

Independent Sponsor Market: Why Direct Deals Are Growing at 52.8% CAGR



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What market has a 52.8% CAGR in last five years? Answer: the direct deal market (often led by independent sponsors).

Drivers for that growth include:

- **NOT SO GOLDEN HANDCUFFS:** VPs, Principals, and others at established PE firms doing the carry math (and realizing the independent sponsor model to conduct their own direct deals may be a better option)
- **FREEDOM:** Ability to be entrepreneurial and control one's destiny - pursue lower middle market deals that might have been too small for their prior firm / outside that firm's investment mandate.
- **LEGITIMACY:** today's independent sponsors are more sophisticated - with their teams, operating partners, investment thesis, deal sourcing strategies, etc.

- **ACCESS TO CAPITAL:** 318 SBICs in the US + traditional lenders + family offices + high net worth investors = path to funding compelling direct deals.
- **STRUCTURE FLEXIBILITY:** The direct deals in the lower middle market offer tremendous flexibility: rollover equity, seller financing, and/or earn-outs (one thoughtful I-sponsor I know refers to this as the “Holy Trinity” of deal structuring). Plus, more freedom for structuring Qualified Small Business Stock transactions (i.e., tremendous capital gains tax savings)
- **ECOSYSTEM:** a community of specialized trusted advisors (law firms, accounting firms, consultants, etc.) - many known for their expertise, network, and value in the independent sponsor / direct deal world.

John Koepfel's commentary on "The 'Golden Handcuffs' Are Off: Private-Equity Employees Leave for Smaller Firms," Nov. 20, 2025, *The Wall Street Journal*.

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