



PRIVATE EQUITY—GLOBAL ETA/BUYOUT MARKET REPORT

From Global Dynamics To Regional Opportunities: A Strategic View on ETA

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Executive Summary

Over the past decade, the global Private Equity (PE) buyout market has evolved into a more mature, data-driven, and operationally intensive asset class. As of 2024, total global buyout fundraising raised \$401 billion¹, with over \$2.5 trillion in dry powder waiting to be deployed.² This study analyzes key developments in the buyout landscape, examining Fundraising patterns, exit trends, and regional shifts, and devotes special attention to the accelerating role of Entrepreneurship Through Acquisition (ETA) as a strategic response to SME succession needs.

While traditional buyout models remain dominant, the market is witnessing a growing bifurcation: on the one hand, mega-funds pursuing scale through platform consolidation and financial engineering; on the other hand, leaner, operator-led models focusing on long-term stewardship and operational transformation. The ETA space—once niche—is now gaining recognition as an institutional-grade strategy, driven by demographic trends, structural succession gaps, and improved access to capital.

This report also tracks structural and macroeconomic dynamics influencing the industry:

- Rising interest rates and their impact on leveraged deal financing
- Increasing regulatory scrutiny on transparency and fund governance (e.g., SEC private fund rule, AIFMD II)
- The strategic repositioning of LPs towards co-investments and bespoke mandates
- The role of ESG and long-term value creation as decisive capital allocation filters

This document was created by Novastone Partners AG, the investment arm of Novastone Capital Advisors (NCA). Since both of our entities operate together, the analysis will hereafter refer to them simply as Novastone. Importantly, the study evaluates the performance, structure, and competitive advantage of ETA platforms such as Novastone. With over 25 transactions completed across Europe and North America, Novastone's model exemplifies how mid-career professionals, backed by institutional capital, can become effective stewards of SME growth. Novastone's substantial experience provides a solid foundation and enables the insights in this publication.

Overall, this report presents a structured and evidence-based overview of PE buyouts, contrasts traditional and ETA-based approaches, and outlines the strategic considerations for LPs, operators, and policy-makers navigating the next phase of private equity evolution. It is about the global PE buyout landscape over the past decade, with an emphasis on ETA platforms. It evaluates the evolution of deal flow, investor appetite, valuation trends, and the growing strategic importance of ETA programs in addressing succession challenges in SMEs across Europe and North America. The report further highlights the structural advantages of the operator-led buyout model, drawing on Novastone's track record and proprietary sourcing ecosystem.

¹ Bain & Company (2025), *Global Private Equity Report 2025*.

² Thomas & Gupta for S&P Global (2025), *Private equity-backed megadeals jumped higher in 2024*

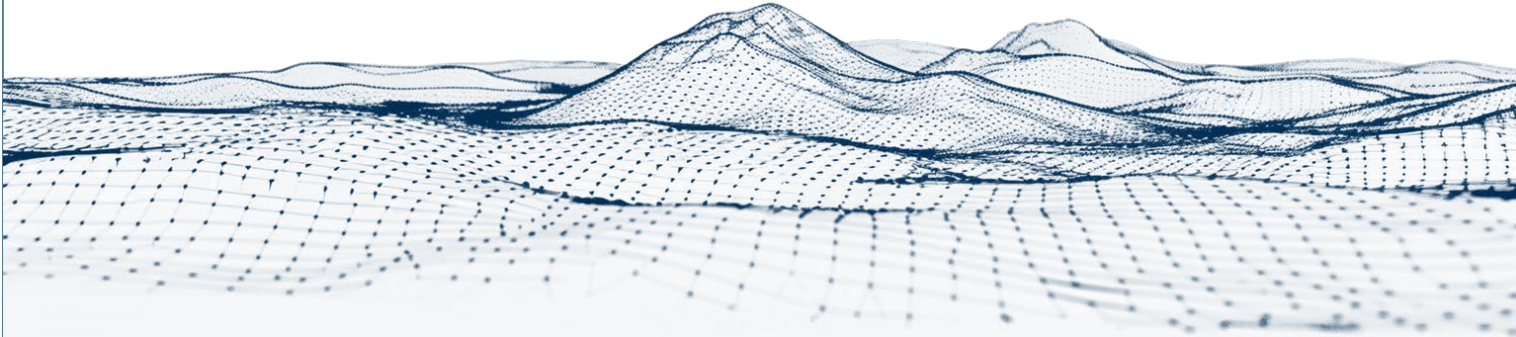


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1. Methodology and Data Sources

This report synthesizes qualitative and quantitative inputs from institutional Databases, Academic Research, Regulatory Insights, and Primary Fieldwork.

KEY DATA SOURCES INCLUDE

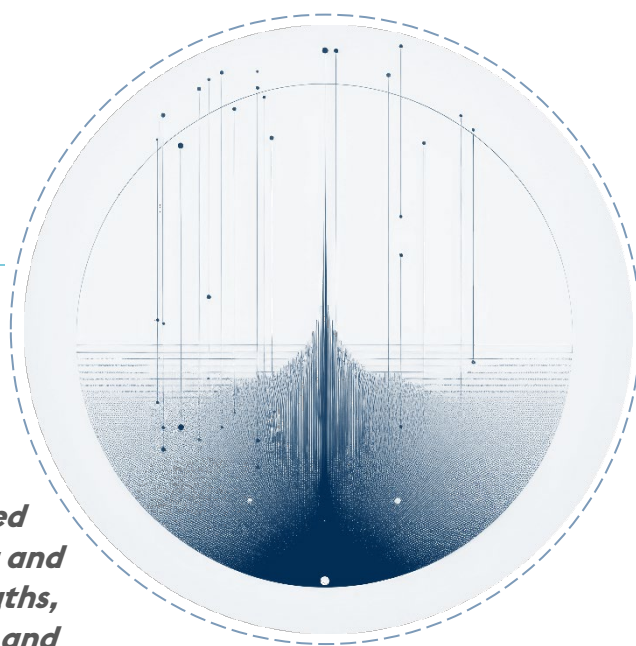
- **Primary Data**
Novastone data on acquisition, funnel, and portfolio of the established funds.
- **Academic and Institutional Research**
Publicly available reports from renowned strategic institutions and players, such as Bain & Company or Harvard.
- **Regulatory Frameworks & Structuring**
Regulatory standards with international validity.
- **Conferences & Industry Platforms**
Expertise gained through long-term dialogue and collaboration (e.g., SuperReturn Berlin or Private Markets Summit London)

Additionally, **structured expert interviews with 12 fund managers, ETA operators, and limited partners were conducted in Q4 2024 and Q1 2025.** Interview topics covered investor appetite, fund structuring trends, cross-border ETA dynamics, and buyout risk assessment. **Event-based insights from PE Insights Conferences throughout Europe, SuperReturn Berlin, and Private Markets Summit London** further validated trends with live deal commentary and practitioner feedback.

