INDEPENDENT SPONSOR DEAL TERMS SURVEY

2025

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Private Equity Wire European Awards
2025

PAN-EUROPEAN PRIVATE EQUITY LEGAL ADVISOR OF THE YEAR
Real Deals Private Equity Awards
2023, 2025

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FT Innovative Lawyers Awards Europe
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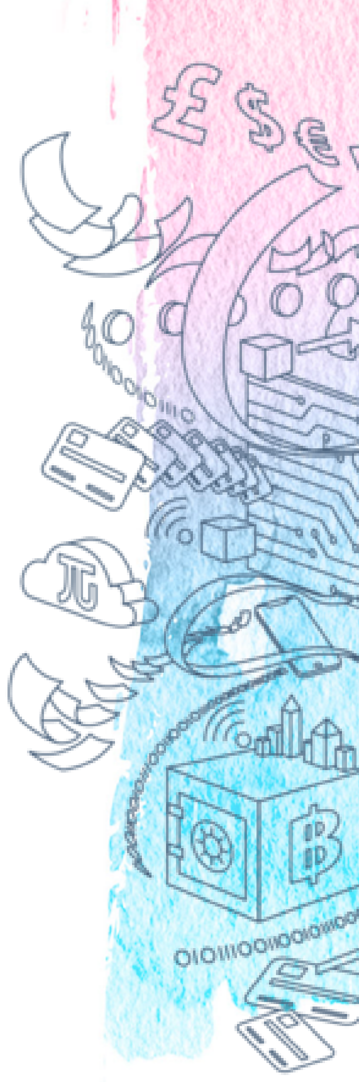
ADDLESHAW GODDARD

EUROPE’S INDEPENDENT SPONSOR MARKET: SHEDDING LIGHT ON DEAL TERMS



Over recent years, the Independent Sponsor model for private equity transactions has seen significant development across Europe, echoing the growth and evolution of this market in the United States over the past decade. It’s an exciting part of the market and a ray of sunshine in what remains a challenging environment to raise funding and do deals.

Estimates suggest that there are now well over 500 Independent Sponsors of varying scales operating in Europe, with new entrants joining the market every week. Many of these are established by experienced private equity professionals transitioning from mid-market and large-cap funds.

While the Independent Sponsor model is now a recognised subset of private equity across the continent, it has yet to reach the size and scale observed in the US. Furthermore, aspects of the model—particularly the key economic terms agreed between investors and Independent Sponsors—remain relatively opaque. Indeed, this is one of the topics we are most frequently asked about.

In response, we are delighted to present our inaugural Independent Sponsor Deal Terms Survey, which aims to provide greater clarity on this area and is the first of its kind in Europe. The survey draws on responses from Independent Sponsors and investors, reflecting transactions completed across Europe in 2023 and 2024.

We are deeply grateful to the Independent Sponsors and investors in our network who contributed their deal information to this survey. We look forward to continuing our collaboration with them and the broader Independent Sponsor community on transactions across Europe in the years ahead.

This survey has been prepared by Addleshaw Goddard private capital partners Ben Cocoracchio, Jan Gruter, Carly Gulliver and Nathan Pearce. If you have any questions regarding the findings or the Independent Sponsor model more generally, please do not hesitate to contact any of us or another member of our International Independent Sponsor team.

BEN COCORACCHIO

Partner, London

Ben.Cocoracchio@addleshawgoddard.com

JAN GRUTER

Partner, London

Jan.Gruter@addleshawgoddard.com

CARLY GULLIVER

Partner, London

Carly.Gulliver@addleshawgoddard.com

NATHAN PEARCE

Partner, London

Nathan.Pearce@addleshawgoddard.com

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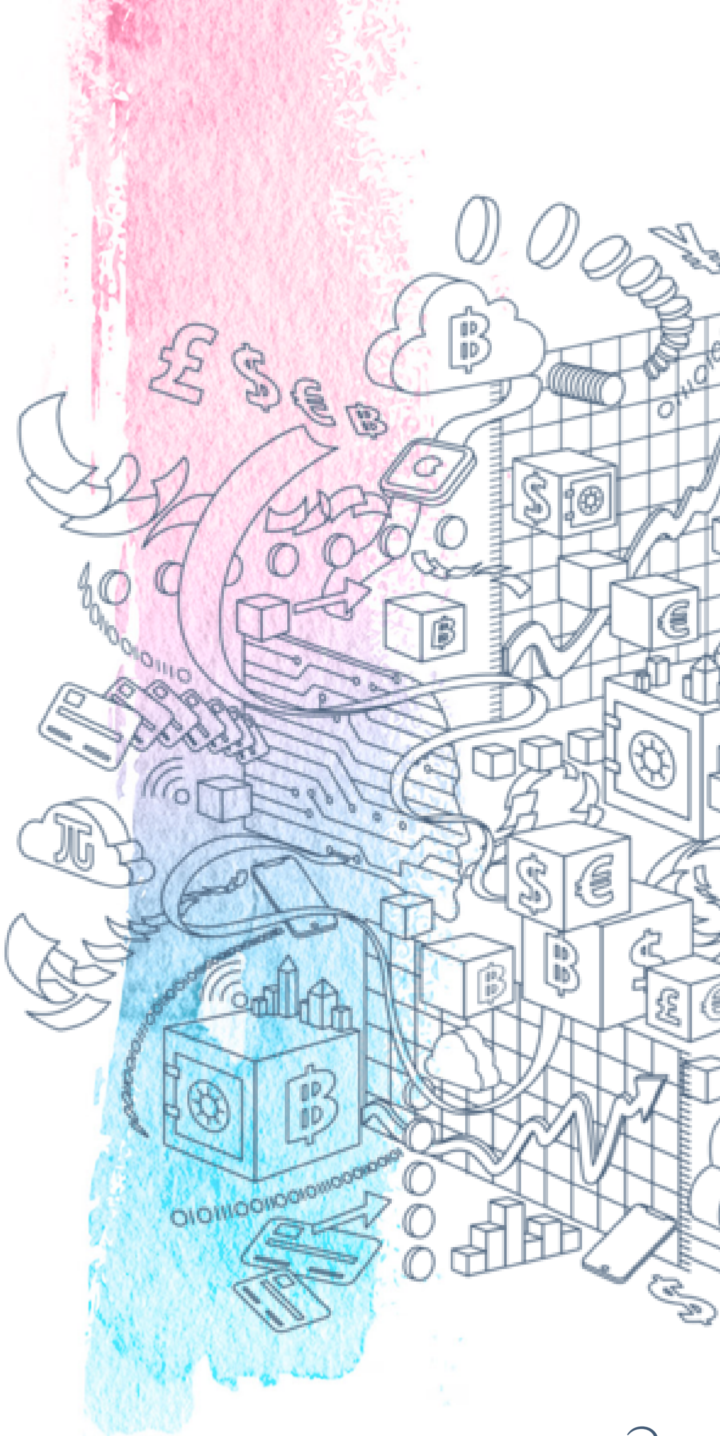


