

Survival of the fittest

Navigating the European PE-backed software market

Mid-market PE review
2025 / 2026



Executive summary

Defying the odds

The PE software market continues to be highly active and exceptionally well-capitalised, despite macro-volatility

2025 Review

2025 was another year of significant macro-shocks for investors to navigate. While software companies were less impacted by the global tariffs of liberation day, the tech sector suffered its own bouts of volatility as new AI models like DeepSeek and Claude gained traction and the market began to price in a scenario where software solutions were delivered differently. In the UK, inflation remained sticky, with higher for longer interest rates challenging cash flows for some PE-backed borrowers.

Despite the uncertain backdrop, the market for European software deals remained highly resilient:

- 129 mid-market¹ European PE software deals, above the post-Covid average;
- Valuations rebounded from post-covid lows of ~5x ARR to ~6.7x ARR in 2025;
- >EUR 9BN funds were closed by GPs whose primary investment focus is on European mid-market software transactions;
- Several debut funds addressing European software closed successfully in 2025, while some of the more established managers saw significant up-rounds.

2026 Outlook

2026 has started with significant volatility in software share prices as the rapid development of AI models is causing investors to question the durability of software revenues. Conversations with our key PE partners and >50 borrower clients provides a more optimistic outlook for mid-market software companies, but there is general acknowledgement that some segments will be more vulnerable than others:

- The likely long-term winners will be vertical software applications for enterprise clients that provide a system of record with operational data underpinning key workflows;
- AI is not expected to displace these businesses, but should allow for deeper relationships and additional solutions;
- Smaller, point-solutions that sit further from the infrastructure layer are more susceptible to automation and could be vulnerable;
- The operational metrics from our software clients continues to demonstrate excellent revenue quality, with >100% net retention, and mid-single digit churn.

While bank-led sales processes are down in Q1, high-quality software businesses are continuing to attract significant investor interest, with a significant amount of committed capital in reserve for top software names.

There continues to be an additional tailwind for European software companies as US investors increasingly diversify away from the US market, and suppressed listed valuations offer attractive take-private opportunities.

¹) Majority control PE deals of software companies with EV of EUR 25M-500M

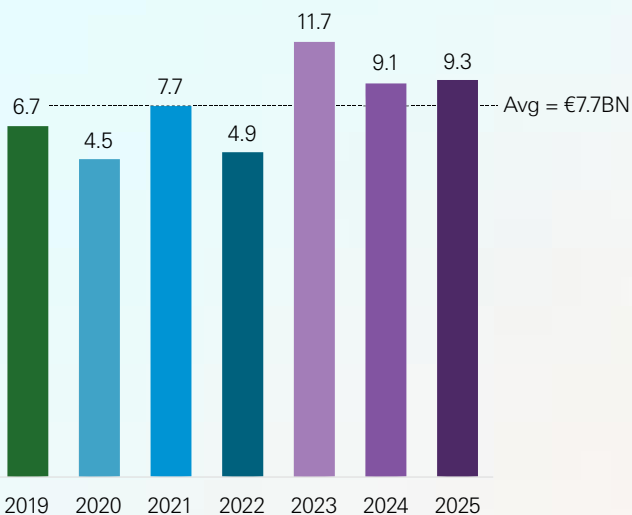
Fundraising

Outpunching its weight

Software-focused GPs continue to attract disproportionate capital in a challenging fund-raising environment

Aggregate fund-raising by software-focused GPs^{1,2}

Funds raised by GPs where majority of AUM is targeted at mid-market tech (EUR BN)²



2025 saw several large fund closings, with LPs continuing to disproportionately allocate to Innovation managers with a focus on mid-market technology investments. Many of the leading technology managers have continued to be over-subscribed beyond their hard cap, with increasing interest from international (US / Asian) LPs and continued re-ups from existing European LPs.

Key 2025 raises included:

- Bridgepoint Development Capital V
€2,800M
- Thoma Bravo Europe Fund
€1,800M
- Monterro V
€1,375M
- Marlin Heritage Europe III
€1,000M



**In conversation with
Adam Prinselaar**

**Exit & Financing
Lead, Monterro**

Monterro had a very successful closing to Fund V and Fund G2 in 2025. What are some of the key features that helped you succeed in a difficult fundraising environment?

