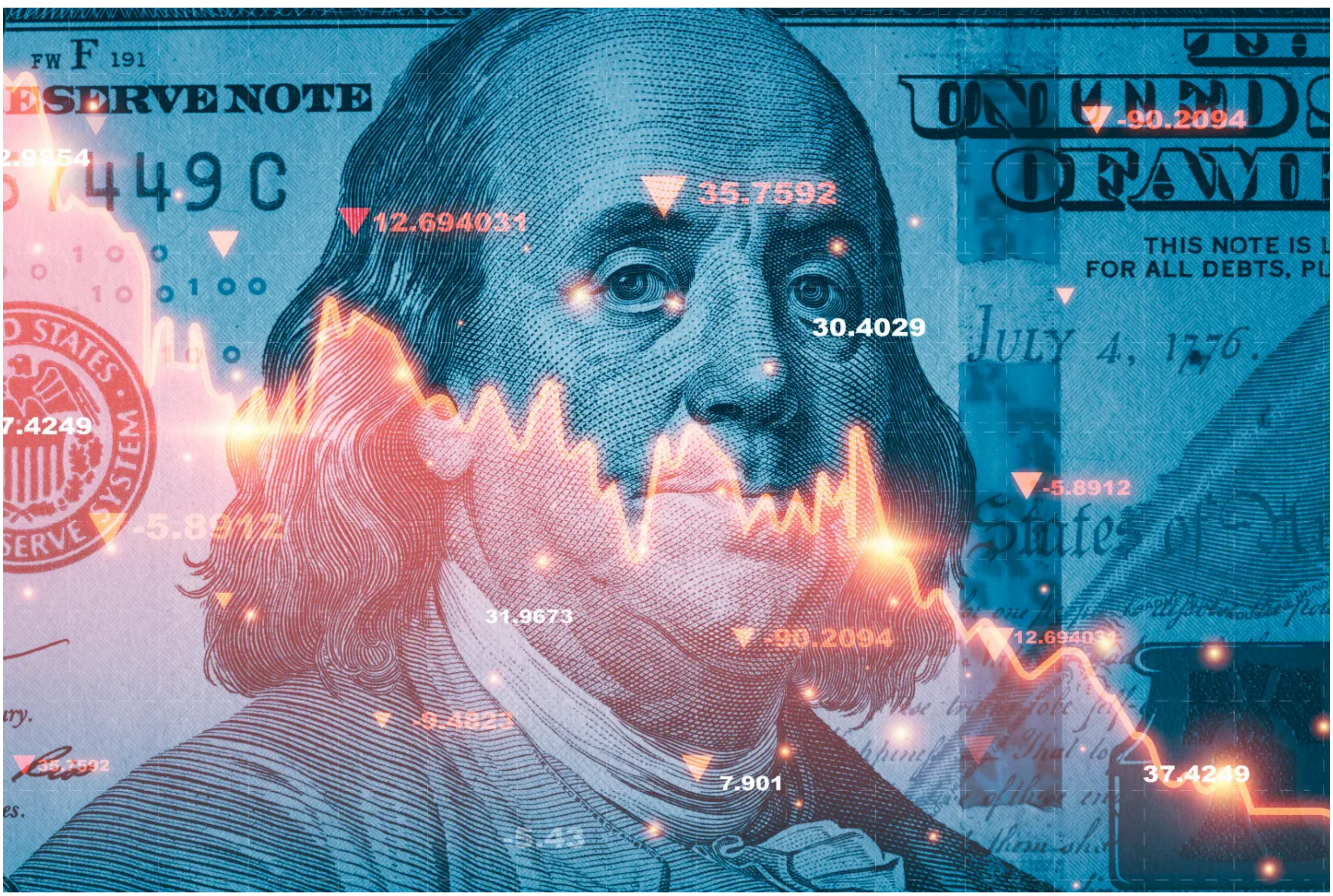
FORTUNE

HOME NEWS FORTUNE 500 TECH FINANCE LEADERSHIP LIFESTYLE MULTIMEDIA

FINANCE · PRIVATE EQUITY

Insight Partners has paid out nearly $8 billion this year—but returns for its giant 2021 fund have mostly come up dry

