The Economic Club of New York

119th Year
846th Meeting

Orlando Bravo
Founder and Managing Partner, Thoma Bravo

Heidi Messer
Co-Founder and Chair, Collective [I]

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In-Person/Hybrid Event

Introduction

President Barbara Van Allen

Hello everyone, and welcome to the 846th meeting of The Economic Club of New York. I'm Barbara Van Allen, President and CEO of the Club, and it's a pleasure to have all of you here today even if it's warm day in New York City. I'd like to extend, speaking of warm, a warm welcome to students joining us virtually from Princeton University and to recognize members of the ECNY Class of Fellows. This is a select group of rising, next-gen business thought leaders. And we're so proud that this year we actually have 137 at the Club.

The Economic Club of New York is proud to stand as the nation's leading platform for discussions on social, economic, and political issues. We've been doing this now for 119 years. So next year we'll celebrate 120. And during that period we've hosted over 1,000 preeminent guest speakers contributing to what we consider a strong tradition of excellence.

We continue that tradition today welcoming our distinguished guests, Orlando Bravo and Heidi Messer. Orlando is the Founder and Managing Partner at Thoma Bravo, one of the world's largest software-focused investment firms with more than $183 billion in assets under management. He led the firm's early expansion into software buyouts and has overseen hundreds of software and technology acquisitions representing more than $300 billion in aggregate sales.

Orlando graduated from Brown University with degrees in economics and political science and earned both JD from Stanford Law and an MBA from Stanford Business School. He is also active in philanthropy through the Bravo Family Foundation, which supports entrepreneurship and educational opportunity in Puerto Rico. And through his leadership with sponsors for educational opportunity, Orlando additionally supports healthcare and medical research initiatives and serves on the Board of Trustees for the Memorial Sloan Kettering Cancer Center.

Heidi Messer, my friend, is the Co-Founder and Chair of Collective, and AI platform focused on enterprise intelligence and decision-making tools. The company's portfolio also includes Intelligence.com, an AI-powered professional networking platform. Early in her career, she co-founded LinkShare Corporation, a digital commerce company later acquired by Rakuten for $425 million. She also hosts the award-winning Collective Forecast Series featuring leaders in AI, technology, and business. Heidi has advised organizations stretching from Harvard Business School and Johns Hopkins University to numerous corporate and nonprofit boards. She earned a BA from Brown University and JD from Harvard Law School.

The program will conclude promptly at 1:00. As a reminder, the discussion is on the record. We have media in the back of the room and online. Without further ado, please join me in welcoming Orlando and Heidi.

Conversation with Orlando Bravo and Heidi Messer

HEIDI MESSER: It's a total privilege to be able to have this conversation with you. And I thought that we could run it, when we have conversations about what's happening in the market, when you and I will, on a weekend, call each other up and say, you know, tell me what you think about the SaaS-pocalypse, tell me what you think about AI. Tell me how you're thinking about investing now in the world of AI.

ORLANDO BRAVO: Yeah, I appreciate that. I learned so much from you and AI. Remember three or four years ago when you were starting your company. (Audio Issues – Cannot Hear Speaker) ...Can everybody hear me?

No.

ORLANDO BRAVO: Can everybody hear me now? No. How about now, Now, Nope. Should I just talk super loud? ...(Laughter)...Can everyone hear me right now? So I remember when ___ had this company, and the dot.com bubble first happened, and you guys managed without outside financing to create half a million ___ that is unbelievable. But during that time, this is when the dot.com bubble had burst. (Audio Issues Continue) .... we thought… is this okay. No. So, going back to how we started. We had made ___profiles, and when the dot.com bubble first started happening ____ everyone in the community told us, you can _____. (Audio Issues Continue), with AI and secondly, Microsoft was going to put everybody out of business, because we consolidated (audio issues) we were scared and we had to get to work, and you know how I like to work. I am super detail oriented. We were spending so much time on the customer science, I was never home. The companies that we've looked at (audio issues) Okay, this one works.

ORLANDO BRAVO: What we discovered was that there was a subset of software companies – okay, this one works – there was a subset of software companies that in different industries, processes, functions, had captured for about two decades the entire knowledge of how to do something right in that space. They had the whole community of buyers and they would copy a great operator in a given industry of how they did an innovation. They would put it in their product or they would issue a new release and said, oops, we made a mistake, let's retract it.

And over time we thought that those players were a lot more valuable because of their domain knowledge than the entire set of customers that they served. That was our

Warren Buffett franchise value style of investing. Don't buy the tech because we're not tech people, and technology comes and goes. Buy that domain expertise.

Now there was a second problem, which was at the time none of those companies were making money. Software today is not making money. The average publicly traded company still loses money. It hasn't improved. So we were lucky enough to have the greatest operator of all time who was with us for 20 years teach us a model where you would back the domain expert from the company. You wouldn't change management, even though they were losing money, because you wanted them to continue to innovate and really nurture that domain, but buy him and make him a better operator or make her a better operator.

So we developed a model where we were buying companies for three to four times revenue, turning that into EBITDA multiples because of cost cutting and operations, and that became a fundamental investment in domains. We did super well in the license days, up to about 2006, 2007. Then came SaaS. During SaaS, the whole industry thought that AWS would, as a subjugator, was going to capture the entire value of software companies. We doubled down on the expertise now by buying the number one player. That's when we got into cyber. And we did even better during the SaaS days. Much better than in the license days.

Now comes AI, the opportunity to automate human judgment, which is going to be much greater than ever before. I do that many new companies are going to crush it. But I do think that these domain leaders that have 30, 40 years of experience in something, as long as they have really good leadership and are open-minded, have now an entirely new market of automation to go after.

