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# European lenders are increasingly sponsorless and thriving

*Lenders in Europe are attracted to the diversification and enhanced risk-adjusted returns that lower mid-market sponsorless deals can provide, writes Aymen Mahmoud of McDermott Will & Schulte.*

Guest Writer - 6 hours ago

*Guest comment by Aymen Mahmoud*

The rise of sponsorless or non-sponsored transactions marks a natural evolution in Europe's private credit market. What began as more of an opportunistic niche is maturing into a complementary channel: one that sits comfortably alongside sponsor-backed activity and gives borrowers alternative access to capital in a world where private credit is increasingly dominant.

The shift in the European direct lending landscape is already evident. In the year to April 2025, non-sponsored deals accounted for roughly 14 percent of European direct lending transactions, according to PitchBook, reflecting its growing share in a market still dominated by sponsor-led deals. This dynamic is supported by reports from investor groups, which emphasise that sponsorless lending in the lower mid-market offers portfolio diversification and enhanced risk-adjusted returns.

As private credit managers deepen their origination infrastructure and their sophistication of sourcing, the tool kit for financing broadens. Funds are building direct sourcing teams, bespoke underwriting capacity and local franchise capability. This enables support for companies that may not fit neatly into a classic sponsor model and plays to one of the key strengths of private credit. This is not centred on the disintermediation of private equity: it's about the importance of flexibility and optionality for borrowers.

## points

In fact, there are two counterpoints. First, in a rising interest rate, competitive environment, investors are revisiting allocations to non-sponsored lending, precisely to escape an overreliance on sponsor structures. Secondly, the more non-sponsored businesses that have optimised capital structures, the more potential businesses private equity is likely to have, thus creating a virtuous circle for private credit and private equity.

Sponsorless capital has resonance for high-quality, fast-growing, founder- or family-led businesses that prize control and long horizons. In such cases, sponsorless lenders act more like relationship capital partners: patient, tailored and discreet. For larger corporates, it offers an alternative when the public or syndicated markets are opaque or slow to respond. This is especially true when these borrowers demand a solution off the beaten path.

Yet the synergies with traditional private equity are significant. They share many structural dynamics – alignment, speed, partnership mindset. Increasingly, lenders, sponsors and management teams operate fluidly across both models. A well-capitalised sponsorless business backed by credible private credit capital can, in turn, become an even more attractive buyout target for institutional investors. Indeed, some lenders view non-sponsored credit as a promising source of emerging dealflow into their sponsored pipelines.

Looking forward, sponsorless transactions are unlikely to replace sponsor-backed deals and the markets may not want them to. However, they have established their position as a core component in Europe's private debt architecture. The best lenders will be able to move easily between both worlds: offering disciplined underwriting, flexible structures and a partnership mindset deeper than any one transaction. It demonstrates that in private capital perhaps independence and alignment aren't opposites; they're two sides of the same (very well-structured) coin.

*Mahmoud is a partner and European head of finance at McDermott Schulte*

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