October 28, 2024 at 8:00 AM EDT

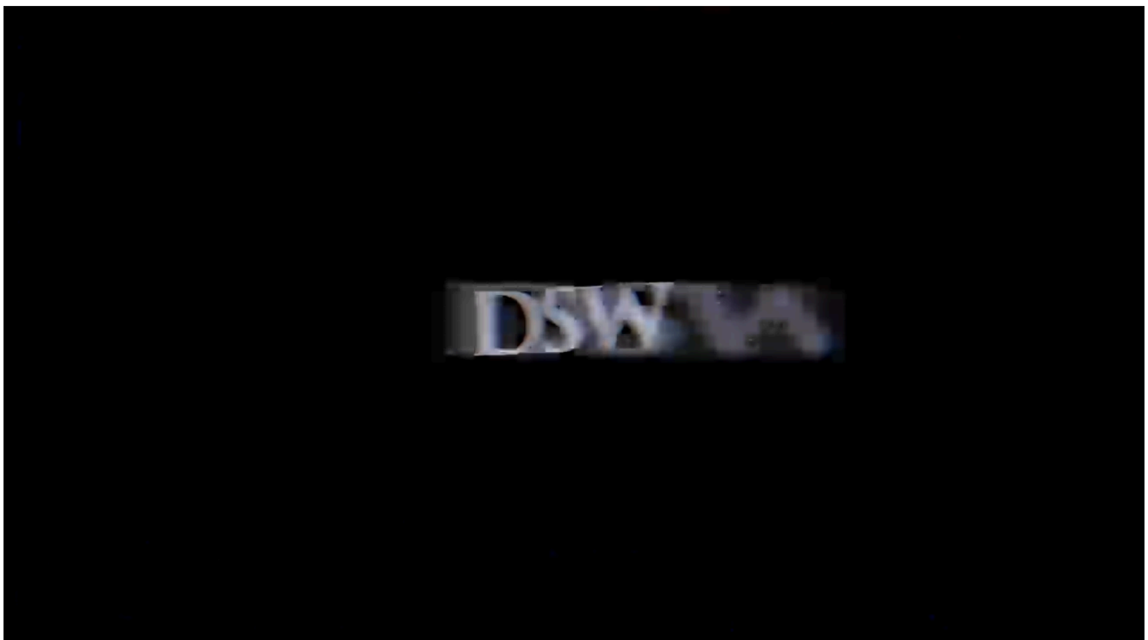


Insight has clinched 27 exits this year but most aren't from its giant $20 billion fund.

GETTY IMAGES

In 2021, Wall Street was gripped by a bubble that saw the sale of a record number of companies while investors, both private equity and venture, piled into deals like never before. One of the most aggressive firms was Insight Partners, which deployed a $20 billion fund during that year. Now, some are worried that the high multiples that Insight and other firms paid for companies in 2021 will prove excessive, making it hard to secure a profit.

Recommended Video



Insight Partners was founded in 1995 by Jeff Horing, managing partner, and Jerry Murdock, who has since retired. The New York firm invests in companies from the seed round to the IPO and focuses on sectors such as enterprise software, cybersecurity, healthcare IT, and fintech sectors. Early deals include Twitter and Alibaba. Insight typically invests from $5 million to over $500 million per company. The firm currently employs about 485 people, including 100 investment professionals. It has about $89 billion in assets under management, according to placement documents.

Last week, Insight held its annual general meeting on Oct. 24 in New York where one of the top themes was distributions, which are payments made to investors after a fund manager sells a company, according to a person familiar with the situation. Two years ago, a key concern for Insight's limited partners was the lack of distributions across the industry. So far in 2024, Insight has made several exits, totaling $12 billion in enterprise value, and returned nearly $8 billion to its investors from all its funds, the person said. "This will be a record year for Insight in terms of returns," they said.

Insight's record $8 billion in returns is an eye-catching figure but it also comes with a caveat. Namely, very little of that came from Insight XII, a $20 billion pool that the firm was investing in 2021 and closed the following year.