So the way we think about investing now is, number one, be super disciplined on the franchise value of the domain. Second, you've got to have, the premium for great leadership is up so much right now. You have to have incredible domain leaders that are also open-minded. That's two. And third, the company must show enough of AI momentum going forward because now they should have it. That's kind of what we're looking at.

HEIDI MESSER: That's funny because you told a story about me in that era, and I'll tell one about you, which is I brought a very prominent investor when you were just at the beginning of doing the technology investing at Thoma Bravo. And he said to me, I've seen private equity cycles, he's got a good five years before it runs out.

And I think what he missed, and what you just said is what's going to take you through the AI era spectacularly, is that it wasn't technology companies per se as much as it was operational excellence in an area where margins allowed forgivingness for many more mistakes than they would normally. So I'll just say that as a side note, which is I do think that we're in an operational era where the way businesses operate are fundamentally changing.

Similar, but different, but similar to going from on-prem to Cloud and having to have different management, different kinds of people, different organizational structures. And if I look at your core expertise, that kind of transformation is what differentiates Thoma Bravo. I could be looking at it from the wrong way...

ORLANDO BRAVO: I appreciate that. That's where our team spends their time on. Like if I, if you go into our office and you talk to our partners, right, you know them, Holden, Seth, they're grinding on the monthly operating reviews of each company, price uplift, what's going on with renewals, what's going on with customer satisfaction. That's how we spend most of our time. And it's a beautiful art that actually you, as an entrepreneur, have done very well because you can limit the dilution to your company and build it and own most of it, and that's a bit of a lost art in Silicon Valley. Many people there are not that interested in this kind of stuff.

HEIDI MESSER: Let's talk about valuations because you and I are probably getting different questions from the same subjects. The questions I get, are we in a bubble? The questions you get, I think, are, is this the end of the party?

ORLANDO BRAVO: What do you think? Let me ask you. What do you think? There we go.

HEIDI MESSER: What do I think? So I think just like anytime of technological transformation, there very rarely are the companies that are ahead in the first inning that pass through. There are exceptions. I think Amazon is an exception. But Google certainly wasn't the first search engine during that transformation.

So I think that there are companies now that everyone is putting all of the value, the value creation they see around AI, they're attributing to those companies. And I think there's much more value creation that will be unlocked going forward. I think there are some challenges to the LLM models. I think one is they focus on language. They have no concept of reality. They cannot lead you to places like robotics. They can't cure diseases. There have to be specialized models that do all of these things. And these are enormous sectors that are just starting to get attention, and I think the valuations should flow to them.

On the flip side, we've never seen an adoption cycle this rapid before. So when you look at a company like Anthropic growing, you know, 200% in a quarter, going from $3 billion to $30 billion in top line revenues, that's candidly stunning. I mean that's the people speaking. So I think it's both. I think there are areas that people have attributed, and the conversation, by the way, about AGI I think is very distracting in all of these valuations. I think the goal is not AGI. There's no one model that will be as smart as people. Just like in this room there are people who are lawyers, there are people who are investment bankers, there are people who are doctors. You get specialized people who are educated in different ways. The same is true for models, and the idea that one model would replicate all of human intelligence, I don't think is accurate. I don't know, what do you think? Tell me.

ORLANDO BRAVO: I love everything you said. I'll tell you this. The hardest thing for us is to stay disciplined in what we do. We have to work on it so, so hard every day because we could, I mean we have $35 billion of fresh money, cash, commitments that we just raised. It is very tempting for us to jump in and start doing things we haven't done before that are going like this right now. Now, of course, you have to get into those deals. You have to build relationships. But kind of, people like us, we back existing management. We're relatively known. So we can get into these things.

Staying the course in what we do, which is our team is very good at two things – picking extremely high-quality domain leaders and improving the operations of those companies. And sticking with what we know how to do very, very well is really challenging in these times based on what you said. The adoption is like this; the valuations are going like that. Every six months you see something else, and there we are, you know, not getting excited about a company we have that has $2 billion in revenue, growing 25%, making 50% margin, because the other stuff looks unbelievable right now.

The way we look at the world is these domain leaders are worth 30 forward P/E. Premium to the S&P, much better business, three times the growth, and we kind of stick to that. That's kind of our mind frame. So it's very hard for us to value something that's earlier stage or even the incredible LLMs that are ripping right now. Most of the valuations that I've seen from great investors and maybe some of you in the room are very revenue-based. Okay, they're doing $45 billion now. They're going to get to $90 billion. They'll get to $100 billion. Their multiple of revenue looks attractive. But the business model is still not clear to us so you do have to make that bet of what the gross margins even are going to be.

HEIDI MESSER: And the cost structure is completely different than traditional software, right? You know, traditional software you can add seeds with very incremental cost whereas with an LLM every person that starts to use it, the costs go up with the usage of it. And I think a lot of people are banking on assumptions that the cost of compute will go down. If that doesn't happen or LLMs become commoditized, that's a huge risk.

ORLANDO BRAVO: What do you think investors, you know, you kind of gave us some highlights. On the one hand, LLMs are going, you know, just the growth rate is just unbelievable, and the adoption. At the same time, this is not a problem that solves it all. What do you think investors are missing?

HEIDI MESSER: So I think investors are missing kind of what I alluded to before. Well, I think they're missing two things. One is on the SaaS side, I think they're missing how entrenched these communities of users are, these systems are. It's not easy to rip out an ERP system. It's not easy to abandon a CRM system. And the sunk-in cost that companies have put into these and the relationships that have been built along the way, I think have been completely devalued in this recent round of haircuts in valuations.