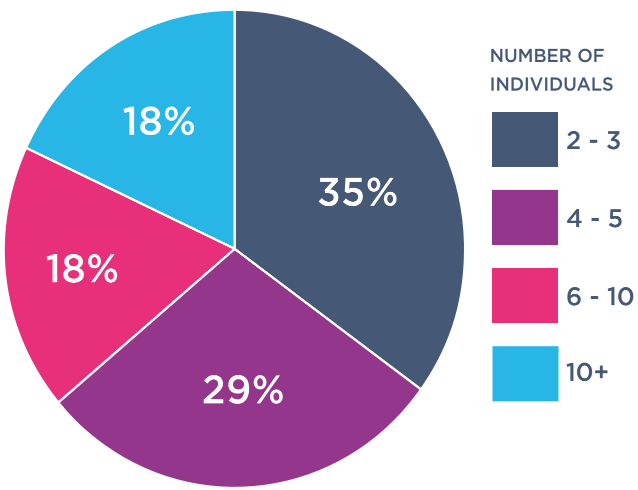
ISP TEAM SIZES AND GEOGRAPHICAL FOCUS

Independent Sponsor deal teams are generally fairly lean, with **64% of respondents employing 5 or less individuals**. This is not surprising given, in contrast to traditional blind pool private equity funds, Independent Sponsors generally lack the guaranteed management fees on a pool of undrawn committed capital that provides funding for salaries and other costs. It is also explained by the fairly consistent flow of new entrants into the Independent Sponsor space who, by definition, will start small.

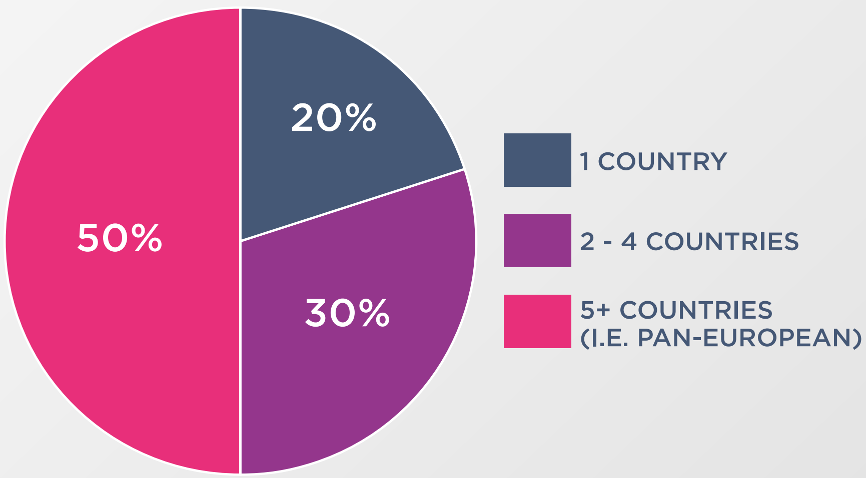
However, our survey does reveal a reasonable proportion of Independent Sponsors that have grown and expanded their teams, showing that Independent Sponsors can grow their businesses over time in a sustainable way. As an Independent Sponsor grows its number of investments, the closing and management fees from those portfolio companies begin to provide a level of working capital for the sponsor that it can use to invest in its own growth.

Interestingly, small team sizes do not appear to limit Independent Sponsors' jurisdictional focus, with **only 20% of Independent Sponsors doing deals in one jurisdiction only**. The Independent Sponsor community has a very international outlook with **30% of Independent Sponsors targeting deals in a small number of countries** (usually adjacent to each other, for example DACH or French speaking countries) and **50% of Independent Sponsors targeting deals on a truly pan-European basis**.

INDEPENDENT SPONSOR TEAM SIZES



INDEPENDENT SPONSOR JURISDICTIONAL FOCUS



DEAL SIZES AND PRICING

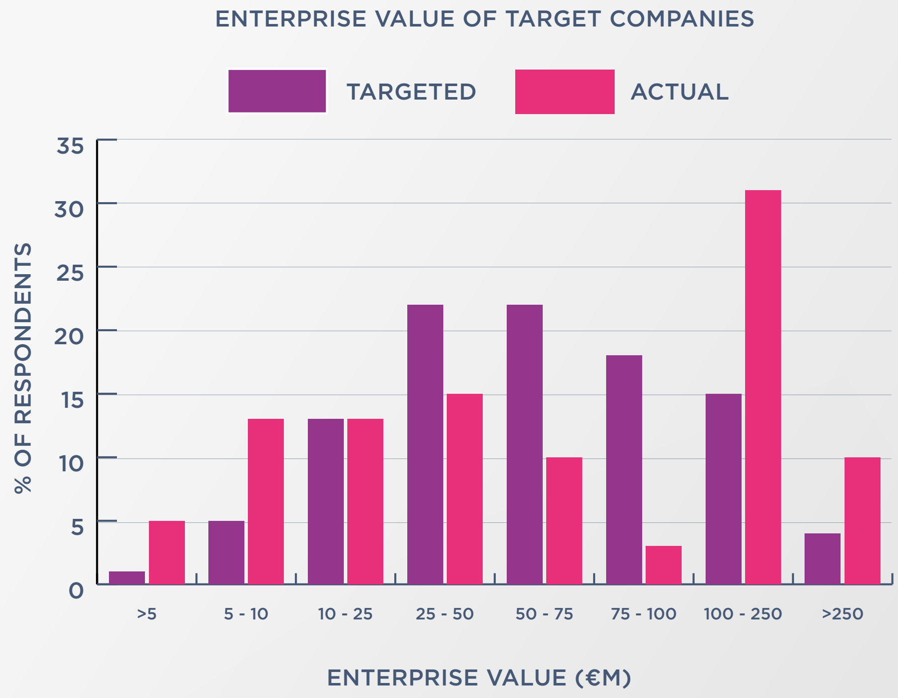
ENTERPRISE VALUES

The Independent Sponsor space is generally thought of as being lower mid-market and mid-market. Whilst that is generally true, there is significant variation in deal sizes, as our survey results show.

Whilst a significant portion of the transactions surveyed (38%) involved target companies with an enterprise value in the €10m to €75m range, we found 41% exceeded €100m (with a quarter of those being larger still, at more than €250m). That is in significant contrast to what similar surveys indicate the position in the US to be (where the figures are around 75% and 11% respectively) and, whilst it is not what one might intuitively expect, it is in any case clear that there is a reasonable number of larger Independent Sponsor deals in the market and investors willing to fund them.