The Great Tech Reset

In 2021, Insight was one of the most powerful tech investors, backing some of the hottest startups, including crypto exchange FTX, while taking a dozen companies public that year, including Darktrace and Monday.

Insight has hit some bumps since the go-go days of 2021. One of the more embarrassing was the collapse of FTX in late 2022 after Insight invested around $40 million in the crypto exchange, including a C funding round.

Then, in June 2023, the Securities and Exchange Commission sanctioned Insight for improperly over-charging management fees and required the firm, a registered RIA, to pay $1.5 million. One month later, Pennsylvania Public School Employees' Retirement System, an Insight LP, decided to pull its commitment to the firm's 13th fund, which originally sought $20 billion.

Of the 12 Insight portfolio companies that listed in 2021, three were sold: Darktrace, User Testing and WalkMe. Another seven continue to trade but only one, Monday, remains above its IPO/SPAC price. WeWork, which Insight invested in right before its listing, filed for bankruptcy protection in 2023.

"Insight does lots in software, which is a sector that is still growing but the growth rate has slowed," one placement agent said.

Then there was the great technology reset of 2022. Rising interest rates, the war in Ukraine and recession fears helped cause valuations for tech companies to plummet. In 2021, software businesses were selling for, on average, 16 times revenue which dropped to single digit multiples in 2022. Global venture funding plunged 35% year-over-year to $445 billion, according to Crunchbase. The IPO market and mergers slowed down significantly that year and have yet to recover.

All of this led to choppy waters for Insight's 13th flagship fund, which launched in 2022 just months after the firm closed its $20 billion Fund XII. Last year, Insight cut the hard cap for Fund XIII to $15 billion and a $12.5 billion target, citing the "great reset in tech" that was impacting the value, number and quality of startups that it could invest in, the *Financial Times* reported. Insight is expected to hold a final close for Flagship XIII in early 2025; the fund has raised more than $10 billion, *Buyouts* reported in August.

Things seem to be picking up this year for Insight, which recently has scored several exits to well-known acquirers. The largest was Mastercard, which in September bought Recorded Future for $2.65 billion. Insight initially invested in the startup's $25 million round in 2017 and then acquired a controlling stake two years later for more than $780 million. In September, Salesforce inked a $1.9 billion buy of Own Company, following Insight's decision to invest in nearly all of the data management firm's funding rounds since 2017. Visa, in September, also scooped up fraud prevention service Featurespace in a deal that was valued at $925 million—more than five years after Insight led a $32.3 million round for the startup. WalkMe, which provides digital adoption tools, agreed to join SAP in a $1.5 billion deal in June, six years after the company raised $50 million in a round led by Insight.

"These weren't from Fund XII. They're from other funds," said one banker, pointing out the performance struggles of Insight's 2021 fund.

Insight Partners exits so far in 2024

Company	Year of Initial Investment	Acquirer	Value
AMCS	2018	EQT BOUGHT A MAJORITY BUT INSIGHT REMAINS AN INVESTOR	
ARMORY	2019	HARNESS	$7 MILLION
CORVUS INSURANCE	2021	TRAVELERS	
DECI	2021	NVIDIA	$300 MILLION
DEEPFACTOR	2021	CISCO	
EDEN HEALTH	2021	CENTIVO	
FEATURESPACE	2019	VISA	$925 MILLION
JAMA SOFTWARE	2018	FRANCISCO PARTNERS	$1.2 BILLION
JOONKO	2022	FILED FOR BANKRUPTCY IN MAY 2024	
JUNO JOURNEY	2021	GROWTHZONE	
KYVERNA THERAPEUTICS	2022	IPO	
LEASEACCELERATOR	2018	INSIGHTSOFTWARE (A GENSTAR CAPITAL PORTFOLIO COMPANY)	
LIVEACTION	2016	BLUECAT NETWORKS	
NONAME SECURITY	2020	AKAMAI	$450 MILLION
OWN COMPANY	2017	SALESFORCE	$1.9 BILLION
PREVALENT	2016	MIRATECH	
RECORDED FUTURE	2017	MASTERCARD	$2.65 BILLION
REVEAL	2022	CROSSBEAM	
RUN:AI	2021	NVIDIA	$700 MILLION
SHOP-WARE	2020	VEHLO LED GROUP	
SHORELINE.IO	2022	NVIDIA	$100 MILLION
SKYTAP	2014	KYNDRYL	
UIZARD TECHNOLOGIES	2021	MIRO	
WALKME	2016	SAP	$1.5 BILLION