On the AI side, you know, maybe a little bit of background about Collective [I] will help. Our company is a model that is a time series neural net model that actually studies economic activity. And so the predictions we make are highly contextual, helping a company forecast revenue, for instance. No LLM can do that. The LLM is like a person sitting in a room with no doors and no windows. It's studying language. It's like a professor in a library. It can regurgitate everything that it's read in the past, but as soon as something in the present changes – a war breaks out in Iran, gas prices go up, inflation changes – it can't adjust to that context.

And so models like that are things that I think investors are starting to look at now.

They're starting to look at world models – people like Fei-Fei Li and Yann LeCun who are building models that will help build the infrastructure for robotics. they're starting to look at models like what Demis is doing with healthcare and trying to find ways to cure diseases. These are things that LLMs aren't very good at but they're enormous sectors that have the opportunity to be completely transformed.

And if you look at the LLMs, they're incredibly powerful, the adoption rates, the revenue. They have essentially one mega use case, which is coding. And each LLM, the switching costs of them are pretty low, which I think is very, very different than that SaaS world, right, where you see that it's very challenging to switch from one provider.

Even switching from Salesforce to Dynamics, that's a year-long plus integration. So I think there's undervaluing of the communities and the markets that have been made by the SaaS providers, and there's somewhat of a missed valuation, missed opportunity for models that go outside of the models that people are assuming are going to become the infrastructure for AI.

ORLANDO BRAVO: We have some companies that are building their own small language models. Like Coupa and procurement, they have $8 trillion of data transactions between buyers and sellers on the network and they think they can do better instead of borrowing that infrastructure, building their own small language model to automate those human decisions that happen in procurement when there are exceptions. Right? Because software can automate, say 30% of procurement, but when you get an invoice that is like $2.5 million, but the order was $2.2, you get a lot of humans involved and there's a lot of judgment that can be automated by that.

HEIDI MESSER: So talk to me about that because I think that's the other area that's really interesting, proprietary data and domain expertise. Tell me how you're thinking about that with your portfolio companies. And I'm assuming they're building AI into the operations that they have because they have the customers, they have the domain expertise.

ORLANDO BRAVO: Look, kind of the companies, it took them a while – depending on the type of leader they were and their domain expertise – to wake up, and with a lot of prodding from us, and even though we owned the entire company, it's hard to kind of convince people and they have to hit numbers, hit their numbers this quarter and next quarter, they also have a business to run, to say, look, your entire future is automating human judgment. This thing is going to be so big, and how do you use your domain expertise? For us, even more than the data are the installed base of customers and their relationships or being part of a community.

Now I do want to say that these domains, the way we look at them are totally different than how Silicon Valley or a public investor would look at a domain. For example, a public investor will say sales is a domain. That's Salesforce. Ticketing is a domain. That's Service Now. For us, that's not really a defensible domain. Like Jeppesen is a domain. They've been 90 years collecting airline data. They have 80% market share, routing and planning every single flight that exists. They have mapped out the 2,200 processes of the airlines and their 492 functions. They have trained and certified more dispatchers than ever. They live in there.

So now, actually they're one of the companies that you would think, oh, that's kind of a very industrial space that's slower moving. They're probably the furthest ahead in AI that we have in our portfolio because you have these domain leaders that are very forward-looking.

I think where we're having the most success is in eliminating the labor or enhancing it with AI by taking over the entire operation of a customer. Like Dayforce is in payroll. Payroll is a very mundane space. It's pretty mature. But the company, at $2 billion in ARR, is growing 50% because now they're going to customers and they're saying we'll take over your whole payroll team. You don't need to have a payroll team. You shouldn't because on the back end they can automate a lot of this, working with AI and agentic solutions that they've built. So we see that as a new, there's a new managed service opportunity. There's an opportunity to deepen automation.

And, of course, you have to do it really fast. In some companies you don't have that expertise even though you have 2,000 great developers and a great innovative community and domain. So sometimes you have to buy it. We've done about $3 billion of add-on acquisitions, all AI companies, for some companies that we have to most fast and we're better buying it than building it. So I see it as an incredible opportunity. And at the same time, it's really scary because customers don't want to buy seeds. They don't want to buy that much software. Right now, that's, even if you have a high ROI proposition, the board wants them to really experiment and take this further. So you have to kind of transform your business very quickly while hitting your EBITDA numbers.

And I call that right now; we're in an environment of super leadership. Look how hard you're working. The work happens now on the weekends and at night because you're running the company during the day and you have to do the new stuff and find new hours in the day.

HEIDI MESSER: I think that's sort of the irony. Everyone talks about AI but I think it's really the people that are making the difference. Maybe we can talk a little bit about that because I know there's been a recent wave of PE deals with the large AI LLMs. And you have an interesting perspective. I don't know if you're open to sharing it.

ORLANDO BRAVO: I'm open.

HEIDI MESSER: Okay. This is our private conversation. You have an interesting perspective on these deals. I think we probably agree on most of it. We might not agree on all of it. But I would love to hear your take on the deals that have been done recently with Open AI and Anthropic. I think they both launched them or announced them on May 4th, the same day. What's your thought?

ORLANDO BRAVO: Okay, so we looked at both, and they're both amazing companies. And we have an amazing relationship with both of them, their leaders, their team, and we, of course, work with both in many different ways. First, part of the attractiveness of partnering with these Deploy COS is that, you know, they have very limited time because they're in such high demand. So you can leverage your expertise across your portfolio potentially and get their attention and maybe come up with new ways of doing things.