I think there are 5 key success factors that have underpinned the success that we have had:

1. Historical fund performance and track record with several Monterro funds among the top decile in its vintage;
2. Focus on operational, rather than financial, value creation with the majority of our ~70 FTEs having a software background –which really sets us apart from most other funds;
3. Deep sector specialism in B2B software rather than a generalist / multi-industry approach to investing;
4. Outsized GP commit with +10% of the fund size, and
5. Ecosystem credibility from +45 founders & C-level executives from the Monterro portfolio investing in our funds.

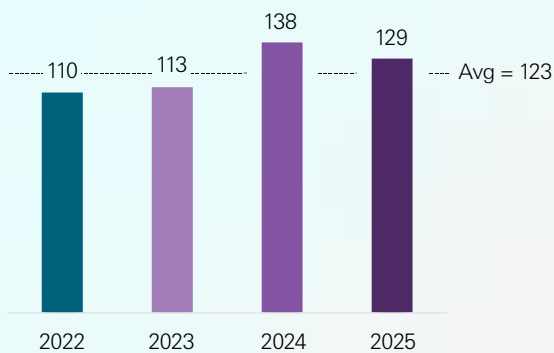
Deal Volumes

Weathering the storm

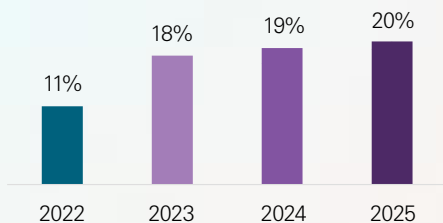
Software buyout volumes remain at historically elevated levels, despite macro-volatility

Total European Mid-Cap Software PE Buyout transactions¹

Majority PE-buyout transactions with an EV <EUR 500M (new platforms only)



% deals completed by US sponsors



Deal volumes remained robust in 2025, despite a highly volatile macro-environment which was impacted by i) higher for longer interest rates; ii) continued sluggish economic growth; iii) rising geo-political tensions; and iv) increased uncertainty surrounding the impact of AI.

Software continues to attract significant investor interest due to the durable revenues, and proven performance through multiple cycles. In a year of heightened uncertainty, software continued to be the 'flight to quality' trade in 2025.

One of the key growth drivers for the European software market has been an influx of US investors eyeing a rich seam of category-leading software companies whose valuations remain lower than in the US market.

We have also seen a continued rise in take-private transactions of European software firms by private equity managers as listed valuations have remained depressed.

"The last twelve months have been characterized by periods of unusually high uncertainty driven initially by the US import tariffs on goods and lately by the rapid developments in AI.

Lars Lunde, GRO Capital

1) Source = HSBC Innovation Banking analysis

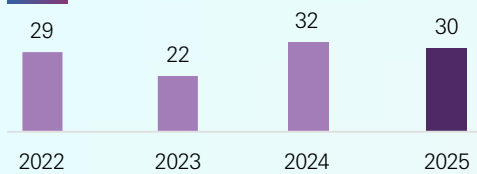
Regional summary

Strength in depth

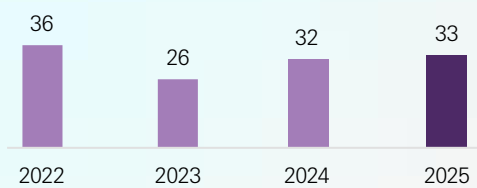
The European market has several key regional hubs, with increasing depth of software market opportunities.

Total number of European Mid-Cap Software PE Buyout transactions by region

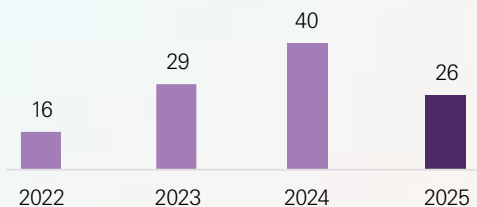
UK



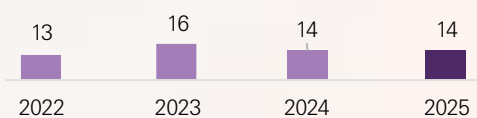
Nordics



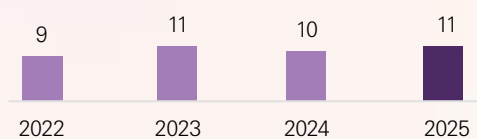
DACH



France



Benelux



The UK and the Nordics have consistently been two of the largest markets for PE-backed SaaS buyouts in Europe. Both experienced a slight decline in 2023, in line with the wider software market softening as interest rates rose. Deal volumes returned to historically high levels in 2024-25.