SOURCE: CRUNCHBASE, PRESS REPORTS, PRESS RELEASES

FORTUNE

Perils of the 'Super Cycle'

There are many different flavors of alternative asset funds. There are venture funds, which typically buy minority stakes in early-stage companies. Then there are buyout funds which buy controlling stakes in established businesses. Buyouts usually seek to “improve” a company’s operations and profitability, before selling it. In the middle sit growth pools, which typically take minority stakes in established, growing companies. All the funds have the same goal, making money, but go about it a little differently.

Insight is considered a venture growth firm that invests in tech and software companies. It can make venture, growth or buyout investments. It is not seeking venture-type returns of 50 times their investment, said Kyle Stanford, PitchBook’s lead VC analyst. Insight is “one of the larger firms investing in the later stages of venture,” he said. The growth firm has a “different risk profile than your typical VC fund,” he said.

Insight was one of the most active venture growth firms of 2021, investing in 230 businesses, valued at $39 billion, according to Dealogic. The number of deals is triple the 78 investments that Insight announced in 2020, valued at $10.6 billion. Insight kept up its busy pace in 2022, investing in 173 companies with a $13.5 billion valuation.

As inflation took hold and interest rates continued to climb, M&A deals slowed down significantly in 2023 and into 2024. Insight clinched just 59 transactions last year, valued at $7.6 billion, and 55 deals so far this year at a $3.1 billion valuation.

Insight Partners is a case study of what happens in a “super cycle,” one private equity investor said. Insight Partners executives are “very capable investors” who got carried away in 2021, the PE executive said.

Rival funds

In hindsight, it appears that venture and private equity firms, as well as the LPs who backed them, should’ve known better. But in 2021, VC firms generated $800 billion in exits through mergers or IPOs, PitchBook’s Stanford said. Investors who were able to sell were often doubling their money, Stanford said. “It was really easy for LPs to continue putting money into venture, because interest rates were low,” he said.

Insight began investing its $20 billion flagship Fund XII in February 2021 and closed the pool a year later, in February 2022, according to PitchBook. The fund is reporting a negative 2.29% net IRR and a 1x total value multiple, according to March 31 data from the Washington State Investment Board, an investor in the fund. The 1x TVM means that investment is running at break even. (In private equity, IRR’s higher than 20% are considered good.)

Insights 11th flagship, which collected $9.5 billion in April 2020 and made 114 deals, is reporting much stronger returns. Fund XI is considered a 2020 vintage but the pool began investing in November 2019, months before covid-19 caused businesses across the U.S. to close. The pool is posting a net IRR of 14.12% and total value multiple of 1.5x. This fund is more mature than its successor, Fund XII. A 1.5x TVM means LPs have gotten some of their investment back.

Insight’s 11th fund “has done really well and XII is not doing so well right now,” one LP of both funds said.

Fortune also looked at how other funds that invested in 2021, and are comparable to Insight, are performing—including, Sequoia Capital and Tiger Global, both of which were more active than Insight that year. In 2021, Sequoia clinched 375 deals that totaled nearly $51.5 billion. Sequoia has the better performing pool with its U.S. Venture XVII fund, a 2022 vintage, that collected $808.64 million. The pool is reporting a 14.2% IRR and a 1.34x TVM as of June 30, according to the University of California Regents. Sequoia was also investing U.S. Growth Fund IX, a 2021 vintage, that raised $1.68 billion. That pool is posting a negative 1.7% IRR and 0.96x TVM as of June 30. (A 0.96x TVM means that the investment has lost a small amount of value compared to the initial capital invested.)