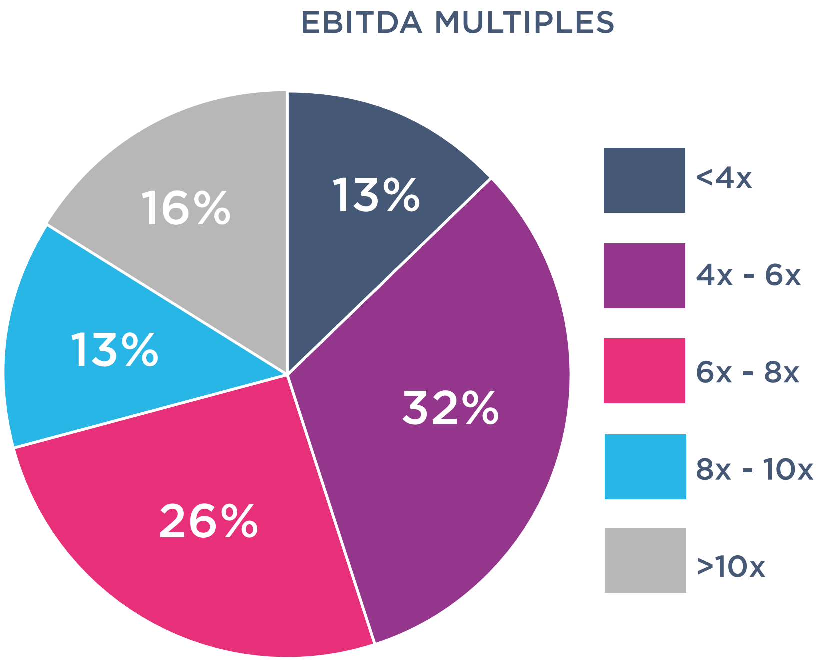
Our survey also shows an interesting divergence between the deal sizes that Independent Sponsors are targeting and the sizes of deals they are actually completing. **Whilst 62% of respondents to our survey are targeting deals in the €25m to €100m range, it appears that deals in this range may be more challenging to source and complete as our data shows that only 28% of completed deals were in this range.** Anecdotally, some Independent Sponsors targeting the bottom half of the ranges shown opposite have told us that they are finding better quality opportunities at the lower end of their target range compared to what they originally expected, whilst those targeting the upper half of the ranges appear to be finding better opportunities in the bigger deal space.

What our survey certainly shows though is that Independent Sponsors should not be put off of a good opportunity just because it is larger than they were initially targeting.



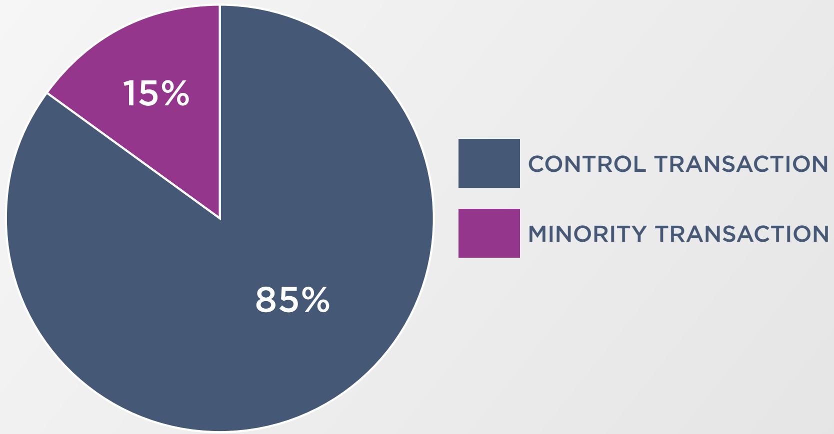
EBITDA MULTIPLES

Many Independent Sponsors tell us they are seeking reasonable entry valuations for target companies and that they wish to avoid overly competitive situations that drive up price. Our survey results certainly support that, **showing 58% of Independent Sponsor deals are in the 4x to 8x EBITDA multiple range**. That is broadly in line with (albeit a little lower than) the position in the US, where similar surveys indicate the equivalent proportion at around 74%. However there does seem to be a slightly higher prevalence of higher multiples in the European market, **with our survey showing around double the proportion of deals at multiples above 8x than in the US.**



CONTROL OR MINORITY DEALS?

Our survey results indicate an **overwhelming preference and/or strategy for control transactions,** where the Independent Sponsor acquires a majority of the target company and therefore the ultimate ability to control it.



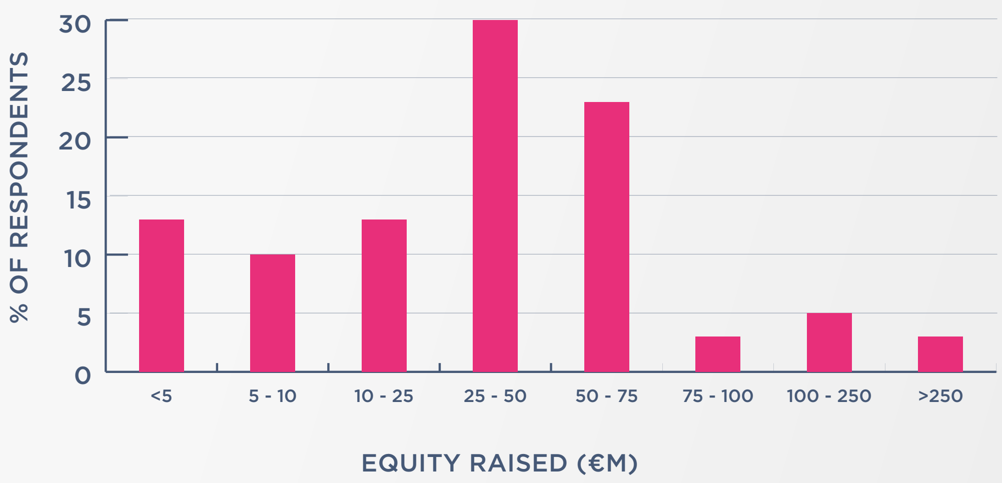
EQUITY CHEQUE SIZES AND STRUCTURE

To some extent, and unsurprisingly, the aggregate equity cheque on Independent Sponsor deals correlates to the spread of Enterprise Values seen earlier in this report, being influenced by the size of stake acquired and the amount of leverage applied. In our experience, Independent Sponsor transactions are typically less leveraged than traditional private equity transactions, with a debt:equity ratio often around the 50:50 level (or with more equity than debt) and with smaller deals sometimes not employing any leverage initially.

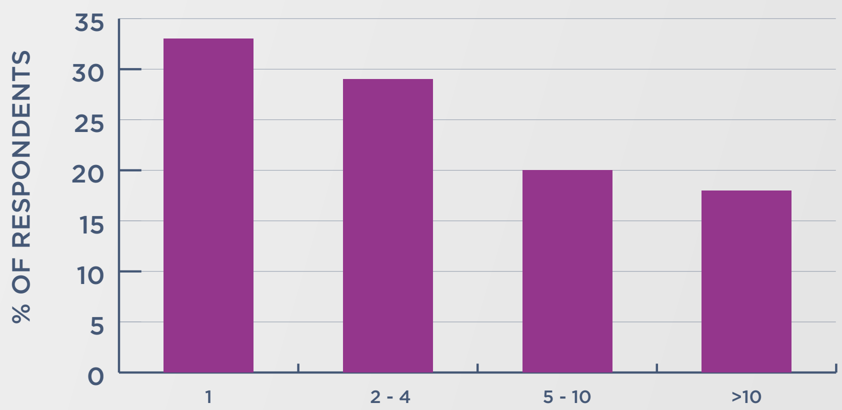
On average, that equity cheque is typically provided by a relatively small number of investors. **In one-third of the deals surveyed there was only one investor**, whilst a further **29% involved only two to four investors.** Overall, this is not dissimilar to what similar surveys indicate in the US market. To some extent this is driven by a desire amongst Independent Sponsors to obtain the required equity from a small group of investors in the expectation that it will be more efficient overall but it also indicates a prevalence of investors that are able to write individual equity cheques of sufficient size for the deal concerned in order to facilitate that.