The DACH market saw more rapid growth in deal volumes in 2023-24, partly reflecting the more nascent cloud transition in Germany, and larger white space for SaaS companies to exploit. 2025 saw a sharp reduction in deal flow, potentially reflecting the tariff-driven slow-down in its industrial end-markets.

“We have a Nordics first approach, and our near-term priority is to widen our moat here. As part of this strategy, we have double-downed on our offices in the Nordic capitals outside of Sweden.”

Adam Prinselaar, Monterro



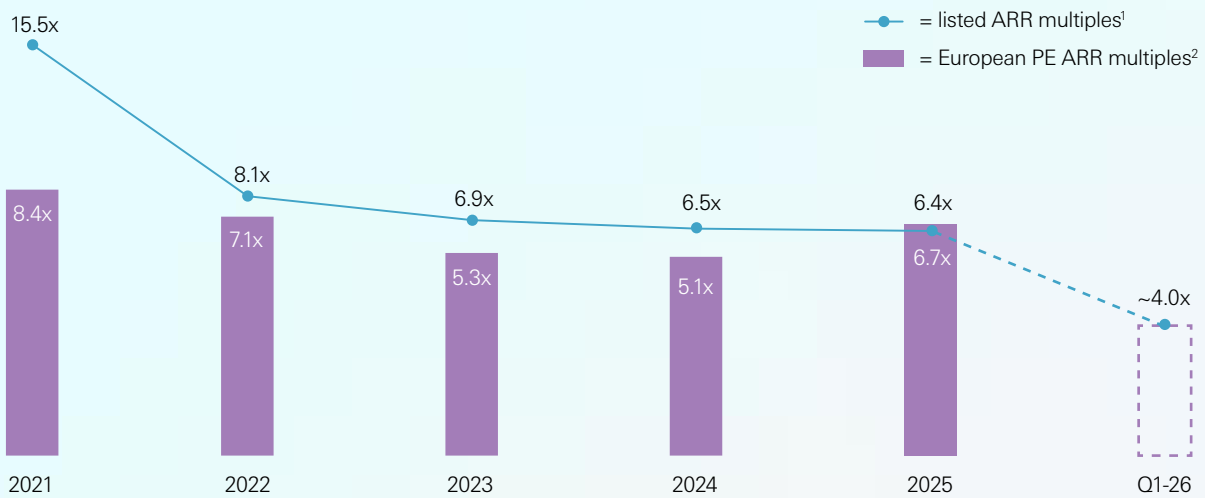
Valuations

Finding their footing

After a period of stabilisation, software valuations have fallen in Q1-26 as markets struggle to price in AI uncertainty

Illustrative EV analysis of PE-backed software deals completed in 2021-25A

Valuations of European PE-backed software transactions, and global listed software companies



European PE software multiples rebounded in 2025, driven by a 'flight to quality' amid wider macro volatility. Increasingly, M+A processes have had polarised outcomes – a failure to trade, or a premium valuation, depending on the quality of the business and its ability to demonstrate growth and profitability

Listed software valuation multiples stabilised in 2025, following several years of compression after the record peak in 2021. However, the sharp sell-off in Q1-26 saw listed valuations reduce to ~4x, before rebounding slightly in early March. Limited private deal flow in Q1-26 makes it difficult to gauge how PE valuations have responded.

"If the lower public multiples remain for an extended period of time, they will ultimately trickle down to the private market as well – not with a 1-to-1 ratio and not because the private market sees the public market as the "truth", but primarily because private investors will use more prudent exit multiples (leaning more towards profitability than ARR) in their return calculations."

Adam Prinselaar, Monterro

"Private valuations are coming down, but more slowly than in the public markets. A high growth software company that might have been 7-8x ARR is now more like 5-6x ARR in the current market."

Renaat Berckmoes, Fortino Capital

Valuations

Understanding market movements

The current shifts in valuations reflect a longer-term trend that will separate the winners and losers from AI



In conversation with
Lars Lunde

Partner,
GRO Capital

How are you viewing the current market movements?

The most recent repricing linked to AI has accelerated a transition that was already underway: investors increasingly value software companies that control proprietary data, are deeply embedded in customer workflows, and deliver mission-critical functionality.

