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Garrett Hinds
Senior Research Analyst,
Private Equity
garrett.hinds@pitchbook.com

pbinstitutionalresearch@pitchbook.com

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Private Equity's Exposure to the Software Reckoning

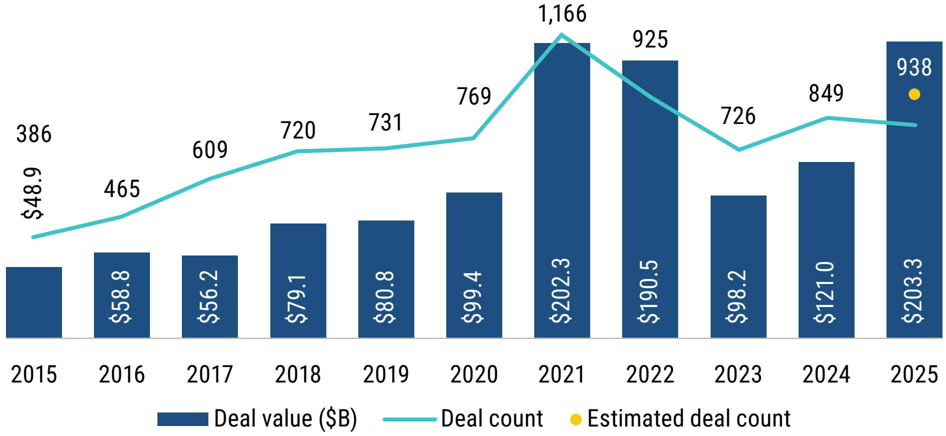
PitchBook is a Morningstar company providing the most comprehensive, most accurate, and hard-to-find data for professionals doing business in the private markets.

Key takeaways

- **Private equity exposure to software is elevated:** Software represented around 18% of US PE deal value in 2025, increasing the asset class's sensitivity to the current public valuation reset.
- **Public software multiples have compressed:** Multiples are down more than one standard deviation from their eight-year average, driven by AI disruption.
- **Structural frictions limit the pace of wholesale AI-driven displacement:** Enterprise security, compliance, switching costs, and user retraining suggest evolution rather than immediate obsolescence for many SaaS businesses.
- **Periods of relative underperformance in technology-focused PE have historically created attractive deployment windows:** This dynamic is particularly relevant when valuation compression outpaces fundamental deterioration.

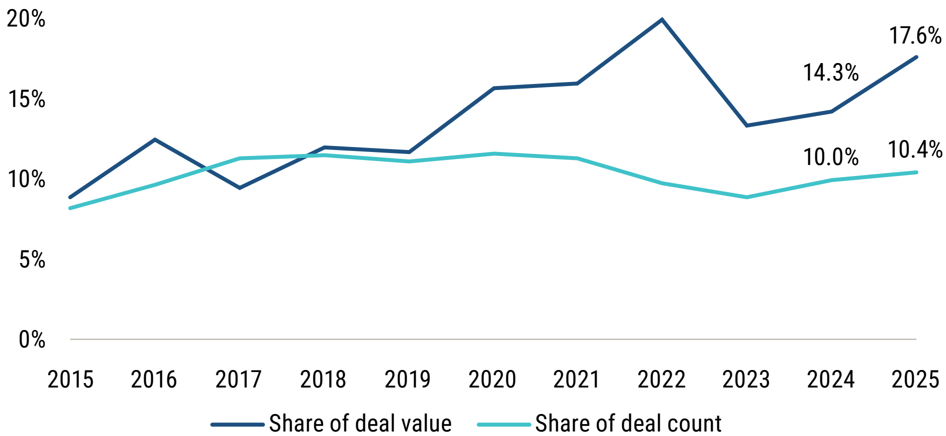
Private equity's exposure to the software reckoning

Software PE deal activity



Source: PitchBook • Geography: US • As of December 31, 2025

Software PE deal activity as a share of all PE deal activity



Source: PitchBook • Geography: US • As of December 31, 2025

We examined US private equity's exposure to the material reset underway in public software valuations. Software has become one of the core sectors within US buyouts. Over the past decade, it has represented approximately 14% of total PE deal value and 11% of total PE deal count. In 2025, that exposure increased meaningfully, with software accounting for roughly 18% of total deal value, while its share of deal count stayed flat.