Given that the aggregate equity cheque in 53% of our surveyed deals was between €25m and €75m and given the trend observed above, it can be seen that the data does indicate the presence of investors in the Independent Sponsor space that can write significant individual equity cheques (for example €20m, €30m or €40m) in the context of larger deals. That is something we will look into in more detail in a future survey.

EQUITY RAISED FOR DEAL (€M)

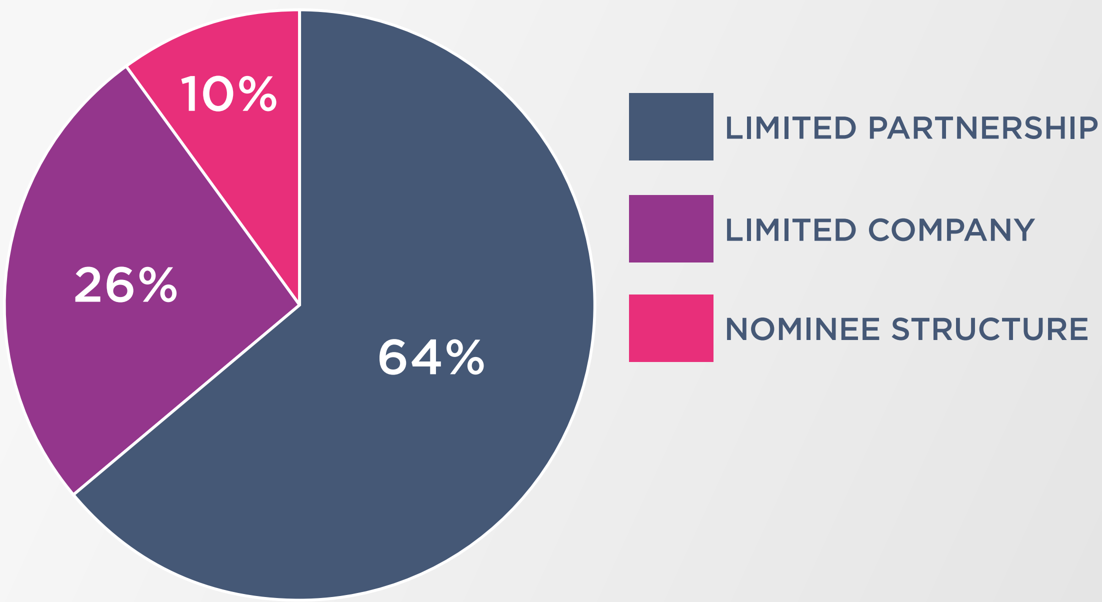


NUMBER OF EQUITY INVESTORS



INVESTOR POOLING VEHICLE STRUCTURES

Many Independent Sponsors and their investors are familiar with the classic limited partnership structure from their time in, or investing in, traditional blind pool private equity funds. And it remains the pooling vehicle of choice on Independent Sponsor deals with 64% of the deals surveyed using one. However, we are regularly seeing the use of limited companies in place of a traditional GP/LP structure and investors are getting increasingly familiar and comfortable with them. We find that the choice of pooling vehicle is typically informed by tax considerations, establishment and maintenance costs and investor preference.



CLOSING FEE

WHAT IS A CLOSING FEE?

The first key aspect of an Independent Sponsor's compensation is the closing fee (also sometimes referred to as an arrangement fee, due diligence fee, deal fee or transaction fee). These fees are often intended to compensate Independent Sponsors for their pre-completion time, efforts and risk taking. Sophisticated investors will consider closing fees in the context of the entire fee package (including both quantum and timing) and they may seek to trade off the closing fee against management fees and carried interest depending on how reasonable they see the overall fee package.

Two-thirds of the deals in our survey had a closing fee.

A closing fee can be paid in cash, equity in the deal or sometimes as a profits interest (i.e. a preferential payment in the waterfall). It is sometimes paid by the target company and other times by the equity investors (or the pooling vehicle that they participate through) (**this is split 50/50 based on the deals we surveyed**). Needless to say, it is important to get the tax right when structuring the reinvestment of the fee to make sure that there is no dry tax charge for the Independent Sponsor.

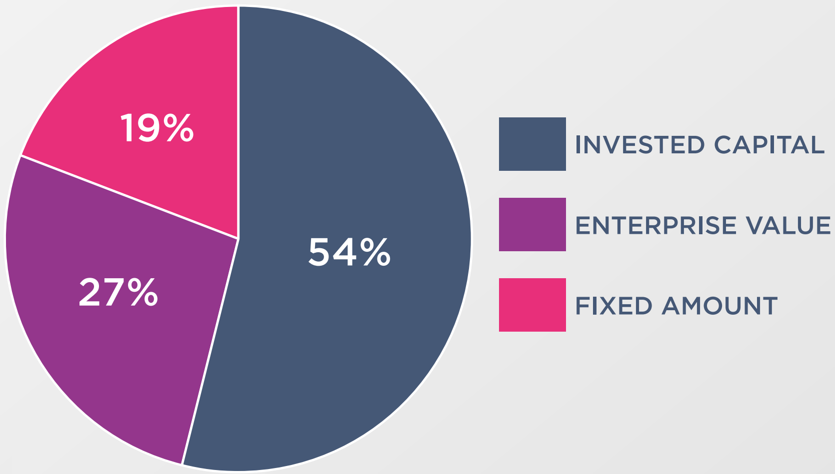
Conceptually, a fee based on enterprise value makes most sense when the fee is charged to the company (because it would be odd for the company to pay a fee on invested capital from only certain investors) and it makes sense for the fee to be charged on invested capital when charged to the pooling vehicle. Investors in the pooling vehicle will often prefer that the fee is charged to the company as it results in less of a cash drag upfront and it also means the other shareholders in the company bear some of the fee (i.e. any management and rolling shareholders).

HOW IS THE CLOSING FEE TYPICALLY CALCULATED?

Our survey data shows that the majority of deals surveyed (54%) featured a closing fee calculated as a percentage of invested capital. 27% of deals had a closing fee charged as a percentage of the enterprise value of the target and around 19% of deals had a closing fee based on a fixed monetary amount.

By contrast, the US market has developed a clearer market practice, with just over 91% of US deals in similar surveys having a closing fee calculated by reference to enterprise value of the target.