Has this impacted GRO's strategy in any way?

This is a development GRO have been investing behind for more than a decade. In that sense the shift itself is not surprising to us. What has changed is the speed and volatility with which it has played out in public markets. The transition could arguably have happened in a more organic way, which might have created less short-term investor uncertainty, but the long-term direction was always clear.

Our strategy remains focused on advanced B2B enterprise software companies with deep product capabilities, strong domain expertise, and solutions embedded in customers' operational workflows.

These characteristics tend to create durable advantages and are increasingly important as the market becomes more selective.

At the same time, the rise of AI is accelerating changes in how software is delivered and monetized, including new pricing models and product architectures. A significant part of our current work with portfolio companies focuses on ensuring they can capture these opportunities while reaping the benefits of increased productivity through AI.

How do you see these trends affecting SaaS prospects going forwards?

AI represents both opportunity and risk, depending on the type of software business. Horizontal SaaS operating in mature, highly penetrated markets may face more disruption, as companies experiment with AI-native solutions or deploy foundation model agents deeper in their own technology stacks.

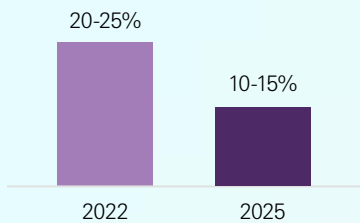
In contrast, companies operating in more specialised enterprise segments—particularly those built around domain expertise, operational data and mission-critical workflows—are often strengthened by AI rather than displaced by it. In these environments, incumbents still hold key structural advantages as long as they continue to innovate, embed AI and adapt to new product and pricing dynamics.

Operational performance

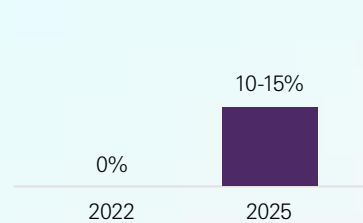
Fighting fit

Software companies are becoming leaner to generate more cashflow as investors adjust to longer sales cycles and a higher interest rate environment

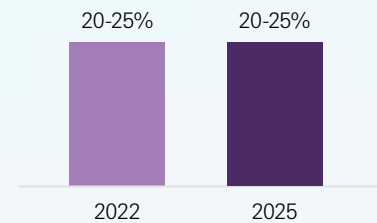
ARR growth (yoy %)



EBITDA margin¹



“Rule of...”



The rapid acceleration of software spending in 2020-2021 has now normalised, with companies cutting back on excess tools acquired during that period.

Macro-economic uncertainty (e.g. interest rate path, tariff costs, taxation levels) is also extending sales cycles as increased procurement governance is moderating new bookings

Expansion revenue has also slowed as inflation has decelerated and enterprises are more critically appraising overall software spend

Software companies have responded to the slower growth profile with a reduction in costs, especially within sales and marketing.

We are seeing material profitability now emerge across the majority of software companies, providing improved debt service coverage in a higher interest rate environment.

Profitable software companies have also seen a clear premium on exit, with several loss-making companies failing to trade over 2024-25, further incentivising owners to optimise for profitability.

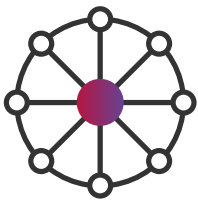
The ‘rule of’ metric which combines ARR growth and profitability has been relatively stable over the last four years at ~20%. However, during 2021-22, this was comprised entirely of ARR growth, with all available cash flow funnelled into product development and go-to-market.

In 2025, we are seeing a more balanced combination of profitable growth as the enterprise software market matures.

“The productivity gains from AI are huge. We are seeing significant efficiencies in sales and marketing, but most of all in research and development, where we believe we can make 50% savings within a year as we begin to use tools like Claude for many more tasks.”

