

THE NEW KIDS ON THE BLOCK

European software investing

September 2025

Smaller European software deals are becoming harder for institutional investors to ignore. Despite strong risk-adjusted returns and favorable secular tailwinds, this segment of the market remains underexplored. Valuations are attractive, and exit opportunities are robust owing to significant dry powder upmarket.

Capital availability in Europe compared with North America

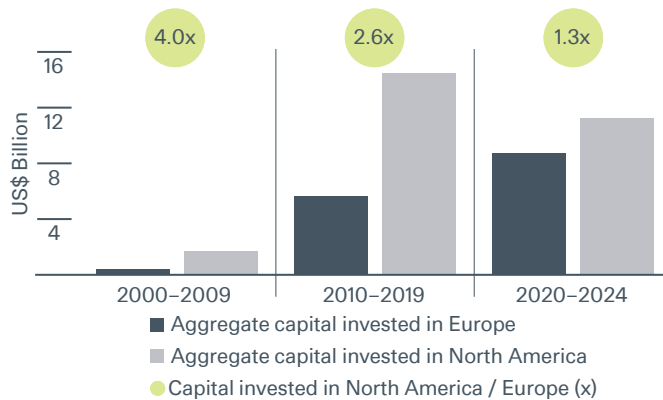
The institutional investment landscape for software investors matured earlier in North America, with several prominent GPs emerging in the early 2000s. These pioneers wrote the playbook for software investing and over the years have grown to establish a significant market presence. Naturally, their growth and maturation paved the way for a new wave of software-focused GPs—particularly those targeting small-to-mid-sized software enterprises.¹ As a result, capital availability for software businesses in North America has become abundant and well distributed across company sizes.

In contrast, the European software investment ecosystem has historically seen slower development, with lower levels of institutional activity and fewer specialized software investment firms. This has contributed to a persistent funding gap. The scarcity of specialized capital in Europe has created a compelling opportunity for the limited number of SBO software managers active in the region, positioning Europe as an increasingly attractive target market for these managers.

Figure 1 illustrates the magnitude of the software sector’s growth globally. It also makes clear that the gap between North America and Europe has narrowed markedly. In the years running up to the Global Financial Crisis, North American SBO managers raised 4x more than their European counterparts; in the past four years, that delta is closer to 1.3x.

Partnering with an experienced GP with specialized expertise in the European SBO software space may help investors unlock value and optimize returns.

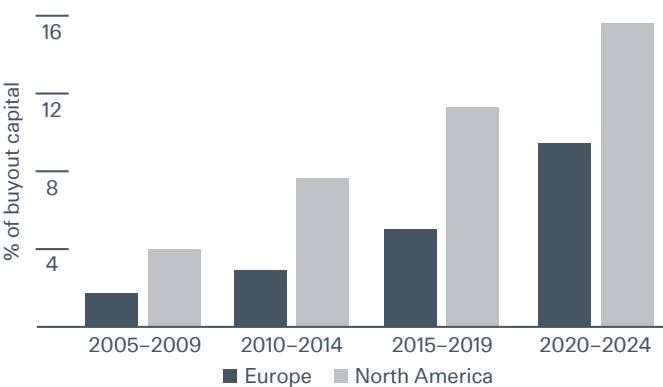
FIGURE 1: SBO SOFTWARE CAPITAL INVESTED IN EUROPE AND NORTH AMERICA



Source: SPI by StepStone, as of June 2025.

While Europe’s SBO software market has grown in volume over recent years, it remains less capitalized than North America’s. As shown in **Figure 2**, technology-focused managers accounted for about 15% of all buyout capital raised in North America between 2020 and 2024, compared with just over 9% in Europe. While tech specialists remain relatively scarce in Europe, capital formation has accelerated meaningfully in the past five years. Here, too, the gap is narrowing.