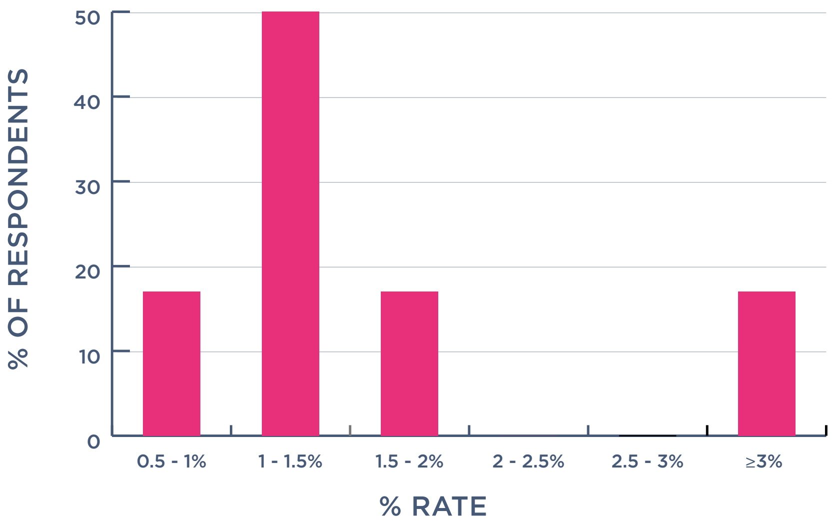
WHAT IS THE CLOSING FEE CALCULATED ON?



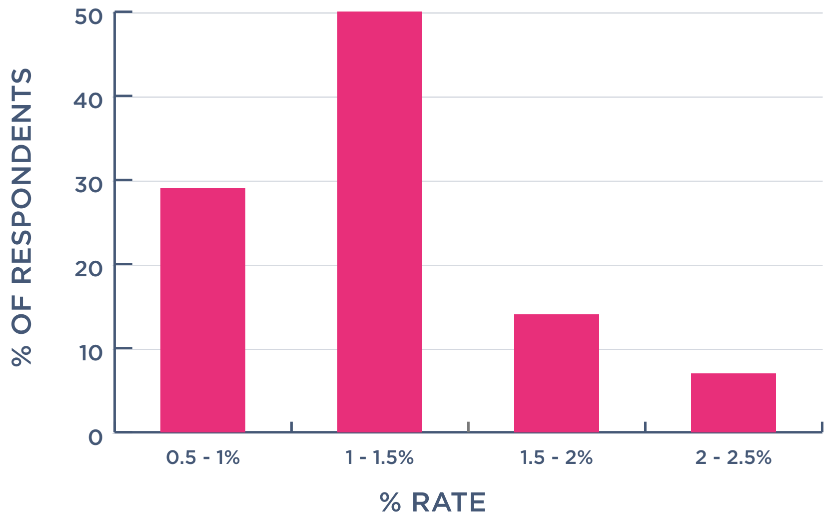
WHAT CLOSING FEE RATES ARE TYPICALLY AGREED?

Our survey also asked respondents to comment on the actual economics of the closing fees across deals they sponsored or participated in. We have broken the results down below.

CLOSING FEE RATE: ENTERPRISE VALUE



CLOSING FEE RATE: INVESTED CAPITAL



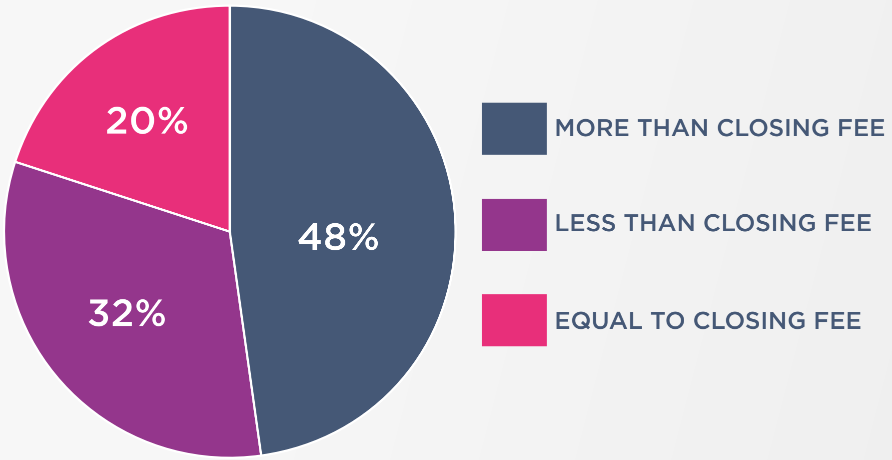
When charged on enterprise value, the results were quite varied, with 50% of deals having a fee of between 1% - 1.5% of enterprise value and 17% of deals having a fee of 3% or more of enterprise value.

Our data shows that, when charged on invested capital, the most common rate is 1% - 1.5% (50% of the deals in this category), closely followed by 0.5% - 1% (29% of deals).

REINVESTING THE CLOSING FEE

Often investors will ask Independent Sponsors to demonstrate an alignment of interest by rolling up to 100% of their closing fee into the deal. However, this is quite a deal-specific point and depends on the financial position of the Independent Sponsor.

SIZE OF SPONSOR COMMITMENT



Our survey data indicates that in 48% of deals the sponsor commitment was more than the closing fee, which implies the sponsor had to contribute additional own funds towards the sponsor commitment. Conversley, in 32% of deals the sponsor commitment was less than the closing fee, meaning the sponsor was able to realise some cash at closing.

OTHER CONSIDERATIONS

Although outside of the scope of our survey, there are various other considerations relating to closing fees. For example, in the context of certain deals, it may be appropriate for investors to share in the closing fee (e.g. where one equity backer has agreed to bear abort risk whereas other investors have not). Further, in the case of buy and build/platform deals, Independent Sponsors may sometimes negotiate a pre-agreed additional closing fee on each add-on.

