What Gives Independent Sponsor Deals a Performance Edge in Lower Middle Market Private Equity?



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Key Takeaways:

- Independent sponsor deals in lower middle market private equity often outperform traditional funds because sponsors are nimble and raise capital deal by deal.
- 83% of independent sponsor deals have an enterprise value of $50 million or less, below the minimum check size of many buyout funds.
- QSBS tax exemptions and rollover equity paired with a seller note or earn-out give independent sponsor deals powerful structuring advantages.

Flexibility, Deal Sourcing, and Value Creation in Independent Sponsor Deals

- Independent sponsors are more nimble than committed funds: they can pursue smaller targets, pivot their investment thesis quickly, and build a more flexible capital stack.

Attorney advertising: Prior results do not guarantee a similar outcome.

- Because independent sponsors raise capital on a deal-by-deal basis, they must source attractive deals at compelling enterprise values and structures.

- Seasoned independent sponsors drive real value creation, using their networks and skills for organic and strategic growth.

Independent Sponsor Deal Size: Where Lower Middle Market Deals Fall

- 83% of independent sponsor deals have an enterprise value (EV) of $50 million or less, so independent sponsors can pursue lower middle market opportunities at a scale below the minimum check size of many buyout funds.

- Only 15% of independent sponsor deals fall between $50 million and $100 million of EV, and just 2% are over $100 million (see which deal size drives the highest returns).

QSBS, Rollover Equity, Seller Notes, and Earn-Outs in Independent Sponsor Deals

- Many independent sponsor deals that use Qualified Small Business Stock (QSBS) under Section 1202 of the Internal Revenue Code benefit from the incredible power of the QSBS capital gains tax exemption.

- Deal structure advantages come from using rollover equity, often in combination with a seller note (seller financing) or earn-out, to drive buyer-seller alignment and reduce the cash required at closing.

Lippes Mathias LLP advises independent sponsors, private equity funds, family offices, and investors on structuring and closing lower middle market M&A and private equity transactions, including QSBS planning, rollover equity, seller notes, and earn-outs. To discuss an independent sponsor deal, contact John J. Koeppel, leader of the firm's independent sponsor and private equity practice teams.

John J. Koeppel's commentary on "The Independent Sponsor Paradox: Smaller Capital Pools, Bigger Return Potential," by Santiago Morazzani, August 3, 2026.

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