FIGURE 2: CAPITAL RAISED BY TECH SPECIALISTS AS A % OF TOTAL BUYOUTS



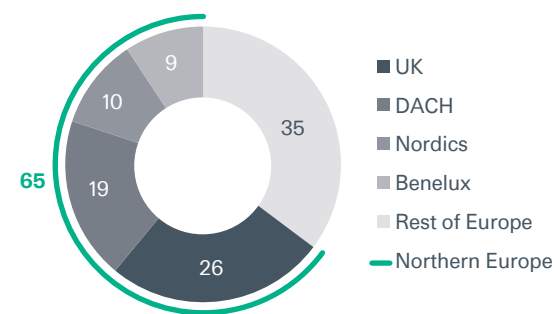
Source: SPI by StepStone, as of June 2025.
Note: % share buyout - tech specialist of buyout - total includes funds in market for years 2020-2025.

¹ We define small-market funds (aka SBO) as those raising less than US\$ 2 billion.

The European opportunity set

Software’s strong secular growth has resulted in a proliferation of approximately 65,000 European software companies, of which roughly 42,000 (65%) are found in Northern Europe, which includes the UK, DACH, Nordics and Benelux (Figure 3).² Northern Europe has also become a key region of outperformance for local European SBO managers.

FIGURE 3: % SHARE OF EUROPEAN SOFTWARE COMPANIES PER REGION



Source: FactSet, as of June 2025.

Because these companies service such a broad range of industries and regions, larger companies have so far been unable to dominate the market. As a result, Europe’s software market remains highly fragmented, thus providing the ideal conditions for small- and mid-sized players to consolidate their respective markets and enhance their competitive advantage.

As we’ve written previously, one of the things we like most about SBO (in Europe and elsewhere) is its uplift potential. With less capital chasing more deals, SBO managers are often able to get better entry valuations and command a premium at exit, frequently selling to larger GPs. Europe’s software sector is no different.

Additionally, as illustrated in Figure 4, at exit, SBO software investments demonstrate notable multiple expansion, averaging 1.1x on a TEV/revenue basis and 3.9x on a TEV/EBITDA basis. This consistent uplift underscores the robust exit optionality inherent in scaled software assets, particularly as the middle and large buyout markets remain flush with capital and increasingly target software platforms in their portfolio.

FIGURE 4: MULTIPLE EXPANSION WITHIN THE EUROPEAN SBO SOFTWARE SEGMENT

Entry TEV / revenue	3.7x
Exit TEV / revenue	4.7x
Expansion	1.1x
Entry TEV / EBITDA	13.0x
Exit TEV / EBITDA	16.9x
Expansion	3.9x

Source: SPI by StepStone, as of June 2025. Includes deals between 2010 and 2024.

Overall, Europe’s software industry is large, structurally attractive and underpinned by long-term secular growth drivers. Technology adoption, digital transformation and evolving regulation have surged globally, creating strong tailwinds for tech investments. These structural trends have fueled the sector’s accelerated expansion and helped narrow the funding gap with North America. The relative scarcity of high-quality, dedicated SBO software managers further highlights the attractiveness of this opportunity. LPs looking to increase their allocation to European PE or diversify their allocation to tech should take note.

² FactSet as of May 2025. If you’ve read our other papers, you’ll be quite familiar with our bullish views on Northern Europe’s PE landscape. See, for example, “Outperformance in the European Small to Middle Market.”

Absolute and risk-adjusted outperformance

We measured the return distribution of nearly 6,000 fully realized European and North American PE transactions completed between 2010 and 2024 to assess performance across different strategies and regions (**Figure 5**). Europe's small-market software sector has outperformed similar deals in North America, and leveraged buyouts at large. We expect this trend to continue as Europe's software market matures.

FIGURE 5: ABSOLUTE AND RISK-ADJUSTED OUTPERFORMANCE

	European SBO software	North American SBO software	European buyout	North American buyout
Gross TVM	3.8x	3.6x	2.6x	2.6x
Loss ratio	10.2%	12.1%	14.2%	16.6%
RAP	3.5x	3.2x	2.3x	2.3x

Source: SPI by StepStone, as of June 2025. Includes 2,312 European and 4,319 North American fully realized deals between 2010 and 2024.
Note: RAP = risk-adjusted performance = gross TVM / (1+loss ratio).