In other words, at the very moment that public valuations are resetting, private equity's capital concentration in software is elevated. Conversations with industry participants make clear that both AI-driven opportunity—through greater efficiency and enhanced product value—and AI-related disruption risk have been central to underwriting discussions over the past two years. What feels different now is the perceived pace and magnitude of change. Technological progress has appeared faster than many anticipated, and the disruption risk seems more material than previously expected. That uncertainty has contributed to a noticeably more cautious tone among investors.

Yet focusing only on disruption risk overlooks the structural strengths embedded in many software businesses. A software company is more than its code. Free, open-source alternatives have long existed and, in many cases, offer comparable functionality. OpenOffice is one example of a free alternative to Microsoft Office. Still, enterprise and government adoption remains limited, and not just because of features. Commercial software provides integrated support, security, compliance frameworks, uptime guarantees, and accountability that large organizations depend on.

Incumbent platforms also benefit from deep organizational integration. Users are trained on and efficient within existing systems. Migrating to a new platform, whether open-source or AI-native, requires retraining employees, converting historical data, and rebuilding embedded workflows. Databases, custom configurations, and business logic create meaningful switching costs. Replacing core systems while maintaining business continuity is complex and risky.

With many public software names trading near five-year lows, markets appear to be pricing in an aggressive disruption scenario. For private equity investors, this environment may represent opportunity rather than existential threat. Firms willing to underwrite durable franchises and integrate AI into existing platforms may drive a new phase of growth. As PitchBook analysts argue in SaaS Is Dead, Long Live SaS, the model may be evolving rather than disappearing.

Public software valuation reset

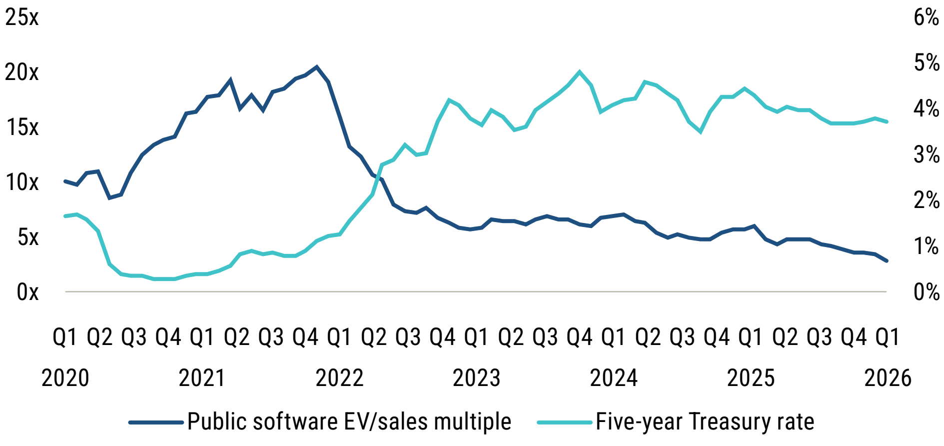
For much of the past decade, software was viewed as the ideal private equity asset. Recurring revenue, pricing power, approximately 70% gross margins, and the potential for 30% operating margins at scale created a compelling financial profile. The capital-light model and ability to support leverage made software particularly attractive in a low-interest-rate environment.

Software valuations surged in 2020 and 2021 amid aggressive monetary stimulus and rising inflation. Many investors came to view the sector as structurally resilient, even as a potential inflation hedge. Empirically, valuations displayed a clear inverse relationship with US five-year Treasury rates. As rates declined, multiples expanded; when rates rose, valuations compressed. The framework appeared stable, and many investments made in 2024 and 2025 likely incorporated the expectation that future rate cuts would support renewed multiple expansion.

That relationship has since broken down. Despite rates moving modestly lower, public software multiples recently fell to more than one standard deviation (SD) below their eight-year average. AI disruption risk is clearly the primary driver of the recent reset. The open question is how much of a discount is appropriate to reflect AI-driven disruption risk.

