INTRODUCTION

When we launched the first Citrin Cooperman Independent Sponsor Report last year, our goal was to shed a light on the largely unchartered landscape of the independent sponsor world, the “Wild West” of private equity, as one of last year’s esteemed contributors Bruce Lipian aptly described it.

Last year’s Report was the first of its kind, reaching a large number of independent sponsors (245 to be exact) on a wide variety of topics – firm evolution, deal flow, capital raising, economics and liquidity events, among others.

This year, we wanted to capitalize on the success of last year’s Report and to dig deeper. We continue to explore the themes covered last year, but we have also expanded our analysis of economic terms, in response to feedback from many of you.

In a sector where one broken deal can be financially devastating and one successful liquidity event can set you up for life, the stakes have never been higher. And so this year, based upon responses from over 200 independent sponsors, we have identified “typical” terms and calculations while also finding considerable variation in economic structures. By sharing these data points, both the typical and atypical, it is our hope that independent sponsors and their capital providers will have a greater understanding as to what the market will bear.
When we started our independent sponsor survey effort last year, there was no playbook for the sector. This year, we hope to create the beginnings of one so that all independent sponsors – novice and experienced alike – may benefit from the findings shared.

We are indebted to our survey respondents and our esteemed group of external contributors, both independent sponsors and capital providers, for sharing their insights with us and for making this year’s Report possible.

We hope that you enjoy the Report, and we look forward to discussing our findings with you.

Sincerely,

Sylvie Gadant, Partner, Citrin Cooperman
This is Citrin Cooperman’s second Independent Sponsor Report. This year’s Report incorporates results from an online survey and interviews with leading independent sponsors and capital providers.

This year, 208 professionals in the independent sponsor space shared their views on industry outlook and operational issues such as deal flow and mechanics, capital sources, deal economics, relationships with portfolio companies and liquidity events. The survey was conducted in April and May 2018, and interviews with leading independent sponsors and capital providers were conducted in July 2018.

One hundred and seventy five respondents identified themselves as independent sponsors. Like last year, the majority of these independent sponsors are at firms that have been in existence more than five years. Most firms (60 percent) have two or three principals, and 27 percent have only one principal. The majority have one non-professional staff member.

All major regions of the United States are represented by our respondent population.

* Some statistics used throughout the Report may reflect rounding.
FIRM LONGEVTY

- > 5 Years: 54.4%
- < 5 Years: 45.6%

TYPICAL EBITDA FOR COMPANIES INVESTED IN OR TARGETED

- < $2mm: 12.9%
- $2mm-$5mm: 27.1%
- $5mm-$10mm: 53.5%
- $10mm-$15mm: 2.4%
- > $15mm: 4.1%

TYPICAL ACQUISITION EBITDA MULTIPLE FOR TRANSACTIONS CLOSED IN PAST YEAR

- < 4x: 7.1%
- 4-6x: 13.5%
- 6-8x: 5.9%
- > 8x: 54.1%
- N/A: 19.4%

INDUSTRIES INDEPENDENT SPONSORS FOCUS ON:

- Manufacturing & Distribution: 60.6%
- Business Services: 58.8%
- Commercial & Industrial: 51.2%
- Consumer Products/Services: 32.4%
- Aerospace & Defense: 30.6%
- Tech-Enabled Services: 26.5%
- Health Care: 22.4%
- Transportation/Logistics: 22.4%
- Industry Agnostic: 19.4%
- Tech, Media, and Telecom: 13.5%

* Multiple responses allowed
LIQUIDITY EVENTS

Not surprisingly, many of the younger firms (80 percent of them) represented in our study (defined as those in existence less than five years) have not had a liquidity event. Among older firms (those in existence more than five years), 25 percent of them have had four or more liquidity events.

Of those firms that have had liquidity events, 12 percent have returned an average realized equity multiple of greater than 5x.