For us, being a software automation investor, we thought we didn't need that. That we could get that attention from either the 20,000 engineers that get it or some of them that get it within our portfolio themselves or other places. So we weren't a person that's out of tech looking for that help. So that was one thing. Now, the other thing is services is a tough business. It is not what we do, and it's a brutal business. And I'm going to go back to 1998 when, you started LinkShare, what year?

HEIDI MESSER: 96.

ORLANDO BRAVO: ‘96, so in ‘98 when I joined our predecessor firm, I was doing roll-ups of IT service companies as the internet was being built. And literally you would hire a CEO. You would look to buy hundred-person firms. You would look to hire as many consultants as possible to build people e-commerce. Okay. There was a huge boom in that. As long as you could hire 500 people very quickly, you were worth $1 million a person. That’s $500 million. You could do a small cap IPO. There were many companies in that field – Sian, Viant, Razorfish, so many of them. Dot-com bubble burst. It all goes to zero, including our investments. No more services. I have PTSD from that. I just cannot do it.

So right now, though, the FOMO is, you cannot see the stop of demand for former Deploy engineers that can do these $200 million projects at the Fortune 50. So you kind of say, my, gosh, this thing is going to rip for a while. But from a business standpoint it’s a brutal business. It’s a tough business. That was our view.

HEIDI MESSER: Yes, and I agree with you. I was very surprised at these yields from the PE side of things. Primarily because I can see the problem that it solves for the

LLMs, right? There's a deployment challenge now, which is how do I get a lock-in, in the enterprise when essentially what I'm providing is commoditized? And so if you go to a bunch of PE firms and you say bring me into your companies, help me deploy these in a forward-looking way, it locks everyone in, and it turns that joint venture into a services company, which is really not the business that I would think a technology investor would want to be in. What I thought would happen that would be a more interesting deal is, you know, you have what, 80 companies at Thoma Bravo? More?

ORLANDO BRAVO: Eighty is about right.

HEIDI MESSER: Eighty companies. I mean look at, you know, the PE firms that have 80 companies, 100 companies, you make markets. And if you've got the leadership and you've got the forward-looking people, why wouldn't you want to participate in the value created by companies putting their services in your own company? So doing it where, you know, okay, we'll guarantee a certain amount of purchases, and in exchange we'll get some equity interest in the company, in the LLM itself. I would have thought that those kinds of deals would happen.

And there's a precedent for it, you know, I started off my career doing M&A in the cable industry. And if you look at the cable providers, they owned a piece of every part of the food chain. They own parts of the hardware. They own the cable systems. They own part of the content providers. And not sort of the simplistic deals that we see in the technology industry where it's a wholehearted purchase all the time. It was like portions of them where even competitors would own it.

And even the way Microsoft invested in Open AI, I thought that would open a door for lots of deals like that. I'm sort of curious. Why do you think the deal making has been so limited in creativity? Is it a function of how the firms are set up, the mandates they have from their investors? Is it just because it hasn't been done before? Why do you think they landed on services as the best way to partner?

ORLANDO BRAVO: Look, I think one did it before the other. There was one company that was first in LLM and then the other one jumped on it. And there is that desire to penetrate the enterprise. Not to sell to one another or just be a piece of infrastructure. And, of course, in coding they crushed it. Like you said, that use case is unbelievable. Lights out. But there is this need to then penetrate with true agents, true automation, the enterprise. Why didn't they do that themselves without a DeployCo?

HEIDI MESSER: That's my question.

ORLANDO BRAVO: Right? And I think the answer, though, for me makes sense. Marcel Bernard, my mentor in Operations, used to say if you try to do it all, you'll get to none. They have enough of a business and enough of a job competing against each other – Google and others – to come out as labs with the best models. And there could be so much money in the bottom line for that. Once again, we don't know what that looks like, but certainly from a revenue standpoint it's there.

And they would kind of intimate that when we were talking to them. It's like if I'm going to get distracted by running a services company inside of this and cutting other deals, that may not be the best place to spend our time. Therefore, let's hire a CEO, a very capable manager, and have that be affiliated with our company and kind of be putting that infrastructure inside the enterprise. That's why I think that everybody's going to be a winner in the enterprise. I think the new companies have an incredible opening to say we're thinking like you are, we're thinking about solving different problems, thinking about productivity differently, why are people doing it that way? And now I can come up from the bottom up, built with this new platform, to go after it.

Then you have the incumbents that come at it and say, okay, we do need to change the way we think. We need to develop into this new platform while running our business. But we have this deep domain expertise in certain areas and that expertise you cannot copy it. You cannot vibe code it. We tried.

We've told our companies, like Anaplan, could you please try to recreate your calculation model with AI? And they come back and they say we can't. And I go, why? Because you need about 30 years of experience to prompt the model. And those people, it's in their heads, it's about 30 people between Hyperion, Anaplan, Ariba and others, that have this in their minds. Now you could do it a lot quicker. But I think those players will capture a new wave of automation. Just like during SaaS, some of the existing vendors transition and some of them, like Salesforce, were created.

But then there's a third which is the services businesses. And the question is, are Accenture and others doing a good enough job? Or are they completely opening the field to DeployCo and others to get straight into the Fortune 50? It's also a divided space because these projects that they're doing are not for our portfolio companies. You take a flagship company, about $2 billion in revenue, 6,000 employees, we cannot afford $150 million project. Too big for the risk. Now the Fortune 50 can do that all day long and they have hundreds of thousands of employees so their ROI may be magnificent if it works.

HEIDI MESSER: So when you think about how things are going to shake out, let's talk a little bit about the incumbents and the moves they've made in places like agentic and others. How do you see those moves? Do you think they're doing enough? Do you think there are going to be new creations of like what you said, you know, Salesforce became a completely new company? You had others like SAP in service now, and Adobe that adjusted. Tell me what your thoughts are on that?