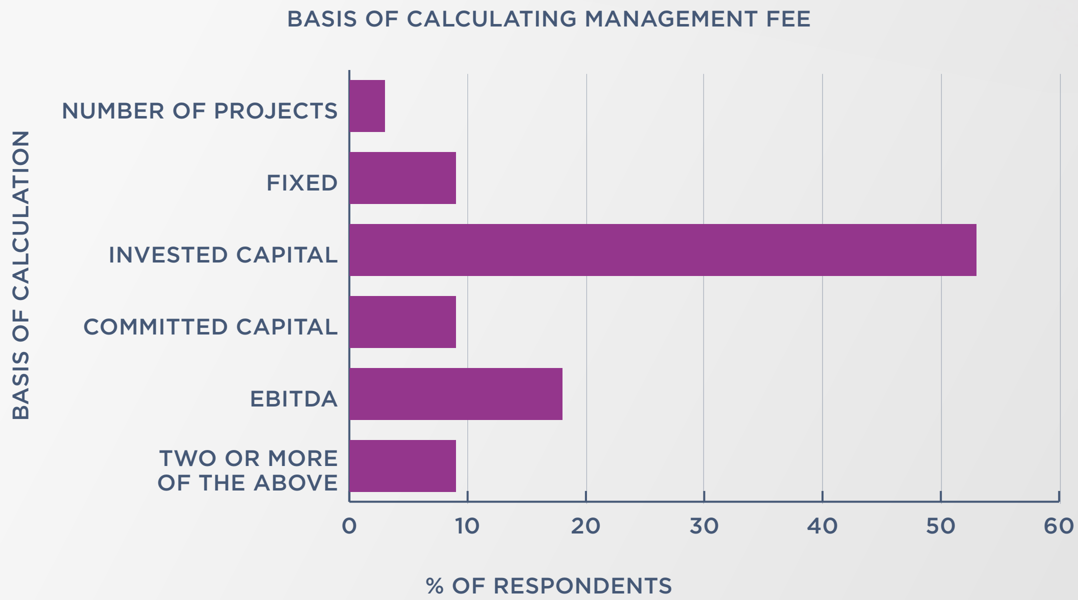
MANAGEMENT FEE

The management fee in an Independent Sponsor deal (sometimes described as a monitoring fee, consulting fee or advisory fee) typically compensates the sponsor for their day-to-day management of the pooling vehicle and the target company. **90% of the deals we surveyed had a management fee**.

Much like the closing fee, the management fee is sometimes charged to the investors in the pooling vehicle and sometimes charged to the target company. **68% of the deals we surveyed had the management fee being charged to the target company with the remainder being charged to the investors in the pooling vehicle**.

Around 53% of the deals we surveyed had a management fee charged on invested capital, whilst 18% of the deals we surveyed had a fee based on target company EBITDA.

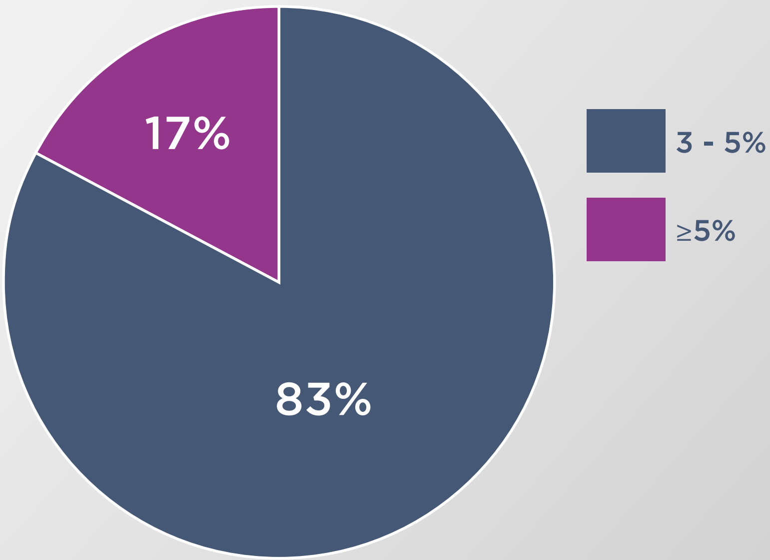
Interestingly, we understand that in the US the vast majority of Independent Sponsor deals (c.75% based on similar surveys) have a management fee charged to the underlying company based on EBITDA. This illuminates an interesting debate in the Independent Sponsor community about the basis of charging management fees – i.e. should management fees have a performance-linked element (which an EBITDA based fee provides) or should the management fee be designed to cover overheads (which lends itself to management fees being based on invested capital)?



WHAT MANAGEMENT FEE RATES ARE TYPICALLY CHARGED?

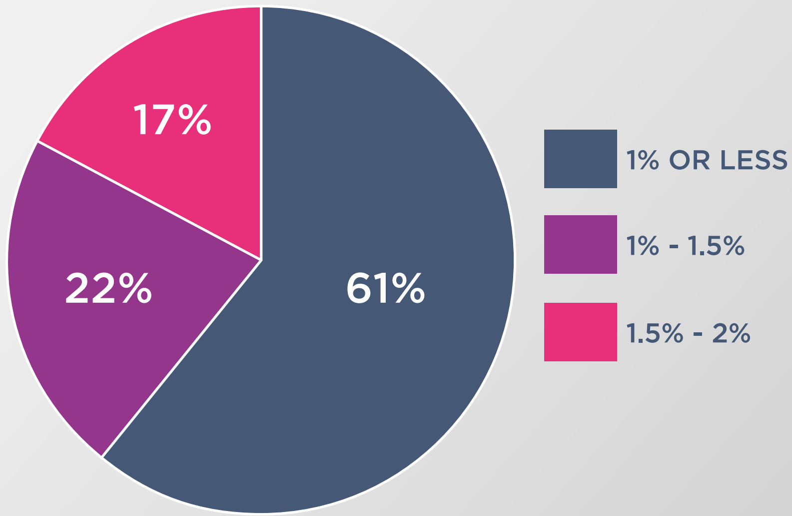
As you would expect, there is quite a variety when it comes to the actual percentage rates being charged. Many factors come into play when deciding on an appropriate fee rate, including the size of deal, sponsor/investor negotiating leverage, level of sponsor overheads and interplay with other economics.

MANAGEMENT FEE RATE: EBITDA



Our survey results showed that 83% of deals with an EBITDA-based fee charged between 3-5% of EBITDA per year with 17% charging a fee of 5% or more. All of the deals with an EBITDA-based fee had a cap and almost all had both a floor and cap. In all cases, the fee was charged to the target company.

MANAGEMENT FEE RATE: INVESTED CAPITAL

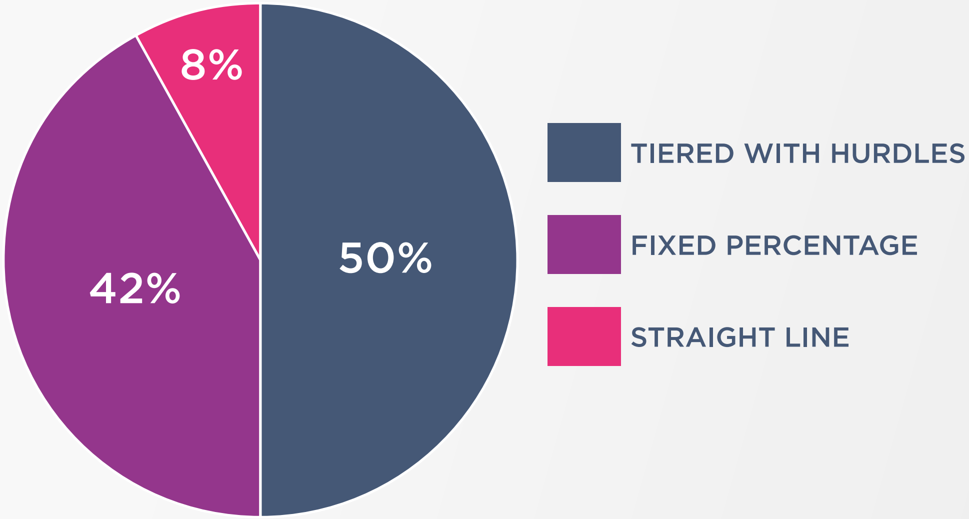


In the context of deals charging management fees on invested capital, 61% charged 1% or less, 22% charged 1-1.5% and 17% charged a management fee of 1.5-2%. In the context of these deals, 61% had the fee being charged to the target company and 39% were charged to equity investors.

