

SKIN IN THE GAME: WHAT SPONSOR EQUITY REALLY SIGNALS

ALIGNMENT IS EXPECTED.
HOW IT IS FUNDED MATTERS.

isn INSIGHTS

EXECUTIVE SUMMARY

Independent Sponsors are increasingly expected to invest alongside their capital partners.

Citrin Cooperman's 2026 Independent Sponsor Report found that 69% of respondents are required to contribute equity. Among Sponsors making a contribution, 84% use personal funds, 66% roll closing fees, 32% use capital from friends and family, and 27% raise capital from other investors.

For the largest group of respondents, the contribution represents 2% to 5% of the total equity.

These numbers show that Sponsor capital is no longer an exception. It is part of the model.

But "skin in the game" is often treated as if all contributions create the same alignment. They do not.

Personal cash, rolled fees, and outside Sponsor-level capital expose the Sponsor to different risks. More importantly, the amount invested is only one part of whether a Sponsor remains aligned throughout the transaction.



WHY CAPITAL PROVIDERS REQUIRE IT

The logic is straightforward. Capital providers want the Sponsor to experience the same downside it is asking investors to accept.

A personal investment signals conviction. It also reduces the risk that the Sponsor will pursue deals primarily for transaction fees or carry that requires no contributed capital.

But capital providers are evaluating more than willingness to write a check. They are testing whether the Sponsor has performed enough work to believe in the thesis, whether it will remain engaged when performance falls behind plan, and whether its economic upside is tied to investor outcomes.

Sponsor equity supports that assessment. It does not complete it.

THE SOURCE OF THE CONTRIBUTION MATTERS

Personal cash creates direct financial exposure.

Rolling a closing fee also creates exposure, but the Sponsor is converting compensation generated by the transaction into equity rather than contributing entirely separate capital. Friends-and-family money or other outside capital may expand the check, but can also introduce an additional group of investors whose expectations need to be managed.

None of these sources is inherently more legitimate than another. They simply signal different things.

Sponsors should be transparent about how the commitment is funded and avoid presenting the entire amount as personal capital when it is not.

Capital providers increasingly have enough market experience to ask the follow-up questions.

MORE IS NOT ALWAYS BETTER

A larger contribution may strengthen alignment, but it can also concentrate too much of the Sponsor's personal liquidity in one transaction.

That is especially important for newer Sponsors expected to fund diligence, broken-deal costs, firm overhead, and an equity contribution without management-fee income from a broader portfolio.

Overcommitting to prove conviction can weaken the Sponsor's ability to support the company later, pursue the next transaction, or make an objective decision when the investment underperforms.

The appropriate contribution should be meaningful relative to the Sponsor, not simply maximized relative to the deal.

ALIGNMENT EXTENDS BEYOND THE CHECK

A Sponsor can invest personal capital and still be poorly aligned if its closing fee is disproportionate, its carry vests immediately, or it can leave the transaction without economic consequence.

Conversely, a Sponsor with a smaller cash contribution may remain deeply aligned through rolled economics, long-term vesting, board responsibility, and performance-based carry.

Capital partners should evaluate the full structure:

- How much cash is contributed?
- How much compensation is rolled?
- When does carry vest?
- What happens if the Sponsor is removed or steps away?
- How is the Sponsor affected by follow-on capital or dilution?
- Is the Sponsor accountable for the value-creation plan?

Alignment is a system, not a single percentage.

WHAT ACTUALLY MATTERS NOW

01

Make the contribution meaningful relative to the Sponsor's financial position, not merely visible in the capitalization table.

02

Be transparent about personal cash, rolled fees, and outside capital.

03

Evaluate the contribution alongside vesting, governance, carry, and ongoing responsibilities.

04

Avoid concentrating so much personal liquidity that investment judgment or future firm stability is compromised.

Sponsor equity has become one of the clearest expectations in Independent Sponsor transactions.

That expectation is reasonable.

But the purpose is not to create the largest possible personal check. It is to ensure that the Sponsor's financial and professional outcomes remain tied to the success of the investment.

The strongest alignment structures do not simply put the Sponsor into the deal.

They keep the Sponsor accountable throughout it.

Citrin Cooperman, 2026 Independent Sponsor Report
McGuireWoods, Independent Sponsor Deal Survey
UNC Institute for Private Capital, Independent Sponsors: Investment Characteristics and Performance
Ropes & Gray, The Rise of Independent Sponsors

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