AVERAGE REALIZED EQUITY MULTIPLE OF INVESTMENT RETURNED TO INVESTORS
“Money moves to where returns are perceived to be achievable along the path with least resistance. Being an independent sponsor may be a way to complete an acquisition without the reporting requirements, restrictions and complexities of being a registered fund.”

– Gretchen Perkins, Partner, Huron Capital

The independent sponsor space has experienced a significant evolution over the past two decades. In the early days of the model (back when independent sponsors were still known as “fundless” sponsors), former private equity and investment banking professionals dominated the space. But now, as our research shows, professionals from other backgrounds – company management/operations and consulting, among others – are seeing it as a viable career path. They, like many, are embracing the risk inherent in the model, realizing it allows them greater control over their investments and holds the lure of outsize returns.

BACKGROUND OF INDEPENDENT SPONSOR PRINCIPALS

“...make good economic sense both from a GP and LP perspective: you have the benefits of not dealing with the dollar cost averaging of multiple investments and fund management issues associated with committed capital,” explained David Acharya, Partner, AGI Partners LLC. “In addition,
the model has strong limited partner alignment on issues such as fees, carried interest and discretion to review each investment opportunity.”

Like the independent sponsor sector itself, the firms represented by our respondents have also meaningfully evolved over the years.

Once our respondents gained a track record, they found that capital flows more freely. Several noted that they are now seen as a legitimate alternative to funded groups, whereas early on, that was not the case.

Many respondents described how their network of capital sources expanded and changed over the years. For some firms, capital partners have become more institutional. Other firms partner with family offices. Repeat funding relationships have become an option, especially for those with decent track records.

**Deal sourcing strategies have also changed for our respondents through the years. When many independent sponsors were just starting out, broker referrals and auctions were the dominant sources of deal flow. Once independent sponsors developed a track record with a few deals under their belt, inbounds and proprietary deal sourcing became more popular.**

> “YOU CAN’T PLAY PORTFOLIO THEORY WHEN YOU ARE AN INDEPENDENT SPONSOR. EVERY DEAL HAS TO STAND ON ITS OWN MERITS.”
> -JOHN FRUEHWIRTH, MANAGING PARTNER, ROTUNDA CAPITAL

**DO YOU PLAN TO RAISE A FUND WITH COMMITTED CAPITAL?**

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|-------------------------------|----------------|

Most respondents do not plan to raise a fund with committed capital, though respondents at firms with a shorter track record (five years or less) are more likely than those at firms with a longer track record (over five years) to eventually want to raise a fund.
In addition, many of our respondents have become more selective in which deals they pursue. Some avoid auctions entirely. Others have changed their focus, for example, moving up-market to focus on control buyouts or companies with higher EBITDA.

However, all independent sponsors face a uniquely tough situation – the need to balance myriad demands – sourcing, portfolio management, capital partner relationships and general operations to name a few – with limited resources.

In response, many of our respondents have added personnel, both principals and junior staff, which enable them to respond quicker to inbound opportunities, source more deals, allocate resources more efficiently and manage investments more effectively.

Streamlining processes is also essential to scaling an independent sponsor firm. Recognizing this, our respondents have employed various strategies: implementing CRM systems to manage investor and contact relationships, creating investor portals, establishing protocols for investigating deal leads, managing due diligence and streamlining portfolio management.

“Replication of returns comes from replication of processes,” advised John Fruehwirth.

"AS MANY INDEPENDENT SPONSORS HAVE FOUND, IT IS TOUGH TO SCALE YOUR FIRM WITHOUT HAVING THE NECESSARY PEOPLE AND PROCESSES IN PLACE."
- SYLVIE GADANT, PARTNER, CITRIN COOPERMAN
As the independent sponsor model has grown in popularity over the past two decades, it now has more credibility and traction with capital sources.