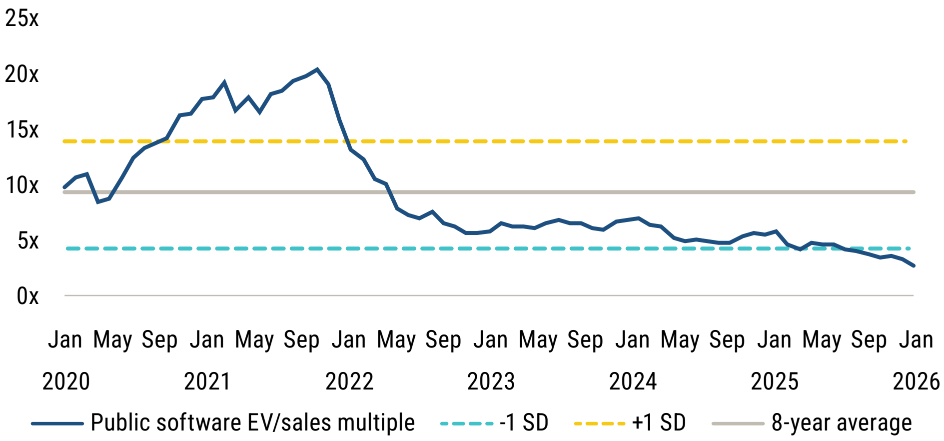
Amid this debate, it is important to recognize the psychological dimension. Investors in 2024 and 2025 were still anchoring expectations to the extraordinary conditions of 2020 and 2021. Anchoring is a well-documented cognitive bias: When exposed to extreme reference points, people tend to adjust too slowly as conditions normalize.

Trailing 12-month (TTM) quarterly public software enterprise value (EV)/ sales multiple and five-year Treasury rate (RHS)



Sources: PitchBook, Federal Reserve • Geography: US • As of February 11, 2026

TTM public software EV/sales multiple



Source: PitchBook • Geography: US • As of February 11, 2026

Peak-era valuations became an implicit benchmark, making recent multiples feel like an attractive buying opportunity with the prospect of further rate cuts in the years ahead.

Net net, the risks in IT-focused private equity reflect uncertainty around AI and its implications for the software-as-a-service (SaaS) model itself. Investors are questioning whether traditional application layers can be commoditized, whether AI-native platforms will reshape established workflows, and whether pricing power will erode as functionality migrates into foundation models. For the first time in more than a decade, the central debate is not about growth rates, but about structural durability.

History, however, suggests caution before declaring disruption fatal. Markets often overestimate the near-term impact of transformative technologies. Autonomous driving was once expected to cripple incumbent automakers and ride-hailing platforms. Instead, both industries continue to operate, and many incumbents are investing in the same technology that investors once presumed would displace them. Technological shifts rarely eliminate established players overnight. More often, they reshape competition and reward adaptation.

In software, two barriers deserve attention: enterprise security and user retraining. Large enterprises, particularly in regulated industries, can take quarters or even a year to approve new software. Security reviews, data governance, and integration testing create institutional friction.

AI may increase that friction. Leaders must evaluate not only functionality but also model risk, data exposure, and embedded vulnerabilities. In environments where a single breach carries material financial and reputational cost, caution is rational.

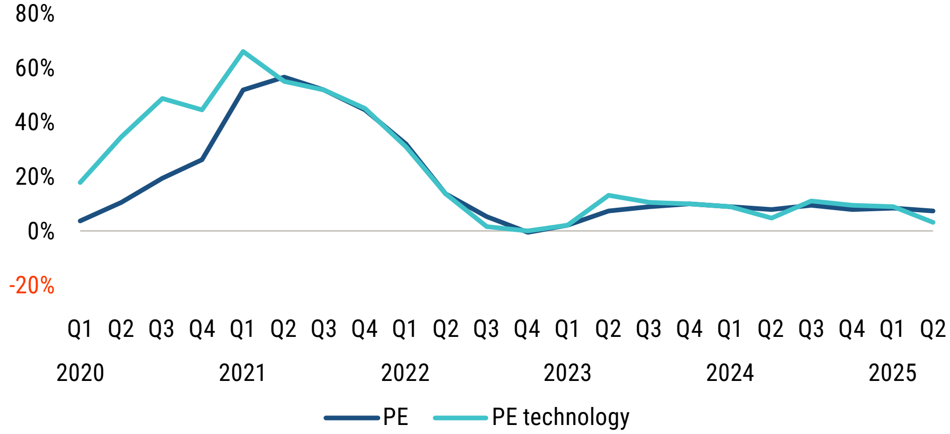
There is also a behavioral constraint. AI tools are improving rapidly, but AI-generated output often reflects the statistical center of its training data. It can accelerate workflows, yet it does not replace leading-edge expertise. Users tend to remain with the tools they know, especially when productivity depends on familiarity.

