

## Three Key Takeaways From Katten's Recent Independent Sponsors Program

Given the rise in the number of independent sponsors and independent sponsor-sourced transactions, Katten recently hosted a forum that convened more than 60 independent sponsors and capital providers—including traditional private equity firms, mezzanine lenders, family offices and holding companies—to discuss the trends, structures and economics of these deals. Below are three key takeaways from the discussion.

- 1. There is great variety among capital providers and the ways they like to do deals, with all panelists open to backing independent sponsors.** Panelists from family offices differentiated themselves from traditional private equity firms given that their capital is derived from a single limited partner. They said that they may hold onto a company forever, may not change management, avoid auctions, close deals quickly and are open to different ways to work with independent sponsors, including making a minority investment and leaving control with the independent sponsor. The panelists from traditional private equity firms noted that they must end up with control given their business model and that there's a higher bar with independent sponsor deals because of the additional layer of fees, so the opportunity has to be more attractive than others. All of the capital providers emphasized how the independent sponsor model has worked well for them and that they will continue to use it and also get creative with it.
- 2. Flexibility is a common theme in how independent sponsor deals are structured.** Capital providers said that they are willing to enter deals at different stages—either before or after the execution of a letter of intent (LOI). They prefer to get involved early in the due diligence process to help avoid busted deal fees later on. They are willing to “share the pain” on busted deal fees, including taking on a greater burden if the independent sponsor is a more involved partner who brings a growth plan or industry knowledge to the deal, as opposed to just a deal finder. One traditional PE firm panelist explained how his firm developed a pre-approved framework for working with independent sponsors pre- or post-LOI, while a family office panelist highlighted different ways to get an independent sponsor liquidity in what may be an indefinite holding period through recaps, dividends and put/call rights. With no one set rule that all of the capital provider panelists followed for their independent sponsor transactions, flexibility was the common denominator.
- 3. The basics are still paramount: quality of deal, personalities involved, industry knowledge, alignment, transparency and parity.** One capital provider boiled the discussion down to this salient point, “We can't cover the universe, so an independent sponsor's biggest value is access to deals—the quality of the transaction they bring us—getting deals done with us.” There are a multitude of personalities in the space, so aligning personalities is crucial to the success of the transaction with all sides asking themselves “can we work well together?” at the outset. Capital providers also value independent sponsors' keen knowledge of the industry, of the latest issues and all of the relevant players, and appreciate their connections to either the current management team or their ability to recommend new management executives. Alignment was another key ingredient to success that panelists highlighted—alignment on exit strategies, management teams, shared work, board seats, recruiting and management fees so that everyone is rowing the boat in the same direction. Transparency is encouraged and parity is greatly appreciated with one panelist explaining, “We like there to be parity on how things work so if we're taking a fee, then you're taking a fee.” Everyone agreed that there is tremendous capital available for fewer deals, so following the above outlined factors should help close deals effectively.

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To view Katten's Independent Sponsor Transactions Study results, click [here](#). For more information on our work with Independent Sponsors, click [here](#).

If you would like to discuss these or related topics, please contact anyone from our team below.

– Katten's M&A and Private Equity Teams

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