“In the 90’s, independent sponsor deals were typically referred to us,” said Evan Gallinson, Managing Director, Merit Capital. “But we soon realized we were getting good deals from this source, then called fundless sponsors, and they were adding great value post-close.” Merit Capital launched a specific outreach effort and created its first fundless sponsor conference in 2005.

“Now, we are the ones actively seeking independent sponsors and proactively trying to build relationships,” he added. “These relationships have also developed into more of a two-way street, and we sometimes are referring out deals to independent sponsors when the deal isn’t right for us.”

Gretchen Perkins of Huron Capital agreed. “We are in active outreach mode to independent sponsors. We want to maintain visibility with this crowd and be there for them when they find an opportunity and need capital to complete an acquisition.”

Capital sources available to independent sponsors have also expanded significantly.

“Even in the past five years we have seen a radical change,” said John Fruehwirth, Managing Partner, Rotunda Capital. “Endowments, families, and institutions recognize there is good talent in the independent sponsor field, and they are trying to harness it through one-off or repeat relationships. Early on, capital providers and sellers thought you weren’t good if you didn’t have committed capital. That’s now changed.”
Boutique investment banks or business brokers are the top source of deal flow for our IS respondents, with company owners/management, service providers and operating executives trailing behind. These figures are similar to those found in last year’s Report.
As was the case last year, our IS respondents review a large number of investment opportunities, with 41 percent reviewing over 100 opportunities in a typical year. Three-quarters of respondents submit 10 or fewer IOIs and 56 percent enter into only one or two LOIs in a typical year.

NUMBER OF INVESTMENT OPPORTUNITIES A FIRM REVIEWS IN A TYPICAL YEAR

Like last year, the number one reason why transactions do not close is because of due diligence findings or concerns about deal fundamentals (cited by 75 percent of respondents). Significant changes to financial performance post-LOI and the seller choosing to retain company are the next most frequent reasons, according to respondents.

CHALLENGES TO DEAL SOURCING

Many of our respondents said that their greatest challenge is finding good deals at attractive valuations. “That’s not surprising given market conditions,” noted Sylvie Gadant. “It’s been a sellers’ market for eight years. After the 2008 recession, some companies failed, and others survived and emerged stronger, which means there are fewer high-quality buy-side opportunities for acquirers. In addition, there’s more money at play – private equity has lots of dry powder and LPs are more frequently doing direct acquisitions. Moreover, private equity funds have resources dedicated solely to business development and deal sourcing. All of these factors increase competition for independent sponsors. To get the deals they want, they have to find deals that aren’t perfect, deals with some hair on them. They also have to figure out if they can get to the right multiple, mitigate the risks of the transaction and be able to increase post-closing value. That’s not an easy task.”
As we found in last year's survey, the top capital sources for independent sponsor respondents are family offices and mequity funds, followed by high-net-worth individuals and private equity funds. Older firms are more likely to rely on mequity and private equity funds than their younger peers. Younger firms are more likely to rely heavily on family offices for capital sourcing, unlike their older peers.
In slightly more than half of the platform transactions closed by our respondents, those transactions were the first time the equity funding source worked with an independent sponsor.

**QUICK STATS: INDEPENDENT SPONSOR RESPONDENTS**
- 50% introduce opportunities to their potential equity co-investor post-LOI, after they have exclusivity.
- 60% assume a lead sponsor role in managing their portfolio companies
- 75% take a lead role on the board, receiving the first call from management, compared to their capital provider

**CHOOSING A CAPITAL PROVIDER**

“The choice of a capital provider is more a function of who is the best type of investor for a particular transaction, not necessarily who you’ll get the best economics from,” advised Richard Baum.

For example, Black Granite Capital focuses on healthcare and looks for capital partners that have some background in the industry and subsector. “We choose capital providers based upon the stage of the company and the size of the check, as well as the specific sector within healthcare of the company we are investing in,” said Noah Kroloff, Managing Director. “It’s easier for partners with a healthcare background to relate to our opportunities and deals.”

The choice of capital provider may be driven by the mechanics of the deal.

