

Independent Sponsors and QSBS: Why Direct Deals Are Gaining Ground in Private Equity



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May 25, 2026 | **CORPORATE**

Why is the direct investing model transforming private equity?

- Experienced deal makers are leaving PE / investment banking / consulting and launching their own independent sponsor firms.
- Roughly 75% of iSponsor deals are in the lower middle market (LMM) with enterprise values of \$10 million - \$75 million.
- These targeted LMM companies (often founder / family owned under \$10 million EBITDA) are the sweet spot for most iSponsor deals -> offering opportunities for outsized returns through professionalization and organic / strategic growth.
- Success is based on finding attractive deals on a proprietary / semi-proprietary basis, coupled with the iSponsor's own industry expertise (and/or that of their operating partner, CEO sourced for the opportunity, etc.).
- Robust capital network of SBICs, family offices, UHNWs, and HNWs provides the capital for these deals. The ability to underwrite a specific deal is a huge attraction, alongside the alignment of interest created in the

iSponsor / investor waterfall.

- The direct “deal by deal” structure also allows extensive flexibility, including deciding to structure as Qualified Small Business Stock (QSBS) -> and reap the extensive federal / state capital gains tax benefits.
- Essential for the iSponsor to choose the right trusted advisors (legal, accounting, etc.) familiar with independent sponsor deal structures and related nuances. Inquire as to the number of iSponsor deals they have closed, the depth of their team, the value prop they offer, etc.

John J. Koepfel's commentary on "[Distinguishing Private Equity, Independent Sponsors, and Family Offices](#)," June 16, 2025, *Principium White Oak*

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