Tiger Global, in 2021, made 315 investments valued at nearly $62 billion. To do so, it tapped two venture funds: Private Investment Partners (PIP) XIV, which collected $6.7 billion, and the $12.7 billion PIP XV. *Fortune* could not find returns data for PIP XIV but Tiger's PIP XV, a 2021 vintage, is reporting a negative 16.7% net IRR and a O.7x investment multiple as of March 31, according to California Public Employees Retirement System, or CalPERS. (A 0.7x investment multiple means the investment has lost value and is performing below expectations. Again, this is a very young fund.)

In growth, we looked at TA Associates, a well-known private equity growth firm that was active (for a PE firm), completing 93 deals valued at nearly $6.8 billion. That year, TA collected $12.5 billion for its 14th flagship fund. TA XIV is reporting a negative 1.3% IRR and a 1x investment multiple as of March 31, according to CalPERS.

Insight Partners does take part in large buyout transactions from time to time. In 2021, Insight, along with Stonepoint Partners, acquired real estate data provider Corelogic for about $6 billion. The firm led a consortium to buy Datto, a cybersecurity software provider, in 2022 for $6.2 billion. It also scooped up data management company Veeam for $5 billion in 2020. This puts Insight in the realm of large tech buyout firms like Thoma Bravo, which was investing its $17.8 billion Fund XIV fund in 2021. Thoma Bravo Fund XIV is reporting a 7.2% net IRR and 1.2x investment multiple, according to CalPERS. The buyout shop is also one of the few firms returning capital to investors. Thoma Bravo has generated roughly $25 billion of portfolio realizations since 2023, *Buyouts* reported earlier this month. The $25 billion includes $13 billion in realizations in 2023 and $12 billion in 2024, the story said.

Too Immature

Insight this year has sold roughly 24 portfolio companies, according to a *Fortune* analysis. Seven are from 2021: Run.AI, Corvus, Deci, Juno Journey, Eden Health, Uizard Technologies, and DeepFactor. It's unclear if Insight used Fund XII to invest in any of these companies.

Most PE executives and investors questioned by *Fortune* think it's too soon for 2021 funds, including Insight XII, to have generated distributions. "That vintage year will be an underperforming vintage year," a different LP said.

Stanford, of PitchBook, said there are many reasons to criticize 2021 funds, including the lack of due diligence performed by GPs, or their activity level that year, or even their strategy drift. But lack of distributions isn't one of them. Insight XII could still emerge a winner, he said. "[Insight's] investments made in 2021 could end up showing strong returns. We will just need to wait and see," Stanford said.

Private equity is now on the other side of the great tech reset. If Insight could restart the clock for Fund XII and launch it in the middle of 2022, and not the middle of 2021, the pool's returns would be in line with other funds' performance at the two-year mark, posting 1.2x net multiple of money or 1.4x gross MOM. (MOM refers to the investment returns of a fund. A multiple of 1x means investors just got their money back. Generally, two or higher is considered good and three is excellent.)

"For any fund of this vintage, the IRR will be challenging but this is where good funds will shine. It doesn't mean multiples, and ultimately, returns can't come back," the person said.

One thing is clear. The lack of distributions has given rise to one of the biggest stories in private equity—continuation funds—which allows a PE firm to continue to own an asset. Basically, a PE firm transfers ownership of a company that it owns from one fund to a continuation pool. They also give investors the option to reinvest or cash out. Insight recently closed its third continuation fund, a $1.5 billion vehicle, to buy stakes in companies owned by older Insight funds. Insight is the third largest investor in Wiz, the Israeli cybersecurity firm that turned down a $23 billion sale to Alphabet over the summer. A small part of Wiz was included in Insight Continuation Fund III, the person said. HarbourVest Partners invested in the deal.

"It's better to reset the valuations through a [continuation vehicle] rather than continue to hold in a slowing growth environment," the placement agent said.

About the Author

LUISA BELTRAN
Finance Reporter

Luisa Beltran is a finance reporter at *Fortune* where she covers private equity, Wall Street, and fintech M&A.

SEE FULL BIO >