

## White Paper

### Capital Solutions for Independent Sponsors | Capitala Group Insights

*Experience and Expertise in Debt and Equity Transactions with Independent Sponsors*

*By: Capitala Group*

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## Executive Summary

For over 20 years Capitala Group has provided debt and equity capital to Independent Sponsors (ISP) in the U.S. lower middle-market (LMM) delivering efficient, customized capital. With our practical relationship driven approach to ISP investing, we've developed a distinct perspective on how ISPs are evolving, how transactions are structured, and how true alignment can be achieved. Having recently closed our latest fundraise oversubscribed at \$1 billion, Capitala is well positioned to support Independent Sponsors with flexible capital and execution certainty.

## 1. Expansion of the Independent Sponsor Universe

Since 1998, Capitala Group has led or participated in over 85 independent or non-sponsored transactions while deploying over \$800 million within this segment of the market. This direct experience working alongside dozens of independent sponsors has shaped our perspective and interpretation of broader market dynamics shaping the LMM investment landscape.

Over the past decade, the independent sponsor model has transitioned from a niche corner of the market to a credible and scalable approach to private investing. Key drivers include:

- **Institutional Acceptance:** Family offices, credit funds, and broader capital solutions providers have become more comfortable with the ISP model, allocating increasing capital to non-sponsor funds with repeatable theses.
- **Democratization of Deal Flow:** ISPs are often former operating executives or bankers who leverage deep industry networks to source proprietary or semi-proprietary transactions.
- **Capital Formation Support:** The rise of platforms, conferences, and matching services (e.g., Axial, McGuireWoods' ISP Deal Conference) has made it easier for capital providers to discover and vet sponsors.
- **Market Opportunity:** The LMM remains underserved by traditional buyout funds, leaving opportunity for attractive investments and outsized growth when compared to the more competitive middle-market.

According to recent industry surveys, more than 75% of independent sponsor transactions involved companies between \$10 million - \$75 million in enterprise value<sup>1</sup> and approximately 1400 ISPs are actively pursuing deals across the U.S.<sup>2</sup>. Additionally, independent sponsor-led transactions now account for approximately 31% of all LMM private equity deals annually, underscoring the model's growing relevance and importance in today's investment environment.<sup>3</sup>

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## 2. Independent Sponsor Deal Structures in the Lower Middle-Market

Deal structure in independent sponsor-led transactions has become increasingly standardized but still retains flexibility. Common elements include:

- **Unitranche Financing:** Frequently employed to streamline execution, unitranche structures—such as Capitala's—blend senior and subordinated debt into a single tranche, simplifying the capital stack and increasing certainty to close. Market commentary indicates unitranche financing is a leading structure in lower middle-market direct lending (including independent sponsor transactions). At Capitala, we often pair unitranche debt with structured equity to optimize speed while helping to reduce dead deal expense risk for our partners.
- **Capital Stack Composition:** A typical capital stack may include:
  - 50–60% unitranche debt (often with delayed draw components) to support future acquisition growth
  - 30–50% equity (including seller rollover), often with some form of structure to bridge valuation gaps or enhance alignment
- **Seller Rollover:** Most transactions include a 10–40% rollover by the selling shareholder, which is critical in aligning incentives and reducing cash equity needs. McGuireWoods reports that 70% of ISP deals from 2021–2023 included a rollover component.<sup>4</sup>

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<sup>1</sup> McGuireWoods LLP, *2024 Independent Sponsor Deal Survey*, p. 5. Available at: <https://media.mcguirewoods.com/publications/flipbooks/is-deal-survey-2024/#page=5> (accessed September 4, 2025).

<sup>2</sup> The Wall Street Journal, *Private-Equity Managers Persevere in Pitching First-Time Funds*, Available at: [https://www.wsj.com/articles/private-equity-managers-persevere-in-pitching-first-time-funds-0d7cb75f?utm\\_](https://www.wsj.com/articles/private-equity-managers-persevere-in-pitching-first-time-funds-0d7cb75f?utm_) (accessed September 4, 2025)

<sup>3</sup> Axial, *The Top 20 Independent Sponsors on Axial*, Available at: [https://www.axial.net/forum/the-top-20-independent-sponsors-on-axial/?utm\\_](https://www.axial.net/forum/the-top-20-independent-sponsors-on-axial/?utm_) (accessed September 4, 2025)

<sup>4</sup> McGuireWoods LLP, *2024 Independent Sponsor Deal Survey*, p. 8. Available at: <https://media.mcguirewoods.com/publications/flipbooks/is-deal-survey-2024/#page=8> (accessed September 4, 2025)

### 3. How Independent Sponsors Align with Capital Partners

One of the most distinctive challenges—and opportunities—in independent sponsor investing is structuring alignment. Trends include:

- **Deal-by-Deal Economics:** Carried interest and transaction fees are typically negotiated per deal. The most common model includes:
    - Transaction fee at close (often with a portion of this fee rolled into equity in the transaction)
    - Tiered promote above a preferred return (typically 8–10%) allowing ISPs to earn higher compensation as the capital provider receives a higher return
  - **Equity Co-Investment:** Increasingly, ISPs invest personal capital—often between 1–5% of the total equity check—signaling commitment and increasing alignment with institutional backers.
  - **Broken Deal Coverage:** Capital providers are more willing to share in diligence and legal costs for deals that do not close, especially with repeat sponsors and on transactions where capital providers are brought to the table early to help shape the diligence process. This flexibility supports a more resilient partnership approach.
  - **Board and Governance:** Minority investors often take board seats and reserve rights over major decisions, particularly when deploying equity. Clear governance frameworks ensure aligned decision-making throughout the investment lifecycle.
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### 4. Capitala Group's Strategy for Investing with Independent Sponsors

Capitala Group brings a practical, relationship-driven approach to ISP investing. Our experience in over 85 non-sponsored transactions has shaped a clear strategy for delivering efficient, customized capital while building long-term partnerships.

#### Key Differentiators:

- Experience across 85+ non-sponsored transactions in diverse industries
- Experienced team with proven ability to close deals with speed and certainty
- Flexible capital solutions including unitranche debt and equity solutions with no limitation on equity allocation
- Capability to underwrite and close in accelerated timelines
- Economic terms designed to drive mutual alignment between partners
- Active board-level partnership without operational overreach

We are particularly focused on businesses with \$3 million–\$20 million in EBITDA, and we tailor our capital structures to match the strategic objectives of both ISPs and sellers.

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## Conclusion

At Capitala Group, we view independent sponsors as a permanent and maturing part of the LMM ecosystem. Our conviction in the ISP model is backed by deep relationships, hands-on experience, scale, and a track record of flexible capital solutions designed to meet the nuanced needs of non-sponsored deals.

We believe that by focusing on alignment, execution certainty, and sponsor empowerment, we can continue building lasting value—for all parties. Capitala is proud to support the continued rise of entrepreneurial investors across the U.S.

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## Get in Touch

Are you an independent sponsor seeking a flexible and reliable capital solution? Connect with Capitala Group to discuss your next opportunity.

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