CARRIED INTEREST

Carried interest is clearly one of the most important economic benefits for Independent Sponsors. Unlike traditional blind pool private equity funds, where there is a fairly well-trodden path for calculating carried interest, Independent Sponsor deals will often include a bespoke carried interest calculation based on various factors, including the return profile and holding period of the investment, the negotiating strength of investors vis-à-vis the sponsor and previous terms agreed with the same group of investors. **All but one of the deals we surveyed included a carried interest of some kind.**

CARRIED INTEREST CALCULATION



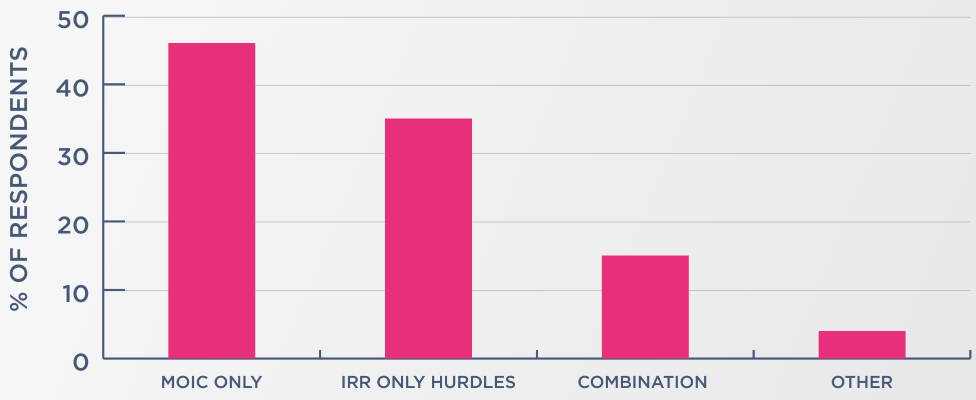
Based on our survey results, 50% of sponsors opted for a tiered-waterfall with hurdles, 42% opted for a fixed percentage model and less than 10% went with a straight-line approach (where the carried interest rate increases on a straight line basis depending on returns).

Interestingly, this contrasts with the position in the US where around 70% of deals in similar surveys included a tiered waterfall. Our expectation is that the European market will continue to shift towards a higher prevalence of tiered waterfalls.

HURDLES AND CATCH UPS

In a tiered waterfall, we would typically expect to see 3-4 carried interest "tiers" featuring escalating carry percentages which apply once returns exceed certain hurdles. Hurdles are typically based on either MOIC, IRR or a combination of the two. **Based on our survey results, it is clear that there isn't a "one-size-fits-all" approach. Around 45% used multiple-based hurdles, 35% used IRR-based hurdles and 15% had a combined MOIC/IRR approach.**

HOW ARE TIERED WATERFALLS CALCULATED?



We understand that in the US, MOIC based hurdles are still the most common, but hybrid models have been catching up in recent years. This is possibly a reaction to the longer holding periods over recent years given the difficult exit environment. In practice, we see European Independent Sponsors and investors having a common sense discussion around the appropriate promote calculation for each deal based on the anticipated return profile and exit timeline for the deal - all with the goal of aligning the Independent Sponsor's economics with the desired outcome. That being said, going into the next cycle where we hope exits will pick up, query whether we may begin to see less concern around longer hold periods and a return of focus to MOIC based approaches?

A WORD ABOUT CATCH UPS

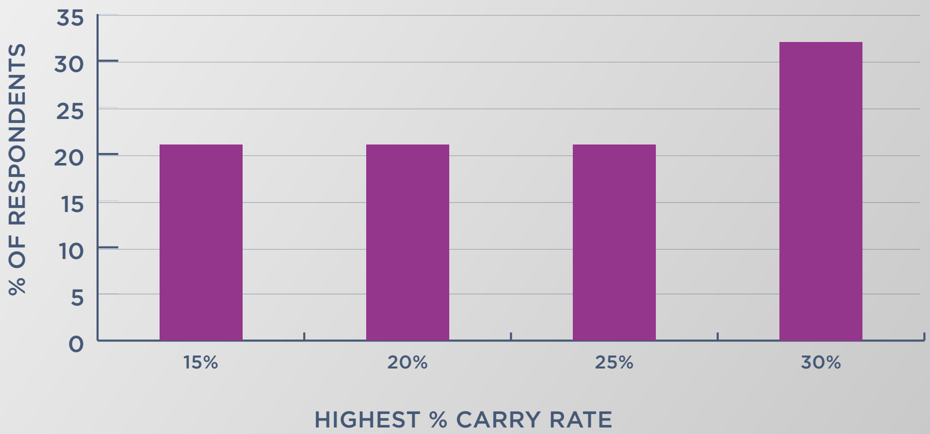
In our inaugural survey, we didn't drill down into detail on catch-ups, but we do get asked a lot about whether an Independent Sponsor can expect to receive catch up distributions after each stage of the waterfall (i.e. so that all profits catch up to the highest carried-interest rate - rather than just the incremental profit above the relevant hurdle). Commercial negotiations around this can quickly become quite involved, but we typically see full catch ups being most common and, where there is compromise, it would typically be the final tier of the waterfall where the catch up is dropped. This is consistent with the position in the US based on similar terms surveys. We will analyse this more closely in our next survey.

When it comes to carried interest and tiered structures, **we often see the first and second tiers of carry set at 10% and 15%, so lower than one would often see in the traditional blind pool fund model, and working up to 20% and above in subsequent tiers.** That is an interesting distinction compared to blind pool fund terms and is perhaps explained by Independent Sponsors backing themselves to ultimately outperform blind pool fund performance and investors being prepared to incentivise them to do so.

WHAT IS A TYPICAL CARRIED INTEREST RATE?

