LBPAM EUROPEAN PRIVATE MARKETS

Tribune

September 2026

Sponsorless lending: Private debt's answer to Europe's "family business economy"

A powerful complement to traditional, PE backed direct lending is emerging in Europe: Sponsorless and minority sponsor lending. By targeting family owned businesses at the heart of the real economy, it opens a large, under served pool of resilient borrowers and genuinely diversifying credit exposure for long term investors.

Isabelle Luy-Landès,
Head of Direct Lending
LBP AM European Private Markets

Until now, European direct lending has told only part of the story. The bulk of the market finances companies backed by a majority private equity sponsor – a structure so dominant that it has come to define how the asset class is understood. The upper tiers of corporate finance are increasingly dominated by private equity backed companies: there are now more than twice as many PE backed firms as listed companies across the continent[1]. Yet it overlooks the type of company that actually shapes the continent's economic fabric: the family-owned business.

DEFINING A FAST-GROWING BUT OVERLOOKED SEGMENT

Two segments capture this overlooked territory.

- «**Sponsorless**» describes companies with no private equity investor at all in their shareholder base: typically, family-owned businesses run and controlled by their founding families.
- «**Minority-sponsor**» describes situations where a private equity fund holds a stake of roughly 20% to 49%: enough to sit meaningfully at the table and bring professional discipline, but not enough to take control.

For many family businesses, bringing in a minority sponsor is a first, softer step toward professionalized governance – often a precursor to a later generational handover, rather than an immediate loss of independence. It can also act as an accelerator, supporting both growth and the broader transition process.

Family businesses are the rule, not the exception, across continental Europe, representing **70%-80% of companies, and about 40%-50% employment**[2]. Their financing needs are considerable: organic growth, digital and environmental transition, internationalisation, strategic build-ups, the reshoring of production, and above all the generational transition that most European economies now face simultaneously. Banks, which have historically served these companies, are gradually stepping back from lower and core mid-market corporate exposure, partly because of sector consolidation and tighter capital requirements.

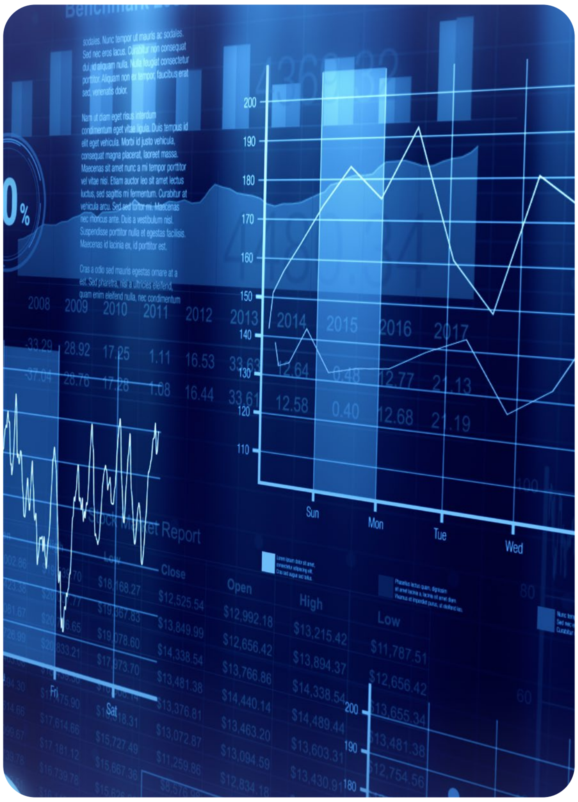
Private debt is stepping into that space – not to replace banks, which remain essential for short-term operating needs, but to complement them with longer-dated, more flexible capital and a single, stable point of contact through a company's different growth phases.

1. *https://www.privatemarketsinsights.com/post/private-markets-eclipse-public-listings-pitchbook-emea-private-capital-outlook*
2. *https://webgate.ec.europa.eu/circabc-ewpp/rest/download/d7c3df8c-2f97-4507-ac7a-eefba19c3bde*

WHY LENDERS SHOULD PAY ATTENTION

For a senior lender, financing companies without a majority PE sponsor (or with a minority one) is attractive first and foremost because of the risk profile. These businesses tend to carry less leverage, take a more conservative approach to their balance sheets, and generate cash flow superior to their investment needs.

→ **The result is often a favourable risk-return balance.**



In practice, lenders assess these companies much as they would any other credit:

- recurring,
- predictable cash flows;
- solid barriers to entry;
- diversification across clients,
- end markets and geographies;
- and an absence of key-person risk, with decision-making spread across a broader management team rather than concentrated in a single founder.