ORLANDO BRAVO: Look, what I'm seeing is, if I look at Dayforce, Coupa, Anaplan, and our entire cyber portfolio, which is about 50% of what we do, around 30 to 40% of our new bookings are agentic, of some sort. Now it's early. So knowing how sticky that is and what the ROI is, you can predict the outcome-based model, business model, it's difficult. So I would say it's very promising, very early.

One thing that I think the market is rightly so very frustrated with the existing vendors is that on the one hand you look at the infrastructure providers that you mentioned, the LLMs, and they're going from $4 billion to $40 billion of revenue in nine months, or a year, something like that. And you take a public company that has $12 billion in revenue and their agentic revenue is going from $0 to $1.5 billion. That's great for a software company in the enterprise. Compared to an LLM, that's nothing. So what do you have to show me for that? So the money moves, the growth money moves to the infrastructure side of things.

So I think there's a little bit of, on the one hand, there's a frustration with the lack of adoption of what the existing vendors are selling. But it's also that the enterprise doesn't move as quickly as you know. So it's kind of both. And if I look at the share of agentic solutions that are being produced in the market, it makes sense. About 50% of the dollars are incumbents, regardless of whether they're good or bad solutions. About 25% of them are newcomers. And about 25% of those are LLM apps on top of what they do, which it kind of makes sense right now. What do you think?

HEIDI MESSER: So I think there's something very profound that's happening and maybe the incumbents, I think there will be incumbents that are able to cross that chasm as you said happened in Cloud. And there are others that will view it as a marketing problem. So I'll pick on one company just to make it fun. I can't help myself.

So when I look at Agentforce and sort of how Salesforce has viewed every transition, you know, since Cloud, they viewed it as almost a marketing challenge. So, you know, buy Tableau and then you can check a box, and customers are asking for it so you can provide them with a solution. And you can sort of fill in the blank on how many acquisitions they've done with that.

I think Agentforce was an attempt to say that we're an agentic company now. And the reality is agents are a category or a way of decisioning. Not all agents are incredibly valuable. So to say, okay, we're going to start with customer service agents, well, alright, that's a very simple calculation to make if you're a company. Here's how much I pay a person. I can now have an agent do it. The delta, what I save is something that makes my margins better. I can quantify it. I can get an immediate ROI.

For people like me in the industry, when we look at agents, we look at it as a fundamental structural shift in how work is getting done. So it's not a one-to-one exchange. And, in fact, sometimes locking in a one-to-one exchange locks you in an old way of working, locks you in silos. And so I think, you know, where they have their finger on the pulse of today is enterprises move slowly. Enterprise buyers trust certain companies. Enterprise buyers don't like tremendous amounts of change when they're buying in silos. But then the pressure that they're getting on the other side to show the gains that you get in AI don't come from operating that way. And I think we're going to start to see cracks in that foundation if these companies don't start to look at the world the way it will be in two years, in three years, and in five years.

So that's why I think, you know, your companies are a very interesting breeding ground for that because out of necessity, right, they're in specific areas that are changing dramatically. They're probably changing faster and adapting faster than, you know, for a payroll company, right, they have to look and say, hey, we're only as good as the returns we provide our customers. We can't just ride off of great marketing or, you know, a huge user conference. So they're bringing the innovation. And the question for me is whether the companies like Salesforce will actually look at it as like, okay, do I do this as a marketing challenge or do I buy companies or I do something that's more dramatic that actually gives the way for this change to come in?

ORLANDO BRAVO: That's so well said. That focus will ultimately come, and very soon, to every solution. Whether it's agentic or not, it's for the customer. Remember, the enterprise customer buys technology to lower their cost. There are some revenue ones, but that's soft. It's harder to predict. But the hard ROI of how much am I lowering my cost of production to be a lot more competitive, that's going to come very soon. And that's when we'll see the new ways of working and the new ways, and agent orchestration organized in a completely different way. And some very thoughtful new companies and hopefully existing ones partnered with great operators at the customer site who are innovative as well, who are willing to try it. And I think it's going to be really transformative.

HEIDI MESSER: Yes, and I think the pricing is actually the first sign that you see of that changing, right? Because before seeds assumed more adoption, more usage, you got a return. And I think what a lot of people have started to do the math on is that there were some work flows that weren't actually generating a return. So if I can cut out, you know, CRM license holders, if I can cut out seeds, and there's no impact to the bottom line of my business, what was I paying for in the first place?

So when you hear people say consumption-based pricing, outcome-based pricing, I think it's a sign of the customer saying, look, I'm going to be held to certain metrics and certain returns that I need to deliver. I need to deliver better margins. I need to deliver more revenue. And my technology is going to have to do that, and I'm going to take you on the boat with me with the pricing.

ORLANDO BRAVO: Okay, let's talk about that pricing. I really like it because it's actually consistent with my thoughts on it. It's more customer power. Right? The customer needs the ROI and the customer needs you in the journey, on the same page. And with every huge innovation this great American competitive economy, with all the new companies that come in and attack it, as well as the existing companies, comes up with a model where most of the value is grabbed by the customer.

I just want to give you a contrarian example. License was the best model these automation companies had. License maintenance. When a customer bought it, they spent Cap-X, $5 million. They were going to depreciate it over five years. They put it in their data center and they were going to make that piece of software work because they didn't have a choice. They were going to really get teams together to make sure it was implemented correctly on their side and the usage of it was correct. It was very hard to dislodge a company. You could sit back, increase maintenance pricing a little bit, decrease cost and you would make money. That's how we started.

