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OPINION

Market Insight

The investment case for European software companies is strengthening

The region is very different from Silicon Valley but there is a growing ecosystem of durable companies

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Many global software investors are still treating Europe as an afterthought to their core strategies. I believe this represents a significant misallocation of investment attention.

The numbers reveal a growing ecosystem that has been hiding in plain sight: in 2024 alone, software spending in Europe grew 11 per cent, according to Gartner research. The firm expects this to slow to just under 9 per cent this year but the increase still far outstrips the EU's economic growth.

And much of this software is provided by local companies. Europe hosts nearly 13,000 software companies that generate more than $10mn in annual revenue, with almost 4,000 exceeding $50mn, according to Crunchbase data.

Many of these European software companies are revenue-focused, scaling-up businesses that learnt to grow sustainably under different constraints from their Silicon Valley counterparts.

This isn't to deny very real challenges that have long hindered European innovation: regulatory red tape remains, productivity lags behind and risk appetite is, by some measures, relatively modest. But the obstacles often obscure an opportunity that — for full disclosure — is being targeted by one of my firm's funds.

What's driving Europe's software development? Three converging forces are creating significant tailwinds.

First, the great cloud migration is picking up steam: 68 per cent of European organisations still run less than half their workloads in the cloud, McKinsey estimates. Take Germany, for example, where cloud adoption is rapidly increasing — 46.5 per cent of businesses currently use the technology, with an additional 11.1 per cent planning to integrate it, according to Inkwood research. Shifts of this magnitude are expected to usher in tens of billions in software spending, and magnify the visible productivity gains across the economy.

Second, geopolitical tensions are accelerating demand for greater technological sovereignty, from cloud requirements to data localisation mandates to preferences for local support and partnerships. European companies increasingly favour regional software providers that can navigate local regulations, provide in-country data hosting and offer proximity for critical business applications.

Third, the funding landscape is transforming. While European software has attracted significant early stage venture capital investment over the past decade, the buyout world has often overlooked the region's maturing companies. Its software companies spent decades building robust businesses under constraint, learning to be profitable earlier and to focus on sustainable growth rather than pursuing scale at any cost. Now they need capital to accelerate organic growth and facilitate mergers and acquisitions.

It is very far from the investing environment of Silicon Valley. European software companies operate in different regulatory environments, serve customers with varying procurement cycles and have built business models optimised for profitability over rapid expansion. These aren't inferior characteristics — they're individual value creation levers that demand specialised approaches.

Consider the regulatory landscape: critics point to compliance costs from frameworks such as the EU's new act to regulate artificial intelligence, but regulation creates competitive advantages for companies that master complex requirements early. If similar rules spread globally, European businesses practised in navigating regulatory complexity should have significant head starts in new markets.

The real test isn't whether Europe can replicate Silicon Valley's culture of rapid iteration and risk-taking. It's whether investors can recognise that different innovation models benefit from different capital strategies — and deploy resources accordingly. European software companies may move more deliberately than many Silicon Valley start-ups, but they also often build more durable businesses with stronger unit economics and clearer paths to sustained profitability.

With interest rates stabilising and so-called "dry powder" — committed capital to private equity funds — seeking deployment, European software offers an opportunity for what institutional investors need: profitable, growing companies with proven business models and clear scaling paths. For global software investors, Europe isn't a nice-to-have diversification play anymore. It's a must-have growth engine.

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