Completing the picture are prudent financial structuring, robust reporting, and a resilient competitive position through patents, client loyalty, or technological advantage. Governance is further strengthened by the presence of a long-term-oriented shareholder base and a clear separation of powers between ownership and management. Where a minority sponsor is present, this governance is typically reinforced even further, since these are professional investors used to formal reporting and oversight.

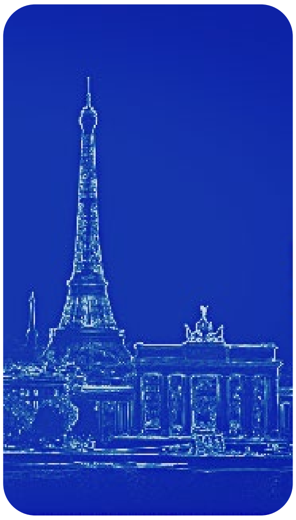
For institutional investors, the appeal runs deeper than a single deal. Sponsorless and minority-sponsor lending opens access to a large, diversifying pool of unlisted companies that would otherwise be out of reach. Just as importantly, it avoids a form of hidden concentration that is common in traditional direct lending: an investor exposed to both majority-sponsor private equity and private debt can end up with unrecognised double exposure to the same underlying companies. Sponsorless and minority-sponsor strategies sidestep that overlap entirely.

> **“A meaningful argument, at a time when institutional investors are actively seeking genuine diversification.”**

MULTIPLE STAKES BEHIND A GROWING OPPORTUNITY

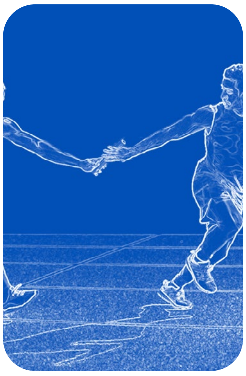
A question of economic sovereignty

Because family businesses account for such a large share of European employment and innovation, financing their growth is not a purely commercial question: it also entails industrial, technological and energy autonomy. The logic holds as long as the capital involved, both private equity and private debt, remains genuinely European; sovereignty is reinforced only if decision-making stays close to the businesses themselves. France stands out as the most advanced market on this front. Germany and the Benelux stand out as the next most mature markets, even though private and public financing remain closely intertwined in Germany. More broadly, all these markets – with the addition of Spain and Italy – are on a growth trajectory, underpinned by strong underlying potential.



Europe's looming generational handover

The scale of the transition ahead is hard to capture fully. In France alone, an estimated 40% of leaders of small and mid-sized companies plan to hand over their business within five years[3] – a figure that touches roughly 3 million jobs and implies that around 370,000 companies will need to be transmitted by 2030[4]. Where no successor or financing solution exists, the outcome is stark: companies close, taking jobs, know-how and local economic ties with them.



Making ESG work without a sponsor

Financial and extra-financial analysis now need to be treated on equal footing, from initial due diligence through the life of an investment. This matters particularly for sponsorless and minority-sponsor companies: many family businesses perform well but have not yet formalised their ESG approach, even when sustainability is already embedded in their long-term thinking. A senior lender that engages seriously with ESG can help establish an initial baseline and embed tracking indicators directly into loan documentation – a role that carries particular weight when no PE shareholder is present to provide that input.

Beyond risk reduction, a structured ESG approach improves access to capital and strengthens competitiveness: many of these companies sit in the Scope 3 supply chain of larger corporates, making sustainability credentials a genuine factor in winning tenders. Where a minority sponsor is present, its ESG team and the lender's can work in tandem, reinforcing the same message from two directions at once.

3. *https://bpifrance-creation.fr/entrepreneur/actualites/plan-transmission-dentreprise-cedants-repreneurs*
4. *https://www.lenouveleconomiste.fr/transmission-entreprise-france-2030-pme-eti-cession-134547/*

TOWARD A PAN-EUROPEAN ASSET CLASS

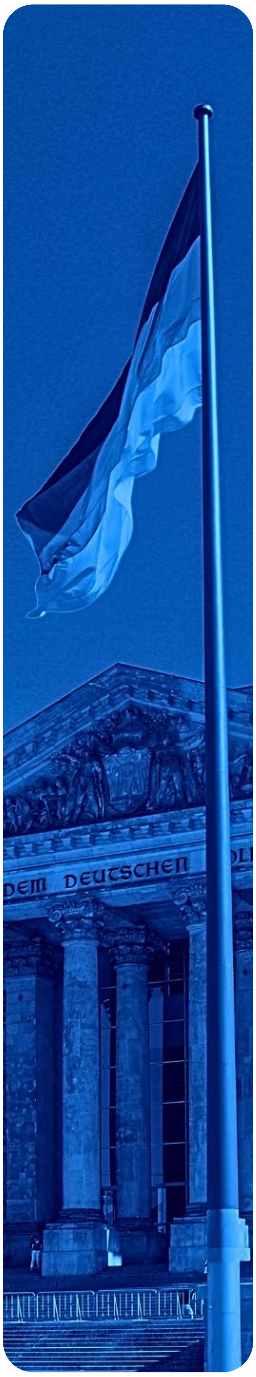
A convergence of practices across Europe looks increasingly likely, driven by the private debt market's growth and rising investor appetite for diversification. In terms of proportions, market estimates from PitchBook and Private Debt Investor suggest **majority-sponsor deals represent 70-80% of direct lending activity, with sponsorless around 15% and minority-sponsor difficult to isolate precisely, likely in the 5-15% range.**