We also conducted a comparative analysis of private equity software and SBO transactions completed in Europe and North America between 2010 and 2024, benchmarking valuation multiples, revenue growth and profitability (**Figure 6**).

FIGURE 6: VALUATION AND OPERATING PERFORMANCE

	European SBO software	European mid & large software	North American SBO software	European SBO
TEV / EBITDA	13.1x	17.9x	14.1x	8.8x
TEV / revenue	3.7x	5.7x	4.5x	1.8x
Revenue CAGR	21.0%	18.8%	21.4%	15.7%
EBITDA margin at entry	23.8%	27.5%	17.4%	18.2%
EBITDA margin expansion	(1.5%)	2.2%	0.2%	(1.5%)
Growth-adjusted TEV / EBITDA	0.62	0.96	0.66	0.56

Source: SPI by StepStone, as of June 2025. Includes deals between 2010 and 2024.

European SBO software companies are often earlier in their scaling journey, with a strategic focus on growth to build market presence and platform value. In contrast, mid- and large software buyouts in Europe typically involve more established businesses that have already achieved scale and are now optimizing for profitability. This explains why SBO software assets are valued at a discount to their larger peers, while transacting at a premium to the broader European SBO segment, supported by stronger growth and improving margin profiles.

Compared with North America, European SBO software investments benefit from lower entry valuations and stronger EBITDA margins, despite similar revenue growth. This indicates a more favorable supply-and-demand imbalance, resulting in more attractive growth-adjusted valuations and the highest risk-adjusted performance in the peer set.

From a structural perspective, several factors may further explain the relative outperformance of European SBO software investments:

- European assets often target smaller niche markets with more defensible competitive positions, which, despite more modest growth trajectories, support stronger profitability and downside protection.
- Additionally, Europe's comparatively low level of digital maturity creates more pronounced structural tailwinds for software adoption and investment, further enhancing the long-term attractiveness of the strategy.

Specialization matters

An LP considering investing in the European SBO software space may wish to evaluate whether performance differs between investing with generalist European GPs and dedicated European software specialists. To explore this, we mapped the performance of GPs we classify as software specialists. On a risk-adjusted basis, specialists have significantly outperformed their generalist peers, delivering a higher realized weighted-average gross TVM and maintaining an exceptionally low loss ratio of 1.4%, compared with 11.7% for generalists.

This suggests that deep sector knowledge and dedicated experience in software investing can materially enhance downside protection and value creation (Figure 7).

FIGURE 7: REALIZED GROSS TVM (GENERALISTS VS SBO SOFTWARE SPECIALISTS)

	European specialist software GPs	European generalist GPs
Gross TVM	3.9x	3.6x
Loss ratio	1.4%	11.7%
RAP	3.9x	3.2x

Source: SPI by StepStone, as of June 2025.
Note: RAP = risk-adjusted performance = gross TVM / (1+loss ratio).

Accessing the market

Gaining exposure to Europe’s SBO software segment can be challenging for LPs. There are many more managers compared with the mid and large buyout space, requiring more dedicated resources to effectively track and build relationships with emerging GPs. Within the small buyout sector, proper manager selection is particularly critical because of the wider dispersion in returns.

For LPs without dedicated in-house resources, navigating the European small buyout universe can be challenging. As a result, many default to larger, more established GPs with recognizable brands. However, these managers—particularly those with generalist strategies—have historically produced muted outcomes in the software space, often paying higher entry multiples for lower growth and delivering less favorable risk-adjusted returns (as detailed in the performance section of this whitepaper).