Then comes SaaS. Newcomers come in because now you can host applications. And they said, okay, because remember you can still host applications but sell the license.

It's okay. But then they said, you know what, software is dead. Some of these new CRM companies would say that. It's all services, software as a service. I'll rent it to you for three years. You don't have to spend Cap-X dollars. And I'll bear the cost of hosting it, not your data center. Your gross margins went down. And then you needed to innovate a lot more, spend a lot more time innovating because in three years when that contract came up, if there was a better solution, you would get dislodged. And then you would need to spend more time in customer success, a new area, a cost area that was created in these companies to make sure that that customer was using it correctly. Because they didn't need to invest all their time in doing this if they were just renting it, in checking it out.

Now comes outcomes, and customers are saying I'll only pay you for outcome. That is here to stay. That is the new way. That is how customers want to buy. But it is much harder for a company to project your revenue and your cost when you're bouncing around with outcomes. So the operating capability, maybe where we are in our core competency, we needed to get a lot better to operate in SaaS than license. It was a lot harder to get to 40% margin. Now there's going to be another step function in the operating needs to make sure that the vendors are making enough money and are being predictable enough with an outcomes-based pricing.

I'll tell you one more thing that is contrarian. Forever, and many of you are investors in the room, contracted revenue is worth more than transactional revenue. That's like, for 100 years that's the way it is. Would this be the first time that transactional revenue, which is outcomes take rate, is going to be worth more than subscription? And if so, why are the vendors pushing it? Because the power of competition forces you to do it, but also that's an opening for the new vendors to come up with something different. So kudos to them as well. You see, it's interesting, and how you manage all that to make enough money and share that with the customer is developing.

HEIDI MESSER: Well, I mean in our instance, we actually, we see these enormous outcomes that come from transformational AI. So, you know, companies that are mature companies getting 40%, you know, year over year revenue growth just by changing one set of processes and tweaking one set of work flows. So for us that's a welcomed thing because that's the inspiration for the change. When everyone is sort of equally mediocre, then it seems like it's a cost of doing business. As soon as you have a breakout, it changes.

ORLANDO BRAVO: And you provide so much value that you want to share in that value, and it's not a linear value. So I also understand that upside that you get from the process.

HEIDI MESSER: Yes, it's interesting, because if you look, you know, I would argue that

Amazon is probably the predecessor to AI. Do you have any recollection, 1997, how much do you think their market cap was when they went public? Any guess?

ORLANDO BRAVO: I'm going to say $800 million.

HEIDI MESSER: So $438 million in 1997. In 2001, their market cap was less than their revenues because of the dot-com crash. And everyone said, you know, they were a retailer that was a bookseller that went awry. That they tried to sell online. And now, you know, hindsight, you can look back and you can see the strategy was everything. They sold books to get data. Once they had data, they could then launch Prime. Once they had Prime, they could then launch anticipatory shipping. The data that they were able to acquire through their initial business was the business. It wasn't I'm a bookseller.
And the reason I say that is the people who benefited the most were their customers.

So in the beginning, you know, it wasn't that convenient to shop online. But because they used the data to take every aspect of their operations, they just launched Supply Chain Connect, right? A business that they built for themselves that they're now renting out because they had so much data to educate themselves to change the whole process of how they do things. So they've aligned their business entirely with their customers and now other people are renting out that infrastructure.

I think that's more the model and the way that software is going to have to go instead of people buying by habit. Right? Like this is how we've always done things, a great company has this infrastructure, and this is how the departments work. Now people are going to start with, first principles, outcomes first. What kind of company am I? What's my purpose for being? And then how do I back into the technology that's going to enable me to get from Point A to Point B fastest?

ORLANDO BRAVO: Completely. And the nice thing for the vendors that have done this for a while is it is very easy to change seed-based pricing. That is the one thing that I see on all the blogs and written by very smart people, that it's absolutely wrong. The rest we can debate and argue and we don't know how it's going to turn out. But the fact that existing vendors have an issue because they charge by the seed, it's wrong.

So to give you an example, for many, many years we have changed the way so many of our company's price from seed to consumption-based, size of company, size of division, and even outcomes. Like Sera is an outcomes-based company because they reduce your IT spent. They kind of measure your entitlement versus your spend and they look to reduce it and now they're doing that in AI use cases, in tokenized use cases for example. So it's not that hard to do.

And the reason why we've done it so much is in 2007 when the financial crisis hit many of our companies sold software development tools, and I think we've spoken about this, Heidi, to Wall Street. And these Wall Street firms are firing all these developers left and right. So we were by seed, and we're like this just can't happen. And right there, our companies were able to pivot with our help very easily over three to six months, and we had just changed completely the pricing mechanism of how you share the value with the customer. But I do agree, outcomes is going to be awesome. It's the way to go. And it's just figuring out how you get the upside like you're getting it while also creating a very profitable and predictable model, which is what's going to be really valued by investors.

HEIDI MESSER: Okay, a question for you. Open AI, Anthropic, SpaceX, there's a game I won't use the words for. Let's say trade, dump, hold.

ORLANDO BRAVO: I think I'd buy them all. Since I can't do it out of the fund because that's not what we do, I'll just take them all at the IPO. I'm actually not allowed to buy IPOs. Can you believe that?

HEIDI MESSER: No.

ORLANDO BRAVO: No. Given the business that I'm in. I mean if I'm an individual investor, I would probably dabble in all of them. How about you?

HEIDI MESSER: I would be most likely to buy and hold SpaceX, which might surprise people.

ORLANDO BRAVO: How come?