“For us, the scarce capital provider is the one who is all equity,” said Richard Baum. “If we need all equity, then we typically go to private equity funds or family offices. There are lots of capital providers that are either debt or a combination of debt and equity such as mezzanine funds or SBICs, but these only work in certain types of transactions.”

Another driving concern is whether a capital provider will give an independent sponsor the latitude they need when trying to grow the portfolio company.

“I want to be active (board representation, strategy and M&A/financing) with each of our investments and not just source the investment and hand it off to someone else so we look for investor relationships that allow us to do that,” said David Acharya.

“Independent sponsors should be looking for someone who brings more than just capital,” advised Sylvie Gadant. “You want someone who will be a good partner and be there for you, especially since we all expect a downturn.”
BROKEN DEAL COSTS

When a deal goes south, independent sponsors shoulder or share broken deal costs in most cases.

TYPICAL ARRANGEMENT TO COVER BROKEN DEAL COSTS WITH EQUITY FINANCIAL SOURCE

- Equity funding source covers broken deal costs: 15.9%
- Independent sponsor covers broken deal costs: 26.2%
- Independent sponsor covers broken deal costs prior to partnering with the equity funding source and equity funding source covers broken deal cost thereafter: 24.4%
- Independent sponsor and equity funding source share broken deal costs: 26.8%
- Target company agrees to cover some of the broken deal costs in the event the target company cancels the deal: 3.7%
- Other: 3.1%
To decrease the burden of broken deal costs, a majority of our respondents (57 percent) have their service providers discount their fees when a deal falls apart. Fourteen percent of our respondents do not receive any discount from service providers.

“A few broken deals can put a new independent sponsor out of business so it’s important to minimize transaction costs when a deal falls through,” said Sylvie Gadant. “However, I would be wary of any advisors agreeing to fees contingent upon a deal’s success. You have to ask yourself: ‘are they truly unbiased or will they overlook something to get paid?’ Attorneys and accountants are members of professional services firms, not venture firms – you should expect the best independent advice from your deal advisors.”

A safer alternative is to ask an advisor to do a Phase One Due Diligence to validate EBITDA and working capital. “That can give the independent sponsor comfort with the numbers without putting them out of business if the deal doesn’t happen,” Sylvie Gadant advised. Once the capital provider is on board, then the firm can issue a complete quality of earnings report.
There is little standardization in deal economics among our independent sponsor respondents. While many in the industry believe terms may standardize over the longer term, numerous drivers are currently causing variation in how fees and carried interest are determined, as well as what percentages and absolute numbers are at play.

As many of our respondents indicated, deal economics tend to be negotiated on a deal-by-deal basis, with economics dictated by the capital provider.

“In our transactions, there’s variation in the economic percentages depending on the size of the check and whether we are taking a minority or majority stake in the company,” explained Noah Kroloff. “If our capital providers write a larger check, then we may take a smaller percentage on fees,” he added.

Another consideration is the anticipated level of activity of the independent sponsor with the investment. “The economics have to be tailored to each deal,” noted Gretchen Perkins. “If the independent sponsor won’t be involved in company management then we’ll expect him or her to be compensated by equity or a closing fee and not any type of ongoing management fees.”

For most respondents (57 percent), closing fees

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are a percentage of transaction value, with 45 percent of respondents typically receiving closing fees from $251,000 to $500,000. Sixty percent always roll at least part of their closing fee into equity. Younger firms are more likely than older firms to roll their closing fee in full into equity.

A small percentage of firms represented in the survey do not take a closing fee. A subset of these takes an increased management fee in year one in lieu of a closing fee.

“We bump up our management fee in the first year because the family-owned companies we typically invest in have never been institutionalized,” explained John Fruehwirth, “They may lack board reporting packages, people processes and technology so we are very hands-on in the first 12 to 24 months, and our management fee reflects that.”

