

## Fundless Sponsor

### **Definition - What does *Fundless Sponsor* mean?**

A fundless sponsor or independent sponsor is a type of capital group or individual seeking acquisition candidates without having the equity financing required to complete the transaction up front (hence, they are "fundless"). Fundless sponsors raise the equity required to fund an acquisition after they have executed an LOI.

### **Divestopedia explains *Fundless Sponsor***

Since raising equity from investors is a notoriously difficult task, it is important for sellers to understand the likelihood that a fundless sponsor will actually close the transaction as proposed. Usually, signing LOI's with fundless sponsors is not advisable since the likelihood of closing the transaction greatly diminishes. If the business for sale has good free cash flow, a capable management team, and a solid balance sheet, it likely will be able to find committed capital directly rather than require a fundless sponsor.

Another type of fundless sponsor is a search fund. A search fund is a group or individual that has raised a small amount of capital from investors to "search" for an acquisition target. The search fund will identify and negotiate a transaction with a target, and then investors will be invited to participate in the the transaction and make up the balance of the capital required to close. Search funds, like fundless sponsors, represent a low probability option for companies looking for a clean and quick transaction.