Sponsorless and minority-sponsor lending thus gives senior lenders access to a deep, underexploited pool of borrowers, and offers a genuine source of decorrelation: unlike majority-sponsor deal flow, which tracks private equity M&A cycles and is sensitive to geopolitical uncertainty, sponsorless origination flows more steadily, since it does not depend on sponsor-driven transaction timing.

None of this diminishes the need for rigorous selection. Risk-adjusted returns in this segment remain attractive precisely because origination quality and selectivity are non-negotiable. But the direction of travel points toward sponsorless and minority-sponsor lending evolving from a niche allocation into a distinct, pan-European asset class in its own right.

France, as the most mature market in both private equity and private debt in continental Europe, is well positioned to help shape what that asset class looks like, setting standards around documentation, governance and risk monitoring, and helping educate institutional investors more accustomed to majority-sponsor strategies. What ultimately travels well across borders is not a single template but a methodology: proximity to management teams and family shareholders, and a genuine understanding of business models, adapted to each country's regulatory and cultural specificities.

Open questions remain, data access and reliability for family-owned companies chief among them, but the prize extends well beyond financing itself, toward the resilience of local economies, employment, supply chains, and the ability of Europe's national champions to grow on their own terms.



GERMANY'S MITTELSTAND: A SLEEPING GIANT

Germany illustrates both the scale of the opportunity and the obstacles still to overcome. **The Mittelstand (i.e. owner managed small and mid sized German firms, often family run) faces its own generational cliff: an estimated 186,000 companies will need to be transmitted between 2026 and 2030, and public development bank KfW estimates that 109,000 SME leaders intend to hand over their businesses by 2029. Some 57% of Mittelstand leaders are already over 55, and roughly 10,000 companies are currently searching for a successor with no candidate in sight[5].**

Yet financing infrastructure has not kept pace. Private equity and private debt remain still have room to grow in Germany, relative to France. Part of the explanation is cultural: German companies have historically maintained close, long-standing relationships with their house banks, and bank consolidation has progressed more slowly than in France. Opening to new financing partners means accepting closer scrutiny and sharing more information than these relationships have traditionally required.

Germany's export-oriented «hidden champions», often global leaders in industrial niches, add a further dimension. Facing their own succession challenges and a more uncertain geopolitical backdrop, many are recentring on local and European markets, generating fresh financing needs that reinforce the broader case for sovereignty-minded capital.

5. https://www.kfw.de/About-KfW/Newsroom/Latest-News/Pressemitteilungen-Details_876352.html

Disclaimer

These opinions are subject to change at any time and should not be construed as investment advice on the part of LBP AM. No forecast can be guaranteed.

This document has been prepared by LBP AM for information purposes only. It does not create any obligation on the part on the part of LBP AM. The information contained in this document does not constitute a solicitation or an offer to anyone to subscribe, buy or sell securities, options, units of funds or any other financial instruments or services, nor a recommendation to make an investment or a transaction. It does not take into account the investment objectives or financial needs of the recipient. No action should be taken or omitted on the basis of this document.

This document does not constitute advice on legal, tax or investment matters, and recipients should rely on their own examination of such matters or on the advice of a professional advisor.

Before making any investment (new or continuing), please consult a professional and/or an investment adviser as to its suitability. LBP AM cannot be held responsible for any decision taken on the basis of this document. The statements contained in this document are made as at the date of the document, unless otherwise stated, and the delivery of this document does not imply that the information contained herein is correct as of any subsequent date.

LBPAM
EUROPEAN PRIVATE MARKETS

LBP AM
SA, a public limited company (société anonyme) with a Management Board and a Supervisory Board with share capital of €12 138 931,20
Registered office: 36, quai Henri IV 75004 Paris.
Registered under no. 879 553 857 RCS Paris
Approved as a portfolio management company by the AMF under no. GP-20000031
Code APE 6630Z / Intracommunity VAT no. : FR 71 879 553857