*The report follows international academic citation standards.
All sources for this report are listed to the best of our knowledge in the list of references.
Beyond these sources, the report is based on the expert knowledge of Novastone.*

2. Market overview and Macro analysis

This chapter explores the current state and key trends of the global private equity buyout market. The market is shifting toward greater selectivity and operational focus. Growth is driven by resilient sectors such as healthcare, technology, and business services. Mid-market and operator-led strategies are gaining importance. North America and Europe show distinct deal structures, sector strengths, and regulatory settings. Fundraising, exit activity, and capital concentration indicate a market shaped by value creation, ESG priorities, and disciplined capital use



Global Private Equity Small/Midcap Buyout Market Overview

Over the past decade, the global private equity buyout market has demonstrated both resilience and adaptability. The cumulative buyout deal value has increased to over \$602 billion annually³, driven by favorable macroeconomic conditions, sectoral tailwinds in technology and healthcare, and the rise of specialized mid-market strategies. Despite cyclical slowdowns in 2020 (COVID-19) and 2022 (monetary tightening), the asset class has maintained institutional investor confidence, with dry powder consistently exceeding \$2.5 trillion since 2021.

Fundraising Dynamics

Global buyout fundraising reached around \$387 billion in 2021⁴, one of the strongest years on record, and after moderating in 2022 and 2023, recovered to about \$401 billion in 2024⁵. Notably, the number of active GPs declined slightly, while fund sizes increased—signaling consolidation and a preference among LPs for established platforms.

Sector Trends and Resilience

- **Healthcare:** Deal activity in healthcare services and MedTech has grown steadily due to demographic trends and recession resistance
- **Technology:** SaaS platforms, digital infrastructure, and IT services continue to command premium valuations, though pricing discipline returned post-2022⁶
- **Business Services:** Accounting, HR outsourcing, and compliance-related service providers have proven attractive for platform-building strategies

³ Bain & Company (2025). Global Private Equity Report 2025

⁴ Bain & Company (2022). Global Private Equity Report 2022.

⁵ Bain & Company (2025). Global Private Equity Report 2025

⁶ Windsor Drake (2025). SaaS Valuation Multiples 2025.

Global Allocation and Deal Profiles

Regionally, in Q1 2025, North America continues to dominate with over 60% of global deal value. Europe contributes approximately 25%, with Asia-Pacific and Latin America comprising the remainder.⁷ We observe that large-cap deals (>\$1B) have become less prevalent due to financing constraints, while mid-market activity (<\$500M Equity Value) has surged. Average holding periods have increased slightly from 4.2 years (2021-2022) to 5.0 years (2023-2024)⁸, reflecting a stronger emphasis on operational improvement.

Exit Environment

Exit volumes have fluctuated, with IPOs declining sharply since 2021⁹, while secondary buyouts

and strategic sales remain the main exit routes. Median exit multiples normalized after the 2021 peak¹⁰, and the dry IPO market has led GPs to use NAV-based continuation vehicles and partial secondary sales.

Overall, the global PE buyout market is shifting toward more selective, operationally driven value creation—emphasizing long-term ownership and sector specialization. Despite macro uncertainty and tighter credit, fundraising remained robust with dry powder above \$2.5 trillion. Buyouts account for ~42% of total U.S. PE AUM as of early 2025.¹¹

The Asian PE market shows strong growth, backed by local capital and sovereign funds, with greater exposure to emerging industries and a fragmented mid-market. This report focuses on Europe and North America, Novastone's core expertise.

Regional Market Comparison: North America vs Europe



North America remains the largest PE buyout market, with over 60% of global deal volume and about \$280 billion in Q1 2025 activity¹², driven by strong institutions, innovation sectors, and a deep GP base. Europe accounts for ~25% of global deal value, over \$100 billion in Q1 2025.¹³ Though smaller, Europe offers high fragmentation, regulatory sophistication, and cross-border opportunities across core markets such as Germany, France, the UK, the Nordics, and Southern Europe.

Historical Trends

In North America, buyout volumes grew strongly over the past decade, peaking in 2021, with a CAGR of ~4–5% from 2015–2024¹⁴. After the 2020 slowdown, activity rebounded quickly, supported by add-ons and resilient sectors. European buyouts have also expanded, driven by small-cap deals.¹⁵ A strong post-COVID recovery in industrial tech, business services, and healthcare was followed by a temporary slowdown in 2022 from inflation and rising rates.

⁷ KPMG (2025). *Pulse of Private Equity Q1'25*.

⁸ Nussbaum et al. (2025) for Harvard Law. *Private Equity – 2024 Review and 2025 Outlook*.

⁹ Heal & Livingston (2025) for Financial Times. *Private equity firms overhaul exit strategies as IPO market slams shut*.

¹⁰ Bain & Company (2022). *Global Private Equity Report 2022*.

¹¹ Committee on Capital Markets Regulation (2025). *Expanding Opportunities for U.S. Investors and Retirees: Private Markets*.

¹² KPMG (2025). *Pulse of Private Equity Q1'25*.

¹³ KPMG (2025). *Pulse of Private Equity Q1'25*.

¹⁴ Capstone Partners (2025). *Middle Market M&A Valuations Index*.

¹⁵ Kelly & Heston for Stanford GSB (2024). *Search Fund Study 2024*.



Market Specifics

In the U.S. market, we see a characteristic dual structure: a concentrated upper tier of mega-cap funds managing \$10B+ vehicles, and a fragmented lower mid-market (\$10–150M EV) where ETA strategies are deployed. The lower mid-market accounts for a substantial share of around 40% of all deal activity,¹⁶ but typically attracts less capital, making it a strategic sweet spot for search funds and operator-led platforms.

In North America, activity clusters around sectors: healthcare and life sciences (Massachusetts, California), industrial tech and aerospace (Midwest, Pacific Northwest), and professional and financial services (New York, Chicago), with additional momentum in states such as Texas, Florida, and Colorado.

Europe, by contrast, is shaped by country-specific dynamics: Germany (succession-driven mid-market), UK (financial hub despite Brexit), France (PE ecosystem with SME digital support), Nordics (leaders in sustainability and digitalization), and Southern Europe (fragmented SMEs and succession gaps, attractive for ETA).

Performance Benchmarks

North American mid-market buyout funds

(2000–2020 vintages) delivered a median net IRR of ~15.5%, about 529 bps above international peers, with top-tier funds reaching up to 37%.¹⁷ Mid-market funds outperformed large-cap peers (22% vs. 19%), and operator-led ETA deals show comparable or superior returns, though over longer horizons.¹⁸

European buyout funds achieved an average net IRR of ~14.9% since inception, well above the MSCI Europe benchmark of 6.2%.¹⁹ Median EV/EBITDA multiples rebounded from 10.1x in 2023 to ~12.2x in 2024.²⁰

ETA Penetration

In the U.S., ETA transactions surged in 2021 before normalizing but remain above long-term averages.²¹ Strong academic ecosystems (Stanford, Harvard, Booth) and evolving LP bases—family offices, PE funds-of-funds, and endowments—continue to support operators. ETA platforms now increasingly compete with traditional PE funds, often winning deals through cultural alignment and stewardship narratives.

Europe is at an earlier stage but growing rapidly, with institutional platforms such as Novastone (Switzerland). DACH and Southern Europe are focal points due to acute SME succession gaps.



¹⁶ MSCI Burgiss (2024) in Bole for Future Standard (2025). North American Private Equity Outperforms the Rest of the World.