HEIDI MESSER: So a couple of reasons. Some are obvious. The fact that they're playing at every layer. They're playing at the infrastructure layer. They're playing at the data layer, and they have proprietary data which is very unique. They have the model layer. They're now doing interesting things with Cursor for the application layer. But I think mostly, however you want to feel about Elon Musk, he starts with first principles. So when I look at the businesses he creates, you know, whether it's a space business and saying, you know, how much does it really need to cost to put a rocket in space? He's fast. He works with small teams and he takes on big challenges. And because he's done it so successfully, people have faith in him.

And I think there needs to be a company that really shakes up how people think about the status quo. I don't know how many of you have sat in boardrooms and listened to presentations and people bring out the charts about AI. And the charts look almost exactly the same as the thing they had before, it's just everything has .ai next to it. I think it's going to take a company like SpaceX with an executive like Elon Musk to come in and say the world really is going to look different and have the courage to go with me on that journey.

ORLANDO BRAVO: I like it, super leadership. Betting on that.

HEIDI MESSER: Super leadership, yes. Alright, now you can ask me a question. I'm always asking you questions.

ORLANDO BRAVO: It's just, I keep, you know, when I asked you what else is going on in AI, tell me about the early-stage companies. Like what are you seeing in that environment? You said there's some things that are not being looked at. There was a bubble in others. You live there now. What is really going on in the early-stage community?

HEIDI MESSER: So I think there were, and now they're starting to go away, a lot of wrapper companies that wrapped around an LLM, that put a veneer on it. Got a lot of initial traction but really had very little in the way of longevity. I think that is stopping. I think investors have wised up to that. If the category is valuable enough, and you're a wrapper in an LLM, they're going to do it themselves. Coding is a great example of that.

So where I think, the most interesting things are in the newer models that do extraordinary things. You know I think we're going to see more diseases cured in our lifetime than we've ever seen before because you're going to have models that are specifically built for that purpose. What we do I think is extraordinary. I want to put an end to layoffs. I think layoffs come because executives can't see around corners for what's changing in their business relative to what's happening in the world, and we have a model that can predict that, what you're going to see in robotics.

I think these models are exceptional and they are getting valuations. I mean the world models that are out there, many of them haven't even been started to be built and they're valued at a billion dollars, which I actually think is conservative if you look at the spaces that they're going in and the transformations they're enabling.

What will be the big unlock, and this is where companies like Thoma Bravo and Collective [I] sit at that sort of intersection, is can you bring in super leadership that has the courage to say I'm going to take on new ways of working. I'm going to disrupt the way we did things before. I'm going to tie my provider to my outcome. Right? So if I have the courage to take that leap and make that risk, that provider either sinks or swims with me. And what they see at the other side of that, those are going to be the people that win the biggest.

ORLANDO BRAVO: From what you're saying, I take it that you don't subscribe to the view that AI is going to destroy every job known to humanity.

HEIDI MESSER: No. I don't think it's going to destroy every job known to humanity. In fact, I would say both of us probably have more open roles now in an AI first world. I mean you and I were talking about engineers, and just because you can use AI to make them ten times more effective, it means now that you need ten times more of them. So I don't think it's going to destroy every job. I do think it will fundamentally change the nature of many jobs. And what I worry more about is under skilled, an under skilled population.

So, you know, you mentioned earlier, we have a series called Forecast. And part of the reason we offer this series, it's free, it's open to anyone, Orlando has spoken on it. He was amazing. And we open it up because rooms like this need to be open to everyone. You all walk away, let's say you walk away with two insights that you change your daily thinking on, your strategy, now imagine the rest of the world that's just reading about, you know, AI is going to take your job. It's going to be robots. It's going to be terrible. The fear and the fear combined with the lack of information combined with some needed education, if we don't attack that now, the bigger risk is going to be a group of people that are completely disenfranchised from the most extraordinary opportunity that will come in all of our lifetimes.

ORLANDO BRAVO: That is so well said. I think it's been a big disservice to project or predict, most likely incorrectly, that AI will destroy jobs, and the early evidence says it's the opposite. And you mentioned a great one, development. You know, our engineers at our companies are now accepting 60% of the machine-generated code, very quickly, up, way up from six months ago. And the R&D percent as a percent of revenue is going up.

We're hiring more engineers because now when we run a company, we have the above-the-line projects, the projects that we can fund that have an ROI that's justifiable. And the below the line projects, those are going to have to wait, they're too risky, the ROI is not that clear, the line has moved way down. And now you can try so much more innovation and you need it because you need to provide now new solutions to these customers and think differently anyway. That's one area.

In my job, I have never worked harder in my life and part of it is because of AI. Not only having to understand and be part of that community and look at not only the buyouts and the add-ons, but the add-ons that are AI companies, the AI companies that will be future buyout opportunities, understand the business model and how it's changing. So that's added a lot. But what's really added is we run now our company with this context graph where we are all connected. And the ideas that come out of it and the new things to look at is just exploding.

So this is the first time in my career, we only have 200 people for $180 billion under management. That's kind of the AI way. It just happened because we just focused on what mattered. Raise the money, get the deal, improve the deal. Any other function that wasn't directly associated with that, we kind of would try not to do it unless it was necessary. That's the nirvana now where people want to be. A lot less employees, a lot more nimble, fast. But now is the first time that I feel that we need a lot more people because of the AI positive impact that it's having on how we think.

HEIDI MESSER: So talk to me about super leaders. What makes a super leader?