Renaat Berckmoes, Fortino Capital

1) Calculated on a fully expensed, Cash EBITDA basis



AI impact

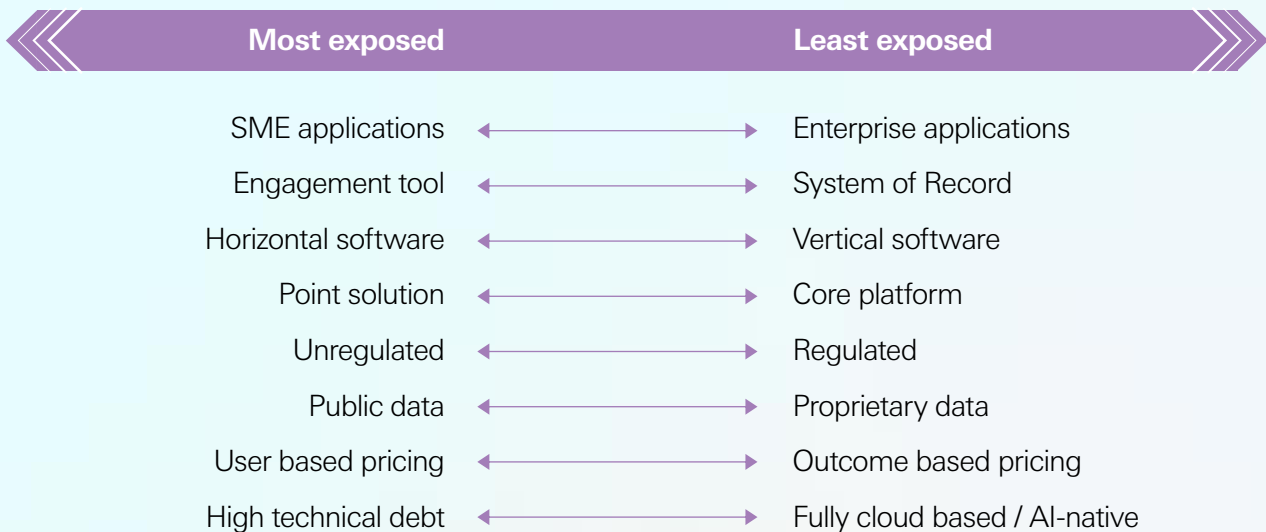
Software is not dead

Current market sentiment overstates the risks to leading software incumbents, but business models will be impacted



HSBC Innovation Banking

Analysing AI displacement risk for traditional SaaS



The impact of AI on the future of software companies has been the dominant topic of conversation for much of Q1-26. It is the general consensus of the software investors and customers we engage with that recent media headlines and market movements overstate the risks to the enterprise software sector.

While the cost of producing software code has been materially reduced by AI, the incumbency advantage of established SaaS platforms is significant. If leading software players continue to invest in AI and capitalise on the various ways it can strengthen their propositions, the incumbents are well placed to maintain their market position, due to the customer relationships, domain expertise, and track record they possess.

But some software companies are more exposed to disruption from AI than others. Highly embedded enterprise applications that underpin critical workflows and incorporate key business data and domain knowledge will continue to be the most resilient platforms. Simple horizontal point solutions may suffer market share loss and / or margin erosion as new AI-native start-ups gain traction, or larger platforms are able to profitably exploit smaller niches due to the reduced cost of development.

“In the long-run, we are convinced that deeply embedded systems-of-record with proprietary data will be clear winners of AI. Thus, we stay laser-focused on (i) identifying and nurturing such prospects, and (ii) giving our portfolio companies the hands-on support they need to lead AI adoption within their respective niches.

Adam Prinselaar, Monterro

AI impact

Survival of the fittest

Software companies will need to evolve their offering through AI to maintain their incumbency advantage



In conversation with
Renaat Berckmoes

Managing Partner,
Fortino Capital

How is Fortino responding to the developments in AI?

Fortino is taking a similar approach to the larger tech funds and systematically applying AI to all our portfolio companies. We have a central capability that helps to train portfolio companies, and support them in the development of their agentic roadmaps. We are moving our companies towards an open-source architecture, with multiple LLMs connecting to their platforms to maximise the efficiencies available through these models.

What does this mean for the SaaS pricing model?

Software will be priced differently - there will be a higher variable component. The ARR base may change – it will be moving to a mixed model, or purely usage over time. Changes to pricing models towards usage-based (tokens) is already happening. Currently it is only with the early adopters, but it is a matter of months, not years before things changes within our portfolio.

What does that mean for software economics?

Gross margins will go down given the cost of the LLMs, but EBITDA margins should go up as we are seeing huge productivity gains. As you manage processes agentially, you can materially reduce the active headcount

within the organisation. The LLMs are infinitely scalable. We are seeing significant efficiencies within sales and marketing, but the greatest opportunity exists within R+D, as we accelerate our use of tools like Claude Code.