¹⁷ Rothschild & Co (2022). Why the US middle market is attractive for Private Equity Investors.

¹⁸ KPMG (2025). Pulse of Private Equity Q1'25.

¹⁹ Bain & Company (2025). Global Private Equity Report 2025.

²⁰ Invest Europe (2024). European private capital long-term returns maintain wide lead over public markets, as 2024 performance rebounds.

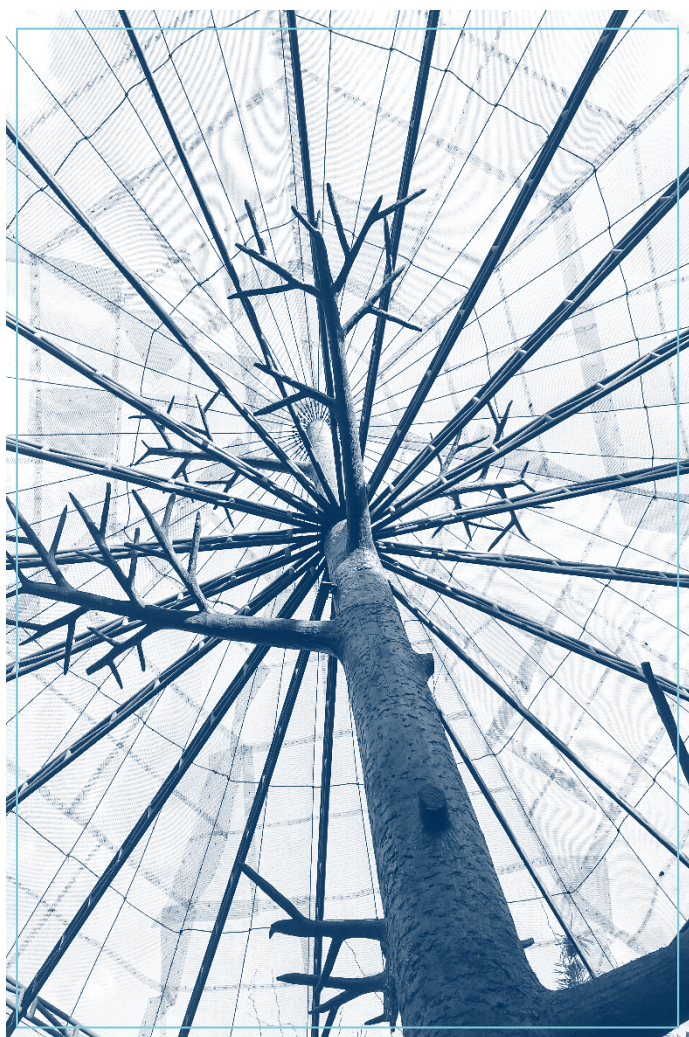
²¹ Valuation Research Corporation (2025). European Private Market Update: Q2 2025.

Regulatory and Structural Drivers

In the U.S., PE remains attractive due to favorable Delaware LP structures, SEC reforms improving GP–LP transparency (Private Fund Rule), and a broad debt financing base, despite tighter oversight of leveraged lending.

In Europe, harmonization via AIFMD, SFDR, and MiFID II has increased transparency and ESG alignment. Luxembourg RAIFs and Irish ILPs (Irish Investment Limited Partnerships) have emerged as preferred vehicles for pan-European and global investors.

In sum, North America offers unmatched depth and innovation, with over 60% of global market share and \$280 billion in Q1 2025 buyouts. Mid-market transactions are growing, often succession-driven, and mid-cap funds have outperformed large-cap peers. Europe, while smaller in its market share, provides resilient opportunities in fragmented mid-markets, supported by hubs such as Germany, France, the Nordics, and the UK. Growing ETA adoption, demographic succession gaps, and EU regulatory harmonization (SFDR, AIFMD II) are expected to narrow the structural and performance gap with North America.



General Buyout Market Dynamics and Trends

The private equity buyout market continues to evolve under the influence of macroeconomic, structural, and behavioral forces.

A synthesis of investor sentiment, fund deployment behavior, and portfolio performance reveals the following dynamics:

Operational Value Creation as a Core Strategy

We observe that PE sponsors are increasingly prioritizing operational improvement over leverage-based financial engineering. Value creation playbooks now include digitization, ESG transformation, commercial excellence, and talent enhancement. Operational partners are embedded earlier in the deal lifecycle, and value creation plans (VCPs) are becoming

Rise of Co-Investment and Custom Mandates

Limited partners are increasingly seeking co-investments to reduce fees and enhance exposure to preferred assets. Co-investment allocations grew²² with large pension funds and sovereign wealth funds developing internal PE teams. This trend has pressured GPs to offer differentiated deal flow and accommodate LPs' capital structuring needs.

Fundraising Compression and GP-LP Alignment

Fundraising cycles have lengthened slightly due to LP budget constraints and rising denominator effects. LPs favor existing relationships and experienced GPs. First-time fund launches are challenged, while continuation vehicles and NAV-based financing are being adopted to provide liquidity options without full exits.

ESG Integration and Impact Reporting²³

ESG has shifted from being optional to becoming an industry expectation. Around 70 % of European LPs agree that ESG commitments can influence valuation premiums, underlining that institutional investors increasingly expect GPs to align with recognized ESG frameworks such as SFDR, TCFD, or GRI. Funds with ESG-integrated strategies benefit from improved access to European institutional capital and in some cases could outperform on exit multiples due to stakeholder and reputational advantages.

Timeline Extension and Deal Structuring Adjustments

Average holding periods have increased slightly from 4.2 years (2021-2022) to 5.0 years (2023-2024) with more flexible capital structures and earn-out provisions in acquisitions. Vendor due diligence is more rigorous, and pre-deal scoping now includes human capital assessments, regulatory exposure analysis, and technology resilience.

Key Performance Drivers and Risks

- Sector selection is the top IRR driver, with healthcare, IT, and asset-light B2B services outperforming
- Valuation discipline is returning post-2021, but dry powder levels continue to inflate pre-emptive deal pricing
- LP scrutiny on fund expenses, ESG alignment, and GP commitment has intensified

ETA vs. Traditional Buyout Capital Use

Traditional buyout funds typically range from \$2.5–8 billion and invest across 8–15 companies, whereas ETA platforms deploy \$5–25 million per deal, on 1–3 high-conviction investments with intensive post-acquisition involvement.

Capital Deployment Trends

- In our experience, capital tends to move more slowly into the market today than it once did, with investment periods often feeling longer (around 3.5-4 years) than what used to be common (around 2.5-3 years)
- We also notice that GP-led secondaries and NAV-based facilities are increasingly talked about and used as ways to recycle capital and manage extended holding periods
- From our perspective, deployment pacing has generally become more cautious since recent market dislocations, with higher rates and valuation resets influencing investor behavior

In summary, PE buyout dynamics are transitioning from capital access to operational execution. The new era will favor GPs with industrial expertise, long-term alignment and adaptability to regulatory.

²² Bain & Company (2025). *Global Private Equity Report 2025*.

²³ ILPA - Bain & Company (2025). *Limited Partners and Private Equity Firms Embrace ESG*.



