invested heavily in [research and development \(R&D\)](#) and sales and marketing to pull away from the competition.

This was an interesting conversation about how the cloud and software are impacting businesses we might not have thought to be ripe for digital applications. You can listen to the entire conversation with our three guests below.

Behind the Markets on Wharton Business Radio · Behind The Markets Podcast: Jamin Ball, Steve Zahm, & Brian Feinstein

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

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## **DEFINITIONS**

**Core Earnings** : Income generated by the company's daily operations rather than one-time events or market fluctuations.

**Vertical Integration** : refers to a company's methods of production, where it begins to take ownership of the different production operations along its supply chain.&nbsp;

**Valuation** : Refers to metrics that relate financial statistics for equities to their price levels to determine if certain attributes, such as earnings or dividends, are cheap or expensive.

**Market capitalization-weighting** : Market cap = share prices x number of shares outstanding. Firms with the highest values receive the highest weights in approaches designed to weight firms by market cap.

**Research and development (R&D)** : the investigative activities a business conducts to improve existing products and procedures or to lead to the development of new products and procedures.