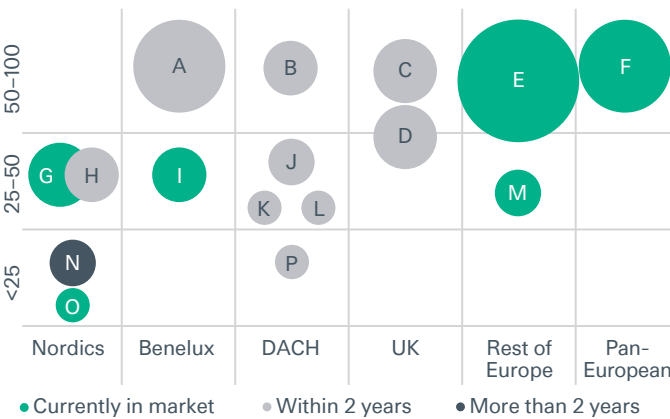
By contrast, the SBO segment—and especially SBO software specialists—while more fragmented and resource-intensive to access, has demonstrated stronger performance potential. This underscores the importance of targeted selection and specialist access.

Institutional LPs have several options to overcome these access challenges:

- Under an **advisory** relationship, an LP works closely with a private market specialist who makes investment recommendations. Here LPs get to decide which part of the market to home in on and retain the ultimate investment discretion.
- LPs capable of cutting large checks and willing to cede investment discretion might establish a **separately managed account (SMA)**. These bespoke investment vehicles are useful in gaining access to specialists.
- **Funds of funds** have high fees but allow LPs to cast a wide net for relatively little.

Irrespective of which model an investor might prefer, we believe the opportunity set is big enough to satisfy large and small investors alike. Leveraging our expertise as a private markets specialist, Figure 8 showcases our research of high-conviction managers active in the European SBO software market. This analysis highlights a strong concentration of compelling primary opportunities, especially in Northern Europe.

FIGURE 8: EUROPEAN SOFTWARE GP SPECIALIST MARKET MAP (AVERAGE INVESTMENT SIZE €M)



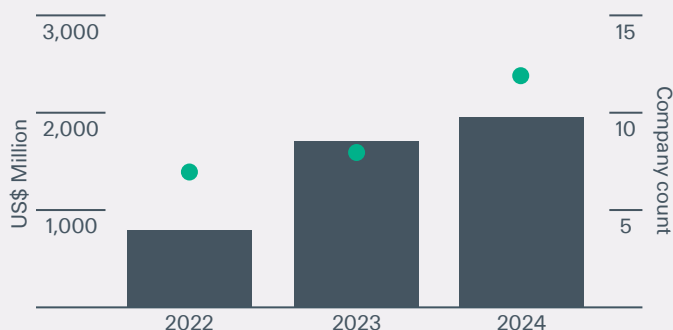
Source: SPI by StepStone, as of June 2025.

Continuation vehicles in focus

With the secular tailwinds discussed in this whitepaper at their back, many European SBO software companies have emerged as attractive candidates for continuation vehicles (CVs). These structures provide existing LPs with an optional liquidity event, while enabling managers to transfer select "star assets" with long-term compounding potential from maturing funds into new vehicles. In the context of Europe's software sector, these "star assets" often emerge as natural consolidators in highly fragmented niches. In this respect, CVs offer an elegant solution for GPs, providing both time and additional capital to support further consolidation.

We have observed growing adoption of CVs within the European SBO software segment. As shown in **Figure 9**, committed capital in GP-led CVs increased from ~US\$800 million across seven companies in 2022 to ~US\$2 billion across 12 companies in 2024.

FIGURE 9: COMMITTED CAPITAL AND COMPANY COUNT IN EUROPEAN SBO SOFTWARE CVs



Source: SPI by StepStone. Includes CVs between 2022 and 2024 with >50% exposure in European SBO software assets.

This trajectory reflects an increasing recognition among GPs of the role CVs can play in capturing untapped upside in small-market software platforms, particularly those benefiting from secular tailwinds and industry consolidation. We anticipate this trend will persist into 2025 and beyond.

Looking ahead

Europe's small-market software segment presents a timely and differentiated opportunity. Its combination of attractive growth-adjusted valuations, superior downside protection and resilient operating fundamentals positions it as a strong engine for value creation. Structural tailwinds—such as Europe's lower digital maturity and the defensibility of niche market leaders—further reinforce the segment's long-term potential. For institutional LPs seeking complementary exposure within their portfolios, this sector offers compelling performance characteristics. Partnering with an experienced GP with specialized expertise in this space may help investors unlock value and optimize returns.

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