For nearly half of our survey respondents, annual management fees are typically a percentage of EBITDA (most often 4 percent or more) with a floor and a cap. In actual dollars, typical management fees range from $101,000 to $500,000 for most respondents.

When a portfolio company is struggling, some independent sponsors forego a management fee. Others continue to take a management fee, on the theory that if the company is not performing, the independent sponsor will be more involved.

Consumer Growth Partners relies upon a flat management fee. “When things don’t go well with one of our portfolio companies, we add a lot more value,” said Richard Baum. “If our advisory fee is tied to EBITDA and EBITDA goes down, even though we’ll be working harder, we’ll get paid less. By the same token, we don’t think we should necessarily get an upside to our advisory fee if EBITDA goes up. Our upside comes in carried interest.”

Some respondents take a management fee based upon EBITDA but use other methods.
to ensure alignment of interests. “We do cap our management fee, and, when a company is struggling, we don’t take one,” said John Fruehwirth. “That’s a hard thing for a new independent sponsor to do because they need cash, but you have to balance your firm’s need with that of your investors.”

Like fees, carried interest varies widely among respondents, but for the largest percentage of respondents (38 percent) it is typically from 20 to 24.9 percent. The most common hurdle rate before carried interest kicks in is 8 to 9.9 percent. Eleven percent of respondents have no hurdle.

Many respondents utilize a tiered carry structure. Within that group, some use catch-up provisions.

When determining carried interest structures, many respondents emphasize the need to ensure alignment with their investors.

“It’s important to create a balanced approach to determining carry,” explained John Fruehwirth. “It’s also important not to create a perverse incentive to try to swing for the fence in terms of returns. The independent sponsor should be allowed to share in upside success (maybe even beyond the standard 20 percent), but if the returns are low, then there should be a significant impact to the carry formula so you can have better alignment with your investors,” he advised.

**SAMPLE INDEPENDENT SPONSOR ECONOMICS:**

- The hurdle rate is often 8%.
- Many respondents receive 20% carry. Some may start as low as 10% and escalate based upon performance to 20%. If there’s considerable upside, carry may exceed 20%.
- Tiered structures vary. Sample structures include:
  - If 3x return, then 10% carried interest; if 5x return, then 15% carried interest; if 10x return, then 20% carried interest
  - 15% until 3x return, thereafter catch-up to 20%, then split 80/20
  - 20% up to 3x cash on cash; 20% above 3x.
- Catch-ups may be partial or full.

From a capital provider’s standpoint, the perceived value of the company will dictate much of the deal economics and package.

“If we are paying six times for a company and we think it is worth six times, then more of the incentive will be back-end loaded,” explained Evan Gallinson. “Also, if we think the independent sponsor will really drive equity value, that will increase their carried interest rate.”

There is a cap to how much some investors, especially private equity firms, can give to independent sponsors.

As Gretchen Perkins noted, “If an independent sponsor is particularly good, then we may give them a few more points of equity, but there’s an upper boundary to how much equity we can share because we have a certain hurdle rate we need to give to our investors.”
**TYPICAL INDEPENDENT SPONSOR CARRIED INTEREST**

- < 5%: 38.4%
- 5-9.9%: 25.2%
- 10-14.9%: 14.5%
- 15-19.9%: 11.3%
- 20-24.9%: 2.5%
- > 25%: 4.4%
- N/A: 0%

**TYPICAL HURDLE RATE BEFORE CARRIED INTEREST KICKS IN**

- No Hurdle Rate: 52.5%
- < 5%: 8.2%
- 5-7.9%: 10.8%
- 8-9.9%: 12.7%
- 10-14.9%: 1.9%
- 15-19.9%: 7%
- 20-24.9%: 7%
- > 25%: 1.9%
- N/A: 0%
**EQUITY CONTRIBUTIONS**

Most respondents are required to contribute equity by their capital providers. Often, this equity is the independent sponsor’s own funds (according to 52 percent of respondents), rather than closing fees rolled into equity (utilized by 36 percent of respondents). The percentage of independent sponsors’ equity participation as of the closing date varies. Not surprisingly, older firms tend to contribute more equity than younger firms.