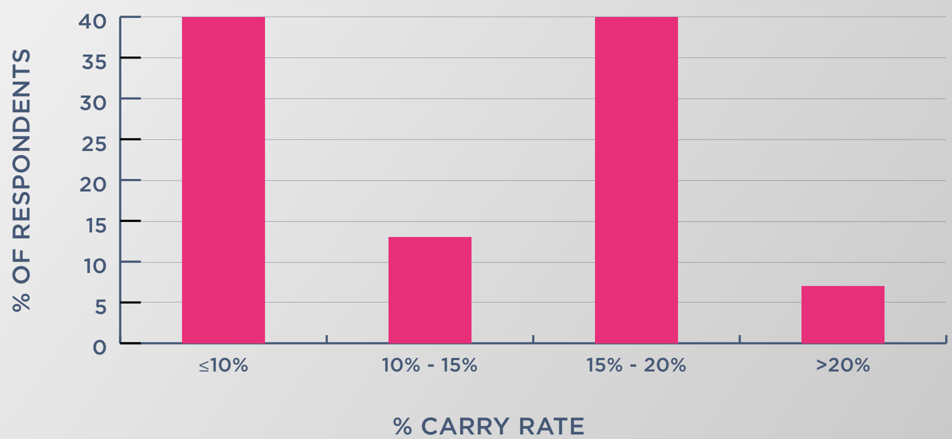
There is a wide variety of approaches to rates for tiered waterfalls. **When we look at the highest carried interest rate in a tiered waterfall, we see that a third of deals surveyed have a highest rate of 30% followed by an equal proportion of deals having a highest rate of 15%, 20% and 25% respectively.**

TIERED WITH HURDLES: HIGHEST % CARRY RATE



When it comes to the fixed percentage carried interest model, we saw an interesting spread of rates as shown in the graph below. Around 40% of deals had a rate of 15-20%, 40% of deals had a rate of 10% or less, 13% of deals had a carry rate of 10-15% and only a small minority of deals (7%) had a carried interest rate exceeding 20%.

FIXED PERCENTAGE MODEL: CARRY RATES



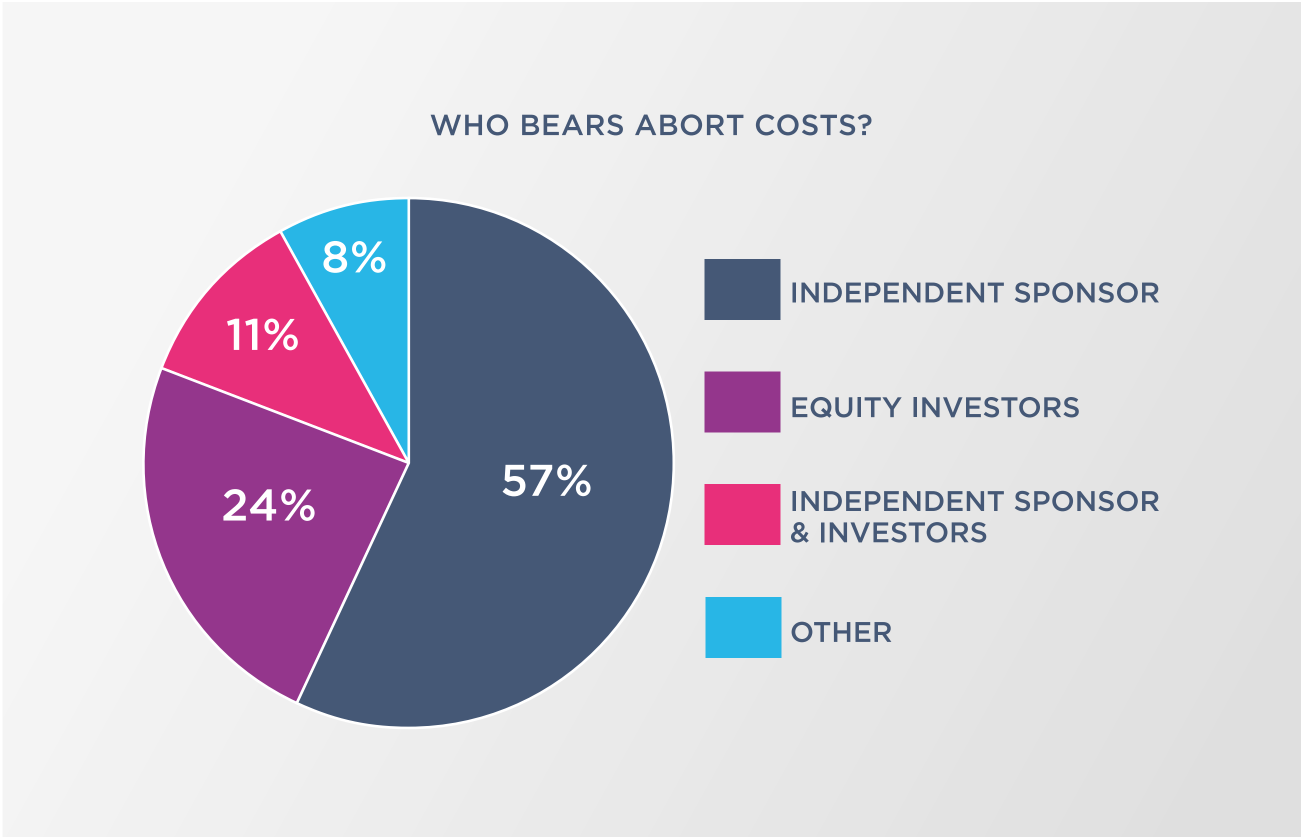
SPONSOR COMMITMENT

Given the deal-by-deal nature of the Independent Sponsor model, investors are very focused on the level of sponsor commitment. Compared to traditional blind pool private equity funds, where we typically see a sponsor commitment of c.1-2% of fund size (at least in the mid-market), **more than 40% of the deals in our survey included a sponsor commitment in excess of 5%.** That correlates, to some extent, with our earlier finding that 48% of deals had a sponsor commitment higher than the closing fee.

ABORT COSTS

Broken deal expenses are part and parcel of life as an Independent Sponsor. In an ideal world, Independent Sponsors would get these covered by investors (**which was the case in 24% of the deals we surveyed**). However, not every Independent Sponsor is in a position to secure costs coverage (**57% of the deals in our survey**). As a middle ground, sponsors will often find themselves having to share this risk with their investors (**which was the case in 11% of deals we surveyed**).

We also commonly see Independent Sponsors managing abort cost risks by agreeing some cost cover/protection with sellers and/or target companies in exclusivity letters, agreeing appropriate abort arrangements with advisers and phasing adviser work so that significant costs are only incurred once key due diligence items have been validated or the transaction is otherwise more certain to progress.



MEET THE TEAM: KEY CONTACTS

UK

CAPITAL FORMATION/FUNDS

JAN GRUTER
Partner, London

BEN COCORACCHIO
Partner, London

JAGDIP GUJRAL
Legal Director, London

TRANSACTION M&A

NATHAN PEARCE
Partner, London

CARLY GULLIVER
Partner, London

LIAM GASIOR
Legal Director, London

TAX

ZOE FATCHEN
Partner, London

FINANCE

ALASDAIR MCKENZIE
Partner, London

EUROPE, MIDDLE EAST & ASIA

FRANCE

MATHIEU TAUPIN
Partner, Paris

GERMANY

HUBERTUS SCHRÖDER
Partner, Hamburg

SPAIN

GONZALO FERNANDEZ
Counsel, Madrid

POLAND

DANIEL COUSENS
Partner, Warsaw

IRELAND

DEBORAH KELLY
Partner, Dublin

LUXEMBOURG

HARRISON DANS
Counsel, Luxembourg

MIDDLE EAST

PHILLIP DOWSETT
Partner, Dubai

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