3. Entrepreneurship Through Acquisition (ETA)

In this chapter, we review the rise of Entrepreneurship Through Acquisition (ETA) as a distinct investment approach. ETA enables entrepreneur-operators to acquire and lead established SMEs, combining institutional capital with long-term stewardship. Lower entry multiples, proprietary sourcing, and deep operational involvement drive its appeal. The U.S. market is most developed, while Europe is growing rapidly due to succession needs and SME fragmentation. Institutional platforms such as Novastone are shaping the model into a scalable, professionalized segment within private equity.

ETA Programs: Market Overview

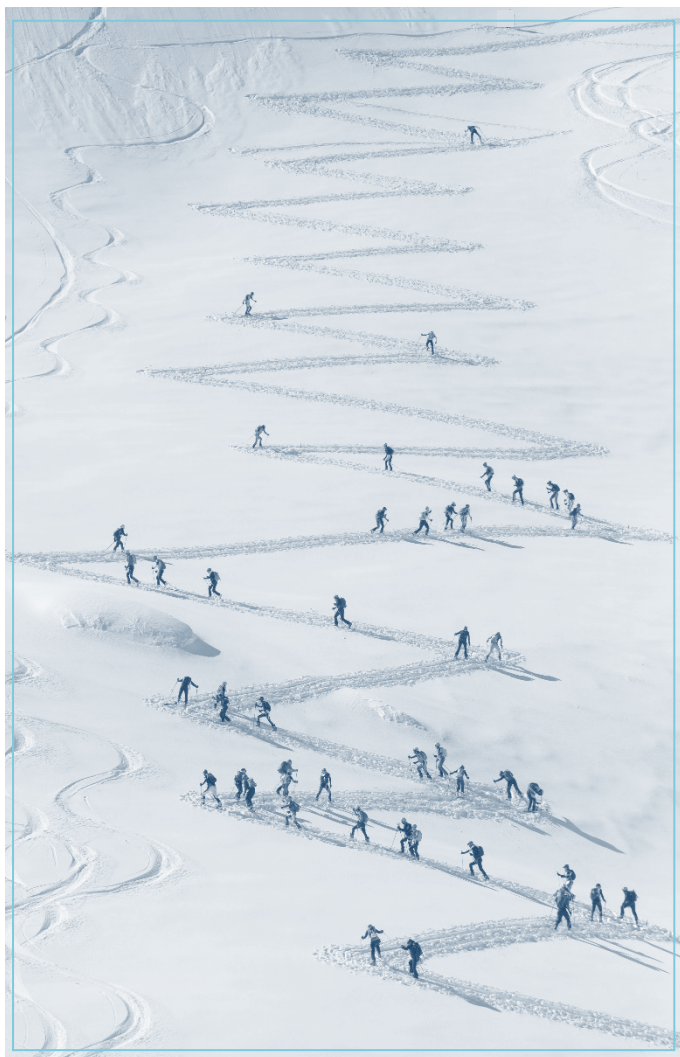
Entrepreneurship Through Acquisition (ETA) represents a fast-maturing segment within the private equity landscape, offering a structured path for individual operators to acquire and lead established small and medium-sized enterprises (SMEs). Originating from the academic and investor communities at institutions such as Harvard Business School and Stanford GSB, ETA programs have evolved from early-stage search fund models into institutional-grade platforms capable of delivering scale, alignment, and operational depth.

Fundamental Definitions

Within ETA programs, a distinction is made between:

- **Traditional Search Fund:** An entrepreneurial model where one or two individuals raise capital from a group of investors to search for and acquire a single SME; widely analyzed in the *Stanford Search Fund Study 2025*
- **Fund of Searchers:** A pooled investment vehicle that backs multiple searchers at once, giving investors diversification while remaining minority shareholders in each acquisition
- **Operator-Led Search Funds:** A model in which institutional investors invest in a regulated fund, e.g., a RAIF. The Fund back experienced operators with structured capital via ETA program to acquire and lead SMEs

Novastone's model aligns with Operator-Led Search Funds. This report will therefore place a particular focus on it.



Global Development and Institutionalization

Over the last decade, the ETA market has expanded globally.²⁴ While the United States remains the most mature ETA ecosystem, Europe has witnessed accelerating growth, especially in regions with fragmented SME landscapes and significant succession challenges (e.g., Germany, France, Southern Europe, and Switzerland).

Institutional platforms such as Novastone have played a pivotal role in standardizing recruitment, training, deal sourcing, and post-acquisition support. These platforms have helped professionalize ETA as a legitimate alternative to traditional PE.

²⁴ *Bain & Company (2025), Global Private Equity Report 2025.*

Structural Benefits of ETA

Operator-led Search Fund programs differ fundamentally from traditional private equity:

- **Operator-Led:** The entrepreneur-operator takes full-time responsibility as CEO post-acquisition
- **Lower Entry Multiples:** Average entry valuation typically ranges between 4–6x EBITDA, versus 8–12x for PE buyouts
- **Succession-Focused Sourcing:** ETA targets founder-led businesses with strong cash flow but lacking a succession plan
- **Long-Term Stewardship:** Holding periods often 4–6 years, enabling deep transformation and cultural continuity
- **Aligned Incentives:** Operators receive substantial equity stakes (20–30%), closely tying value creation to outcomes



Capital Base and Investment Mechanics

ETA investments are typically funded by:

- Fund of Funds
- Dedicated ETA funds
- Family offices and high-net-worth individuals
- University endowments and foundations

Recent developments include the rise of fund-backed platforms that centralize sourcing, coaching, and capital as well as regionally focused funds across Europe and LatAm



European Outlook

The European market offers unique ETA tailwinds:

- **Demographics:** e.g., in Germany, the average SME owner is older than 50 years,²⁵ with similar demographic changes all over Europe
- **Market Fragmentation:** Lack of institutional buyer coverage in lower mid-market (€ 15–40M EV)
- **Cultural Fit:** European sellers value trust, continuity, and long-term leadership—all hallmarks of ETA

In Germany alone, an average of approximately 125,000 SME owners per year plan to transfer their businesses to a successor.²⁶ Platforms like Novastone, backed by institutional funds such as the NP Operator-Led Buyout Global Funds (Lux RAIF), are well-positioned to lead this generational shift.

CONCLUSION: ETA has evolved from a niche concept into a global asset class in its own right. It addresses a critical succession gap, aligns capital with entrepreneurial leadership, and offers compelling economics. As LPs seek differentiated exposure in private markets, ETA platforms stand out by combining financial performance with social and generational impact.

²⁵ KfW (2023). *Ageing of German SME owners is putting a dampener on investment.*

²⁶ KfW (2024). *Status report on SME succession 2023.*

Evolution of ETA Globally

The ETA framework originated in the United States in the 1980s through university-driven initiatives at Stanford GSB and Harvard Business School. In its early form, ETA took the shape of traditional search funds—vehicle structures where investors committed capital in two stages:

1. A **Search** phase
2. The eventual **Acquisition**.

Since the beginning, the global ETA universe has expanded significantly, with over 1,000 documented search funds globally.²⁷

Strategic Benefits and Differentiators

ETA models are uniquely positioned to address intergenerational transfer in family-owned SMEs with revenues between \$10M and \$50M. The model prioritizes continuity, reputation, and long-term value creation—factors often neglected in traditional PE. Key differentiators:

- **Proprietary deal sourcing:** Operators source off-market deals via local outreach
- **Hands-on post-acquisition leadership:** The operator assumes full-time CEO responsibility
- **Optimized Investment horizons:** ETA funds often have 4–6 year holding periods to maximize transformation, but the CEO often remains in the company after the exit of the company
- **Lower entry multiples:** Deals often close at 4–6x EBITDA vs. 8–10x for PE-backed platforms

²⁷ Kelly & Heston for Stanford GSB (2024), *Search Fund Study 2024*.