Consider Microsoft Office. Free alternatives with near feature parity, such as OpenOffice, have existed for years. Yet enterprises remain anchored to the incumbent ecosystem: file formats, integrations, macros, workflows, and training. Switching costs are not merely financial. They introduce operational risk that few organizations accept lightly. The practical test is simple: Attempt to move your organization to OpenOffice.

The idea that AI will instantly displace entire categories of software assumes away these frictions. Change will likely occur through augmentation and gradual integration rather than wholesale replacement. For now, compliance requirements, organizational inertia, and human habit remain stabilizing forces.

IT-focused PE performance

PE versus technology-focused PE quarterly rolling one-year IRR



Source: PitchBook • Geography: US • As of June 30, 2025

Technology-focused private equity firms delivered exceptional performance from 2010 to 2020, outperforming diversified peers by more than 700 basis points over this period. That era was driven by multiple expansion, durable growth, and scalable software economics.

The cycle has turned. After the sharp valuation reset in 2022 and a brief rebound in 2023, rolling one-year IRRs show technology-focused PE firms lagging diversified PE firms again in 2025. Sentiment and narrative risk around AI have weighed on marks.

Historically, periods of relative underperformance have created compelling deployment windows, particularly when driven more by valuation compression than by fundamental collapse. If current fears around AI disruption prove overstated, today's environment could represent one of the more attractive entry points in years. The differentiator will be strategy. Not all software businesses are equally at risk of disruption, and not all managers are equally positioned to underwrite an AI-integrated future.

Takeaways from the public PE firms' recent earnings reports

Recent earnings calls from Blackstone, Apollo Global Management, Ares Management, Blue Owl Capital, TPG, The Carlyle Group, and KKR shared a consistent tone: defensive but opportunistic. Management teams framed the software reset primarily as a sentiment and a multiple-compression event rather than evidence of imminent fundamental impairment.

On the credit side, firms emphasized structural insulation. First-lien positioning, conservative attachment points, equity cushions, and limited reliance on lending based on annual recurring revenue were highlighted as buffers. Several executives characterized the market reaction as emotional or extreme, distinguishing mark-to-market volatility from realized losses.

At the same time, there was broad acknowledgment that AI is a genuine disruptor and that software is bifurcating. Systems of record, infrastructure software, cybersecurity, and companies with proprietary data were cited as relative winners. Thin-moat application software underwritten at peak valuations faces more pressure. Vintage risk, rather than AI alone, was frequently referenced as the primary source of stress.

The prevailing view was that a reset creates opportunity. Capital will be deployed selectively, underwriting standards will tighten, and AI will be treated as both a risk factor and an operational lever rather than a thesis-ending event.

What gets software out of its historic valuation reset?

Markets are volatile. Consensus builds, crowding follows, and reversals overshoot. Today, sentiment has driven public software valuations to multiyear lows.

Dislocations of this magnitude rarely persist indefinitely. Over time, fundamentals reassert themselves. Durable franchises with real cash flow and embedded customer relationships begin to look less like falling knives and more like mispriced assets.

Not every company will recover. Some business models will prove structurally impaired. But those that demonstrate durability will likely catalyze the turn through buybacks, take-privates, and strategic consolidation.

Severe resets are uncomfortable in real time. In hindsight, they are often remembered as the moments when long-term investors looked past the volatility and found rare opportunities.

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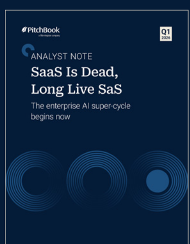
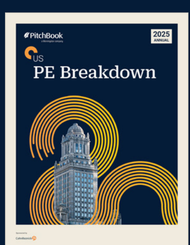
Additional research:



Q1 2026 Analyst Note: SaaS Is Dead, Long Live SaS

Download the report here



2025 Annual US PE Breakdown

Download the report here

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Nizar Tarhuni
Executive Vice President of Research and Market Intelligence

Marina Lukatsky
Senior Director, Global Head of Research, Credit and US Private Equity

Report created by:

Garrett Hinds
Senior Research Analyst, Private Equity

Harrison Waldock
Senior Data Analyst

Adriana Hansen
Graphic Designer

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