“The best alignment of interests is when the independent sponsor contributes meaningful equity to the deal,” John Fruehwirth noted.

Sylvie Gadant agreed. “It adds a tremendous amount of credibility if an independent sponsor puts money into the deal beyond rolled fees. When they don’t put money in, many investment bankers and capital providers may start to question their commitment to the deal.”

“Not everyone has the personal means to fund their share of equity,” she added. “That’s why some independent sponsors are finding a creative way to make that contribution and demonstrate their commitment. For example, they may take on personal loans from family offices, high net worth individuals or endowments to use as equity.”

**TAX LAW**

The vast majority of respondents are not planning to make any changes to their deal economics as a result of the new tax law. Several said they will change their deal structure (such as creating an S corporation rather than an LLC or a C corporation instead of a pass through vehicle). As another noted, the tax changes seem to make the biggest difference in quick flip deals which don’t really apply to independent sponsor transactions, where hold periods are often three years or more. Others noted they may restructure their carried interest or defer their closing fee into the first year.
There is little consensus among our respondents regarding how deal economics will evolve.

Some expect a decline in fees and less carry (either in terms of decreased percentages or increased thresholds) as the market becomes more competitive and independent sponsors vie for capital and transactions.

On the flip side, others expect economics will improve, especially for independent sponsors with a proven track record. As one respondent noted, “Investors ... will ‘pay up’ for good deal flow managed by experienced sponsors.”

In general, many respondents forecast greater movement in fees and less in carry, in part due to increased investor pressure on fees, especially from family offices and endowments. As one respondent noted, “After two to three years, [management fees] are looked at as a drag on the company.”

Others foresee less change in management fees because independent sponsors will still need to spend time increasing company value, particularly given high entry multiples.

With closing fees, regulatory changes may also put them at risk.

“When the SEC continues to increase regulatory scrutiny including potential broker deal activity, independent sponsor firms should be aware of the latest regulatory issues including the handling of closing fees and expenses,” explained David Acharya.

Like fees, the outlook for carried interest remains debated. Several respondents expect independent sponsors will continue to get rewarded for outsize returns but they will no longer get paid much for average deals. There may also be more frequent utilization of tiered structures, as many respondents forecasted.

Over time, as the industry continues to mature, there will likely be more standardization of terms and fees.

“I see the economics getting solidified and ... less divergence as a result of a ‘market’ being created,” anticipated one respondent.

“As more data becomes available, through this
Report and other means, terms will become more standardized,” said Sylvie Gadant. “The sector may move closer to traditional private equity firms’ 2/20 fees, but I believe there will still be outliers given the variability of the business models used by independent sponsors. Some sponsors will get paid more based upon the unique experience and expertise they bring to the table, as well as the value they will create during the life of the investment.”

“SIMILAR TO COMMITTED FUND MANAGERS, AN INCREASING NUMBER OF INVESTORS ARE SAYING THEY WANT INDEPENDENT SPONSORS TO GET RICH OFF OF CARRIED INTEREST AND NOT JUST FEES.”
- DAVID ACHARYA, PARTNER, AGI PARTNERS LLC
Looking ahead, opportunities are mixed for independent sponsors. On the positive side, many expect capital will increasingly flow to the sector, with capital providers and sell-side advisors more widely embracing independent sponsor transactions.

“Independent sponsors will benefit from the trend among investors who want to avoid a fund structure and operate on a deal-by-deal basis because it will allow them more flexibility,” as one respondent noted.

“In particular, family offices continue to seek direct investment opportunities in privately held companies and have discovered with vigor the independent sponsor market,” added Gretchen Perkins.