²⁸ Bauer et al. (2025), *One concept to bind them: An exploration of the search fund phenomenon*, *European Management Journal*.

Institutional Adoption and Volume



ETA platforms globally have raised significant capital through a growing number of structured vehicles. We experience institutional LPs—including family offices, PE fund-of-funds, and impact-oriented investors—are increasingly viewing ETA as a standalone allocation. Notable metrics:

- **Annual ETA deal volume:** ~more than \$800M²⁸
- **Typical equity check:** \$4–12M
- **Typical target company EBITDA:** \$2–8.5M

Regional Penetration

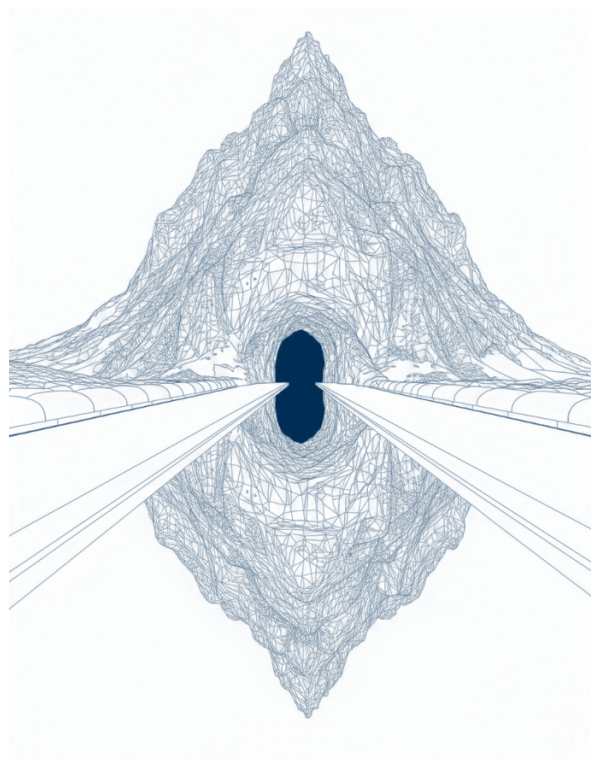
- **North America:** Most mature ETA ecosystem, with top-tier academic support and developed capital base
- **Europe:** Rapid growth, especially in DACH and Southern Europe, driven by succession demographics
- **LatAm and Emerging Markets:** Nascent but promising, often backed by U.S.-based diaspora capital

ETA has proven resilient during downturns due to its conservative capital structures, focus on essential sectors, and operator skin in the game.

CONCLUSION: ETA platforms represent a scalable, high-alignment investment strategy tailored for a rapidly ageing SME universe. As more institutional players enter the space, professionalism, performance benchmarking, and ecosystem development will accelerate in tandem as a viable successor solution for SMEs. Platforms like Novastone and others offer structured pathways for operator-investors to acquire and lead companies. ETA combines institutional capital with entrepreneurial leadership, reducing succession risk and aligning incentives long-term.



²⁹ Bain & Company (2025), Global Private Equity Report 2025.



Competitive Landscape in PE Buyouts and ETA Platforms

The global private equity landscape comprises a mix of large-cap GPs with multi-billion-dollar funds and a growing universe of mid-cap, sector-focused, and operator-led platforms. The top ten PE-Fonds typically account for 30-40% of all buyout capital raised. This indicates a high level of concentration in the hands of firms like Blackstone, KKR, EQT, Carlyle, and Apollo, leading the rankings by fundraising and deployment.²⁹ These firms continue to dominate large-cap buyouts, often using platform roll-up strategies in healthcare, software, and business services.



ETA Platforms as a Distinct Strategic Model

While traditional buyout firms compete on scale and financial engineering, ETA platforms distinguish themselves through deep engagement, local sourcing, and long-term alignment.

Volume and Deal Flow Comparison

In 2024, the number of completed transactions worldwide rose by about 10% year-on-year to a total of around 3000 deals, with average EV > \$800M.³⁰ In contrast, the ETA sector executed around 1,000 of these transactions worldwide, focused on EV < \$50M, but we have experience with a higher success rate in founder transitions.

STRATEGIC DIFFERENCES

ATTRIBUTE	TRADITIONAL PE BUYOUTS	ETA PLATFORMS
Deal Sourcing	Banker-led, auctions	Proprietary, direct outreach
CEO Involvement	Hired post-acquisition	Embedded operator from day one
Investment Horizon	3–6 years	1–3+ years
Entry Multiples (avg)	8–12x EBITDA	4–6x EBITDA
Exit Route	Sponsor-to-sponsor, IPO	Traditional PE, Strategic, long-term hold

Geographic Competition

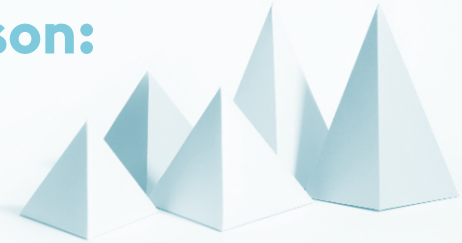
- **North America:** Most competitive, dense with GPs and ETA platforms; auction processes are more frequent
- **Europe:** Mid-market still fragmented; high ETA potential in Germany, UK, Italy, Spain, and France
- **LatAm and Emerging Markets:** Growing interest among ETA platforms due to less institutional saturation

ETA platforms increasingly compete not just for small business acquisitions, but for LP capital allocation, talent, and strategic partnerships.

³⁰ Bain & Company (2025), *Global Private Equity Report 2025*.

Their ability to deliver cultural continuity, entrepreneurial leadership, and uncorrelated alpha positions them as credible complements—and in some segments, challengers—to traditional buyout funds. ETA programs differentiate through proprietary deal flow, lower entry multiples, and deeper post-acquisition engagement.

Strategic Comparison: ETA vs. Traditional PE Buyout



Entrepreneurship Through Acquisition (ETA) platforms and traditional private equity (PE) buyouts represent two structurally distinct approaches to acquiring and scaling privately held businesses. While both aim to create enterprise value and generate investor returns, their strategic focus, incentive structures, and execution models differ significantly.