What is the USP of the software provider when working with the LLMs?

The USP is no longer in their code. Code can be recreated very quickly. That world is gone. The value is in the knowledge you have about your clients, how you understand their processes, and whether you can build AI-led solutions for them that will improve their processes.

What are the keys to succeeding in this new environment?

You need to train people in prompting. If you don't do that, you might double the output, but you lose half of what you gain by inefficient inputs. The key is the quality of the prompts. When considering potential software targets, a key thing to assess is how much AI has been adopted by the company already. How skilled are the staff in using the tools? How much of the workflow is already being done agentially, as this is what will make the proposition relevant for their client base. If you don't move fast, you might not survive.

Illustrative AI-led transition of SaaS economics

Pricing Model:	# seats	Pricing Model:	Hybrid
Recurring Revenue:	80-100%	Recurring Revenue:	40-60%
Gross Margin:	70-90%	Gross Margin:	50-70%
EBITDA Margin:	10-30%	EBITDA Margin:	20-40%



Outlook for 2026

Down but not out

The 2026 market reflects continued strong investor demand for quality software names, but processes will take longer, with elevated execution risk

2026 Outlook

2026 started with significant uncertainty as the private market recalibrates to reflect the sell-off in public markets. There has been a slowdown in auction processes as vendors seek to refine the 'AI story' for bidders, and processes are taking longer as buyers and lenders undertake more diligence on the durability of revenue models.

Speaking to investors, we anticipate the specialist software-focused managers will continue transacting at pace through 2026. These private equity funds have deep networks in specific verticals and are less reliant on bank-led processes. Many have raised large, recent funds, and have been developing a clear point of view on AI over the last 24-36 months and are unfazed by the current market turbulence. Any pull-back in wider equity appetite for high quality software names will likely be seen as a buying opportunity.

What seems clear is that AI will only accelerate the "flight to quality" trend of recent years. AI is an opportunity for the defensive platforms that can use it as a tool to enhance solutions for their customers, but more basic software companies with a limited value proposition may see their market position quickly eroded. As consensus builds around 'what good likes' for SaaS in the AI-era, PE managers will gravitate to the same high-quality opportunities, and weaker businesses may fail to trade. We have already seen some of the stronger category-leaders command >10x ARR valuations in 2026, and expect this to continue.

"We expect banker-led deal activity to remain muted, but our strategy has always been built around proprietary sourcing and long-term relationships rather than auction processes."

Lars Lunde, GRO Capital

"We expect lower activity in H1-26 as valuations are lower, and people will want to see if this is a structural shift of the market or a temporary phenomenon. If the Middle East conflict is contained there will likely be more activity in H2. We will be opportunistic in this market, and are still pursuing acquisitions."

Renaat Berckmoes, Fortino Capital

"The IPO market will be less attractive as an exit path for software companies in 2026 and the private market will likely dominate in terms of number of software transactions this year as well.

There will also be a new wave of public-to-private transactions if these valuation levels remain, since the private market is more nuanced in its valuation of software companies and distinguishes between AI winners and AI losers to a greater extent"

Adam Prinselaar, Monterro

HSBC Innovation Banking remains a key partner to leading software companies and their private equity investors




Snr. ARR Credit Facilities to




Arranger & Agent




Jan 2026




Snr. ARR Credit Facilities to



Mandated Lead Arranger




Dec 2025




Snr. ARR Credit Facilities to




Mandated Lead Arranger




Oct 2025



Snr. ARR Credit Facilities to



Senior Arranger



Oct 2025



Snr. ARR Credit Facilities to



Joint Arranger



Sep 2025



Snr. ARR Credit Facilities to



Mandated Lead Arranger



Sep 2025



Snr. ARR Credit Facilities to



Mandated Lead Arranger



Jun 2025



Snr. ARR Credit Facilities to



Mandated Lead Arranger & Agent



Feb 2025



Snr. ARR Credit Facilities to



Mandated Lead Arranger



Jan 2025

Sponsor Finance team

A dedicated team of experienced sector experts



Tom Dearden

Managing Director,
Sponsor Finance

tom.dearden@hsbc.com
+44 7397 560213



Suraj Mistry

Director,
Sponsor Finance

suraj.mistry@hsbc.com
+44 7921 821108



Andy De Vaux

Managing Director,
Portfolio Management

andy.de.vaux@hsbc.com
+44 7921 820764

Thank you