However, alongside growing capital provider interest will come increased competition for transactions, at least until the market turns. There is “too much capital chasing too few high quality deals; [and] search funds [are] driving up the market,” said one respondent.

“For a variety of reasons, multiples are being bid up,” noted Richard Baum. “There’s a lot of dry powder still on the sidelines so private equity firms are willing to pay more because they need to put money to work. In addition, competition is heating up as some players are coming downstream to bid for lower middle-market companies.”

In such a crowded marketplace, specialization will becoming increasingly important if independent sponsors want to differentiate themselves, according to many respondents.

“From what capital providers tell us, they really do value sector expertise and want an independent sponsor to add significant value to the deal,” said Richard Baum.

Gretchen Perkins agreed, “The market is becoming far more competitive and independent sponsors need to up their game in articulating how they are adding value to a transaction. Capital providers aren’t very willing to share economics if the sponsor is just a finder.”

“IF INDEPENDENT SPONSORS AREN’T DEVELOPING AND NURTURING RELATIONSHIPS WITH FAMILY OFFICES, THEY MAY BE MISSING A POTENTIAL SOURCE OF CAPITAL TO FUND THEIR TRANSACTIONS.”

—GRETCHEN PERKINS, PARTNER, HURON CAPITAL
Faced with this increased competition and high buy-side valuations, some respondents are hoping for a stock market correction, as was the case in last year’s survey.

When that correction will occur remains unclear. Some respondents expect a downturn will come in late 2019, but many do not expect it to come until 2020.

“When a downturn comes, deals will go bad, lenders will shut off management fees and independent sponsors could be significantly impacted, especially if they rely on those fees to fund ongoing operations,” warned Gretchen Perkins.

“Processes are tolerating [independent sponsors] right now – deals are getting done – but that will change if the market shifts,” another respondent added.

A recession is not the only thing causing worry among some independent sponsors. As with last year, concern about carried interest tax treatment remains on the mind of many.

“If a blue wave comes in November, attention again will be on carried interest tax treatment. It could become a bargaining chip in some fashion. We are all watching that,” noted Gretchen Perkins.

“THE FUTURE IS BRIGHT FOR INDEPENDENT SPONSORS. THOSE WHO ACCEPT THE CHALLENGE, RUN THEIR FIRMS WITH RIGOR AND CONTINUE TO REINVEST THEIR PROFITS BACK INTO THE FIRM CAN DO EXTRAORDINARILY WELL.”

—JOHN FRUEHWIRTH, MANAGING PARTNER, ROTUNDA CAPITAL
Much has changed in the independent sponsor space over the past two decades. The challenges inherent in the model remain – the need to keep sourcing while actively managing investments, satisfying myriad demands with limited resources and infrastructure, where the financial impact of one broken deal may be devastating and one successful deal life-changing. But greater numbers of professionals – from varied backgrounds and experience levels - are embracing those challenges and realizing that the model allows them greater control over their investments and is worth the risks for the lure of substantial returns.

Capital providers are increasingly seeking out the space, realizing it provides them with the freedom and flexibility to invest outside the limits of funded vehicles. And independent sponsors are seizing upon these new opportunities and interest.

The creativity and ingenuity of the model continues to impress and evolve like the space itself, with independent sponsors pursuing new sources of capital, creative economic structures and new financing for operations and equity contributions.

We expect the space will continue to evolve and that the entrepreneurialism of the model will further allow the independent sponsor model to thrive.

It is an exciting time to be an independent sponsor, and we look forward to seeing what happens next.
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Richard Baum co-founded Consumer Growth Partners (CGP) in 2005 as an investment and advisory firm with an exclusive focus on the retail and branded consumer products sectors. CGP is typically the first institutional investor in the company, but also serves as a primary business advisor to companies contemplating a capital transaction over a one- to three-year timeframe. Prior to co-founding CGP, Richard spent many years as one of Wall Street’s leading equity research analysts covering the specialty retailing sector. Learn more at: www.consumergrowth.com

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