STRATEGIC ORIENTATION

DIMENSION	TRADITIONAL PE BUYOUTS	ETA PLATFORMS
Investment Thesis	Financial optimization, growth via M&A	Continuity, stewardship, operational leadership
Entry Multiples	8–12x EBITDA	4–6x EBITDA
Deal Sourcing	Banker-led, competitive processes	Proprietary, direct-to-owner outreach
Ownership Duration	3–6 years	3–5+ years, CEO often remains after exit
Post-Acquisition Model	Hired CEO, board-led	Entrepreneur-operator-led, deeply embedded
Exit Strategy	Secondary buyouts, IPOs	Private Equity, Strategic buyer

Value Creation Levers

- **Traditional PE** typically relies on multiple arbitrages, financial leverage, and bolt-on acquisitions. Operational enhancements are increasingly common but often implemented by external consultants or platform teams
- **ETA Platforms** create value primarily through direct operational engagement. Operators lead revenue optimization, team development, and technology upgrades with founder-like accountability

Risk and Return Profiles

- **PE Funds** often provide quicker DPI and shorter J-curves, but are more exposed to valuation cycles and exit liquidity
- **ETA Vehicles** require longer horizons to realize gains, but can outperform through lower entry prices and deeper value creation, particularly in stable, essential service sectors

Capital Structure and Fund Economics

- **Traditional PE:** Closed-end funds with management fees and carried interest. GP commitment is typically 1–2%
- **ETA:** Often lower fee base, with operators typically holding 20–30% equity. Incentives are tightly aligned with operational performance

Strategic Relevance

ETA models are particularly relevant in fragmented mid-markets where:

- Seller priorities include legacy preservation and cultural continuity
- There is limited competition from traditional PE buyers
- Buyers can differentiate through empathy, local presence, and long-term vision



Case Study: Novastone

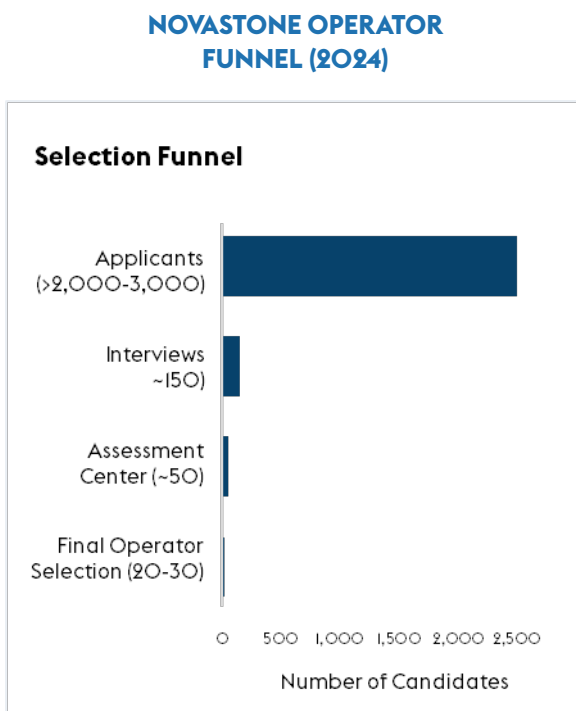
Novastone Capital Advisors (NCA) operates a globally recognized, *Operator-led Search Fund program that addresses the succession gap in small and medium-sized enterprises (SMEs) through a uniquely structured acquisition and leadership model.* Based in Switzerland, NCA is part of the **Novastone Partners Inc.** **Novastone Partners AG**, the fund advisor for the *NP Operator-Led Buyout Global Fund* is the financial arm.



Platform Structure and Talent Selection

Novastone's model is built around mid-career professionals with strong operational and industry backgrounds. Candidates are selected through a rigorous assessment center process and receive institutional funding to identify, acquire, and operate businesses in Europe and North America. As of May 2025, Novastone employs over 45 professionals across its legal, M&A, portfolio, finance, and business development departments. The selection funnel includes 2,000-3,000 screened applicants per year, around 50 operator candidates invited to the final assessment, and approximately 20 to 30 annuals program entrants.

The following chart illustrates conversion rates across the four funnel stages:



Sourcing and Acquisition Strategy

Novastone provides its operators with a proprietary, structured deal sourcing ecosystem, including:

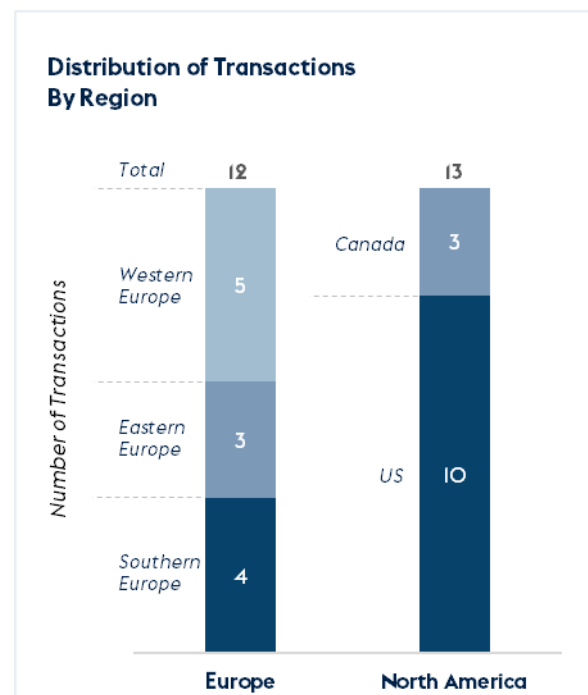
- Access to curated deal databases and internal CRM systems
- Outreach support in local languages and regions
- Structured guidance on deal qualification, valuation, and negotiation

This enables highly targeted outreach to succession-ready SMEs. The average target company has revenues between €/\$ 10-50 million and EBITDA between €/\$ 2.5-10 million.

Track Record: Global Reach and Sectors

To date, Novastone has completed 25 platform acquisitions, with 12 in Europe and 13 in North America. The following map illustrates the regional distribution of these acquisitions, spanning DACH, Europe, the U.S. and Canada.

GEOGRAPHIC DISTRIBUTION OF NCA ACQUISITIONS



The Novastone platform demonstrates a strong sectoral focus in healthcare services, specialty manufacturing, and business process outsourcing. The following chart illustrates the relative distribution of portfolio companies by sector, highlighting a broad variety with notable peaks in industrials & manufacturing, healthcare, and energy.

SECTOR ALLOCATION BY NCA PLATFORM

Distribution of Portfolio companies by Sector



9 Industrials & Manufacturing



6 Others



5 Healthcare



5 Energy

Post-Acquisition Support and Value Creation

Novastone offers extensive post-acquisition support, including:

- A dedicated portfolio management team providing operational guidance
- Peer-to-peer operator learning through regional summits and coaching calls
- Access to best-practice toolkits in HR, digitalization, ESG, and compliance

In summary, Novastone has built one of the most structured and scalable ETA platforms globally, combining entrepreneurial energy with institutional discipline. It bridges the gap between family business continuity and investor return expectations, positioning itself as a long-term partner for SME transformation.

Performance Metrics

Novastone's completed acquisitions exhibit the following characteristics:

- **Average entry multiple:** 5.3x EBITDA
- **Average organic EBITDA CAGR:** 12–18% after acquisition
- **Operator equity share:** 20–25%, with earn-out components
- **Average holding period targeted:** 7–10 years

Operator Equity Participation Structures

The operator equity participation model is structured around three core components. A base equity allocation of up to 20 percent provides the foundation of the structure. 10 percent is granted as base; in addition, performance-based earn-outs of up to 10 percent can be awarded, directly linking participation to value creation. This combination ensures a balanced mix of fixed ownership and performance incentives.