ORLANDO BRAVO: Okay, super leaders are extremely detail oriented. And you mentioned one in SpaceX who is extremely detail oriented. They know the details of their business. That's first. Two, they're willing to distinguish between the decisions that are reversible and irreversible. And the decisions that are reversible, they move very fast because if not they can change course. And the decisions that are irreversible, they have the maturity to sit on them, to think about it. And third, they are extremely flexible and open-minded.

Those three criteria, and we think about that all the time. We have over 700 companies that we've bought. Issues with leadership, we always say if the leader is good, everything is good. If the leader and our relationship is not working, nothing is good. And when we look at our whole portfolio, the ones that that really crushing it with this new complete platform and way of thinking transition, it's very clear to see those attributes in those super leaders.

Most of them, for us, come from the domain. Because what they do is just more than a job. The CEO of Dayforce, he's been in the payroll industry coding since 1992. He can tell you for an hourly worker in a 100,000-person organization full of union contracts, this is the way it can work, this is the way it should work, this is the way it can change. He's always thinking about that. And I just, I don't even know how to place a value on that. It's so big.

And when you look at companies, they're all valued similarly, and multiple revenue, and earnings, or this or that, where's leadership being valued? And that's also where existing companies, you can be in a space that's a lot more threatened, more of a point solution, less domain expertise, but if you have a super leader, they're going to figure it out. Or you could be in a space where you're protected by all this data and have the mode of this or system of record, and, yeah, that can help you for a little bit of time, but not too much. And if you don't have a great leader there, you'll get surprised.

HEIDI MESSER: I think that's awesome. The only thing I would add to that, which you sort of embodied in your three criteria, is there used to be this saying, perfect is the enemy of good. I think AI gets you to perfect in many cases. So slow is actually the enemy now more than anything. And so all of the things you described are ways of being faster. So being incredibly connected in an industry, knowing people, having that information makes you faster. Having the curiosity to say what's a better way of doing things and not being threatened gets you places faster.

The only thing I would add on to your description is being a great coach. I have never seen a time where people are looking to their leadership to shepherd them through periods of high uncertainty. They wake up in the morning, they read something. It's scary. You know, someone says, even the words, I mean SaaS-pocalypse, it's not a SaaS-pocalypse, right? It's frightening. I mean everything is very extreme.

You know, we live in a very polarized society right now. So, you know, to get news and to get attention, think about the people that are in these companies that are working and what they're reading and hearing every day. And the super leaders I've seen manage to operate with a speed and have the confidence of the people and the loyalty of the people behind them on every front, their customers, their employees. And it's exceptional the requirements now to fit into that.

ORLANDO BRAVO: I can tell why people follow you. You're so positive. You're always smiling. I would follow you and your company.

HEIDI MESSER: I would follow you too, Orlando.

ORLANDO BRAVO: Because, look, things are not linear. It just isn't. And there's going to be huge downs and ups, and how do you deal with this? And I can tell that, you know, your colleagues that are looking up to you for leadership are always looking, like how do you feel today? Are you happy? Are you really on this? Do you have our back? And I can tell that you really do and that's the difference.

HEIDI MESSER: So now I have to say something nice about you, which isn't hard at all. What you may not know about Orlando, he has an extraordinary foundation, and he walks the walk. I mean you should just take two minutes and talk about the amazing things that your foundation is doing, because I don't know if everyone in this room is familiar with that.

ORLANDO BRAVO: Ah, that's very nice of you to say. I was just there in Puerto Rico last Wednesday. And man, we employ 100 people in our foundation. It's run by a great leader, talk about leadership, it wouldn't work really without her. And we are looking to change the whole entrepreneurship culture. We back hundreds of entrepreneurs and we help them start new companies with free money. We connect them to Wall Street. We connect them as mentors to everybody that works at Thoma Bravo. We have these really good business school programs taught by local professors with a program and a curriculum we developed.

We have a lot of programs in the local communities, more disadvantaged and displaced communities. One of my favorite ones, though, is the high school program that we have, which is teaching public school kids in the 78 municipalities in Puerto Rico entrepreneurship. I spend a lot of time in that program and, how come you're not teaching them math or something that they can maybe go to college? But the changes I see in these young individuals that were in the street or just playing video games or getting into trouble to now thinking that there's something important in the world, that they have a problem to solve, and that they're part of the future leadership community, it's just really, really, really uplifting.

And I was just there on Wednesday listening to all of them present, these kids are 13 and 14. They get up in front of 1,000 people, going from zero, they couldn't talk or really have interpersonal relationships nine months ago, they present in front of 1,000 people. We have them do it in English. They crush it. And to me, they get those concepts of, they show creativity, that they can grasp the content, and communication skills. And I think that really, you know, I come from a, you know, me, I come from Mayaguez, Puerto Rico, so it's right there.

And just giving people that opportunity and seeing it. And for me, it's also a bit selfserving because I go if these kids and these entrepreneurs can create something out of nothing, please don't tell me that we cannot help a company that has $2 billion in revenue and 10,000 customers and is here in the United States, and do something a little better. That should be easy.

PRESIDENT BARBARA VAN ALLEN: Well, thank you both. I think it's been really a treat to have two super leaders with us today. So I think everyone has the program in front of them. If you turn that over, you'll be able to see our upcoming events. I'm just going to skip forward since we're on the topic of technology, be sure that you notice Dina Powell McCormick, the President of Meta, is joining us, as well as Ruth Porat, the President of Alphabet, in the next few weeks, among many, many others. So please be sure that you mark your calendars. We are adding to the calendar, believe it or not. There's stuff in the works right now. Also we have the 250th in our future in June as well. So thank you everyone for joining us virtually. We're going to say goodbye. And for everyone here in the room, enjoy your lunch. Thank you.