Platform Differentiation

What distinguishes Novastone in the ETA ecosystem:

- Institutional-grade due diligence and governance
- Funded and supported search, reducing risk and increasing focus
- Multi-jurisdictional legal and tax structuring expertise
- Dedicated capital from NP Operator-Led Buyout Global Funds (Lux RAIF)

4. Underlying Financial Metrics and Structures

This chapter explains how PE buyout performance is measured using IRR, DPI, and TVPI. North America generally shows higher returns than Europe. ETA models require longer hold periods but deliver strong long-term value. Newer funds face challenges from high entry multiples. It also compares fund structures: RAIF in Europe offers regulatory compliance and flexibility, while Delaware LPs in the U.S. are simpler and faster to set up. The choice depends on geography and investor needs.

Key Performance Indicators (IRR, DPI, NAV) in Buyouts

Evaluating private equity buyout performance requires a combination of backward-looking and forward-looking metrics. The most widely used key performance indicators (KPIs) include:

- **IRR (Internal Rate of Return):** Measures annualized return, including the time value of money
- **DPI (Distributions to Paid-In):** Indicates how much capital has been returned to investors versus what they have contributed
- **TVPI (Total Value to Paid-In):** Sum of DPI and residual Net Asset Value (NAV) divided by total contributions

Performance Benchmarks Across Regions and Vintages

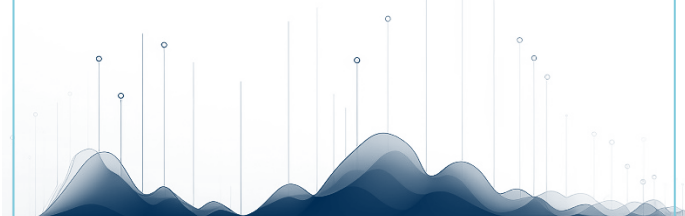
Market commentary suggests that European buyout funds have delivered notably stronger performance than their North American counterparts in recent vintages. For example, recently reported data indicate a higher level of IRR for Europe versus North America. Moreover, long-term figures for European buyout funds consistently show IRRs comfortably in the mid-teens, with TVPI multiples outperforming public equity benchmarks.³¹ It seems to us that benchmarking practices are putting more weight on realized returns (DPI), as the exit environment is widely perceived to be challenging.

Some market participants we spoke to also believe that performance dynamics may be shifting, with U.S. buyout funds potentially catching up with—or even surpassing—Europe in the most recent vintages. While the latest publicly available data still suggests that Europe maintains an edge, stronger exit activity in the U.S. and changing market conditions could lead to a reversal going forward.

ETA Platform KPIs

Based on our experience, ETA strategies show a higher IRR (up to 35% net). The two most likely drivers of higher IRRs in ETA strategies are the typically lower entry valuations of smaller businesses and the direct operational improvements achieved through hands-on ownership.

The DPI is naturally slower due to a single-asset focus, but post-exit results show us strong absolute value creation.





KPI TRENDS AND RISK OBSERVATIONS

- We expect traditional PE funds launched in 2020–2021 to underperform due to overvaluation and high entry multiples
- From our perspective, operational improvements—particularly EBITDA growth—appear to be a more reliable driver of value creation than multiple expansion in the current environment
- We also observe that many GPs are feeling pressure to demonstrate stronger DPI and TVPI ahead of fundraising, which seems to be contributing to an increased use of secondary sales and NAV-based financing tools

Performance metrics should be interpreted alongside fund size, sector strategy, and liquidity timeline. ETA models, while slower in distributions, offer strong alignment, concentrated ownership, and potential for meaningful value appreciation over longer timeframes.

Optimal Fund Structures: EU (RAIF) & U.S. (Delaware LPs)

Private equity fund structures have evolved to balance investor protection, tax optimization, regulatory compliance, and operational flexibility. Two structures dominate the global landscape: the Luxembourg Reserved Alternative Investment Fund (RAIF) in Europe and the Delaware Limited Partnership (LP) in the United States.

The RAIF Model (Europe)

Introduced in 2016 under Luxembourg law, the RAIF enables AIFMD-compliant fund vehicles without prior CSSF approval, provided an authorized AIFM is appointed. RAIFs have become the structure of choice for European and cross-border private equity funds due to:

- **Tax transparency:** Full pass-through options under SICAV-FIS or SCS/SCSp frameworks
- **Investor eligibility:** Professional investors

RAIFs support closed-end buyout strategies and are particularly well-suited for mid-market and ETA-focused funds aiming to scale across Europe.

The Delaware LP Model (United States)

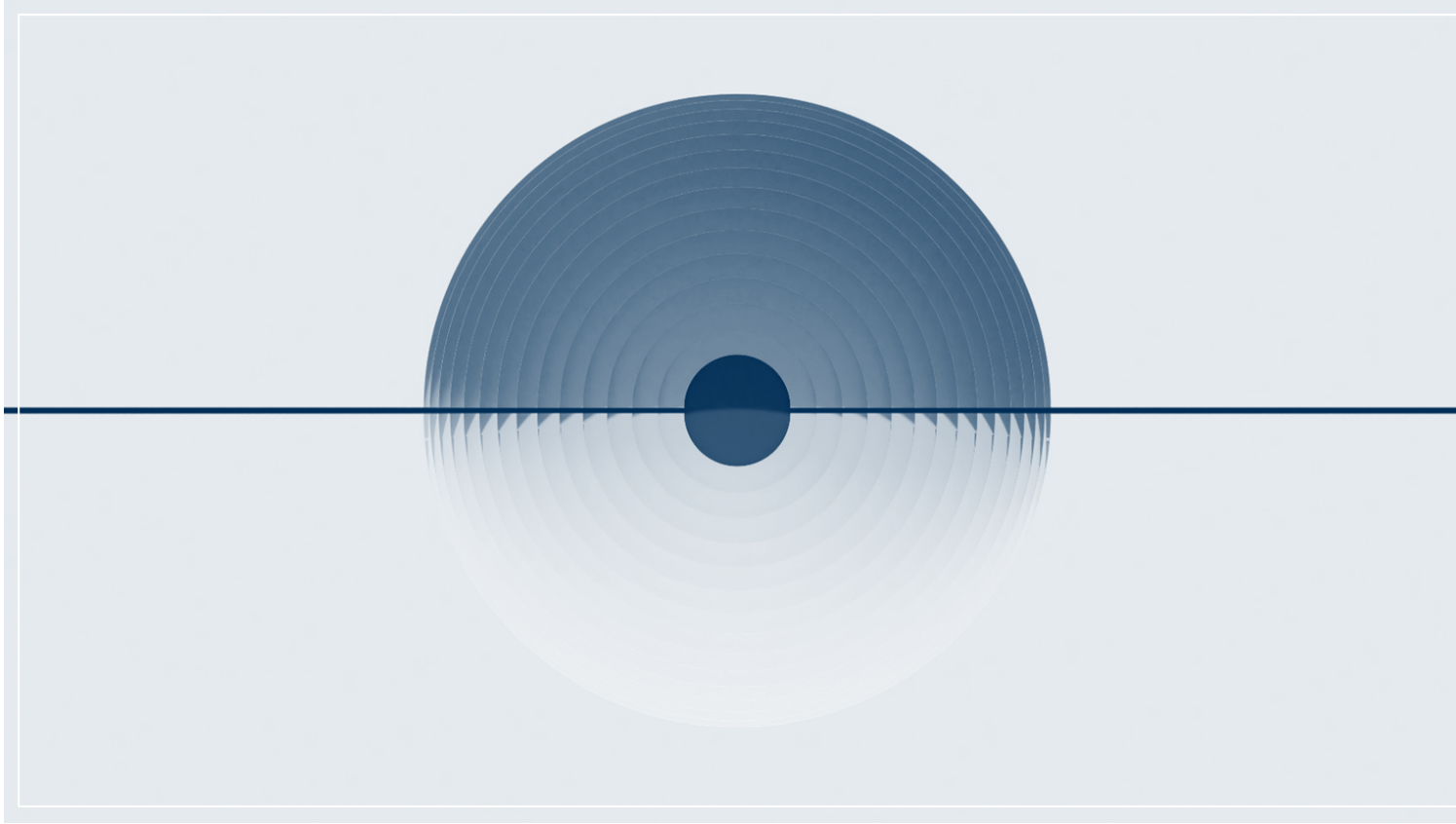
Delaware LPs are globally recognized for their simplicity and enforceability. Many U.S. buyout funds are domiciled in Delaware due to:

- **Favorable tax regime:** Federal pass-through; no state income tax for LPs outside Delaware
- **Legal clarity:** Extensive case law and contract enforcement precedents
- **Flexibility:** Minimal regulatory hurdles, tailored LP-GP agreements, and custom waterfalls

Delaware LPs remain dominant for North American investors but face new disclosure obligations under SEC reforms (e.g., quarterly fee reports, preferential treatment transparency).

STRUCTURAL COMPARISON

FEATURE	LUXEMBOURG RAIF (EU)	DELAWARE LP (U.S.)
Regulatory Oversight	Indirect via AIFM	Minimal; SEC registration optional
ESG Compatibility	High (SFDR aligned)	Limited (voluntary frameworks)
Investor Protections	Strong via AIFMD + Depositary	Private contracts dominate
Popularity (Buyout Funds)	Rising in Europe, cross-border deals	Standard for U.S.-focused funds



Strategic Implications for ETA Funds

For ETA platforms operating across Europe, RAIFs offer a robust and scalable framework. Their ability to pool multi-country capital and comply with EU regulatory norms ensures alignment with LP requirements and operational agility. In contrast, U.S.-focused ETA funds benefit from Delaware LPs' structural efficiency and institutional familiarity.

In conclusion, both structures are optimal within their geographies. The choice depends on capital base, regulatory obligations, and international scaling intentions. For European ETA platforms such as those backed by Novastone, the RAIF structure offers unmatched flexibility, institutional acceptance, and compliance assurance.

5. Conclusion and Strategic Outlook

The findings of this two-part report underscore a fundamental evolution underway in the global private equity buyout market. As institutional investors reassess risk, liquidity, and alignment in the wake of macroeconomic uncertainty, ETA platforms—especially those backed by structured, operator-led strategies—have emerged as a viable and highly differentiated approach.



Outlook for Novastone and the ETA Ecosystem

Novastone stands at the forefront of this shift. Its proprietary deal funnel, mid-career talent base, and multi-jurisdictional deployment capabilities provide a replicable model for scaling ETA globally. As the NP Operator-Led Buyout Global Fund continues to invest in both European and North American markets, Novastone's ecosystem will expand in:

- **Geographic reach** (including Scandinavia, Benelux, and U.S. Midwest)
- Sector specialization (e.g., medical B2B services, industrial software, ESG-aligned operations)
- Institutional co-investment capacity and fund syndication

Strategic Implications for the Industry

- **Operational Depth over Financial Engineering:** Investors increasingly value hands-on management, revenue growth, and sustainability over leverage-driven value creation
- **Succession as a Structural Opportunity:** In Europe and North America alone, more than 500,000 SMEs face succession challenges in the next 5–10 years. Platforms like Novastone directly address this gap
- **ETA Platforms as Institutional-Grade Alternatives:** With growing professionalism, track records, and fund structures (e.g., RAIF), ETA platforms are positioned to be a mainstream capital allocation category

Future Directions and Policy Relevance

ETA will also gain policy relevance as governments seek succession stability in SME sectors that account for a fundamental share of private employment in the DACH region and beyond. Structured platforms like NCA may become implementation partners in future public-private succession initiatives.

In closing, the buyout market is undergoing a paradigm shift. Institutional capital is seeking embedded leadership, lower entry risk, and enduring value creation. Novastone's Operator-led Search Funds model is uniquely positioned to meet this demand, not only as a niche but as a blueprint for a more sustainable private equity future.



About us | Novastone Partners AG

Novastone Partners AG (NP) is the investment arm of Novastone Capital Advisors (NCA). Together, they combine private equity expertise with a globally recognized, operator-led buyout model addressing the succession gap in small and medium-sized enterprises (SMEs). Based in Switzerland, Novastone Partners AG advises the Novastone Partners Operator-Led Buyout Global Fund, while NCA provides the structured acquisition and leadership platform that enables mid-career professionals to become effective SME leaders. Our two entities operate together as Novastone.

Instead of starting with a target company, Novastone first selects talented entrepreneurs who are prepared to step in as the next CEOs.

Novastone identifies strong, profitable businesses with growth potential. This approach gives us a deep understanding of the European and North American ETA and private equity landscape. Novastone has direct experience with succession challenges, operational value creation, and long-term company development, backed by institutional investors. With a presence across Europe and a strong track record, Novastone offers valuable insights into the structure, trends, and opportunities of the European and North American ETA market, as shared in this report.

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ABBREVIATION/ACRONYM	MEANING
AIFMD	Alternative Investment Fund Managers Directive
AUM	Assets Under Management
CAGR	Compound Annual Growth Rate
CSSF	Luxembourg Commission de Surveillance du Secteur Financier
DPI	Distributions to Paid-In
ESG	Environmental, Social, and Governance
ETA	Entrepreneurship Through Acquisition
GPs	General Partners
IPO	Initial Public Offering
IRR	Internal Rate of Return
KPIs	Key Performance Indicators
LP	Limited Partner
MiFID II	Markets in Financial Instruments Directive II
NAV	Net Asset Value
NCA	Novastone Capital Advisors
NP	Novastone Partners
PE	Private Equity
RAIF	Reserved Alternative Investment Fund
SFA	Search Fund Accelerator
SFDR	Sustainable Finance Disclosure Regulation
SMEs	Small and Medium-Sized Enterprises
TVPI	Total Value to Paid-In

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ABOUT NOVASTONE PARTNERS

Novastone Partners AG, the investment arm of Novastone Capital Advisors (NCA), blends private equity with an operator-led model to address SME succession. It first selects CEO-ready entrepreneurs, then partners with them to acquire profitable, scalable businesses. With Europe-wide presence and hands-on experience in succession and operational value creation, the firm provides clear insight into the European ETA market covered in this study.



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