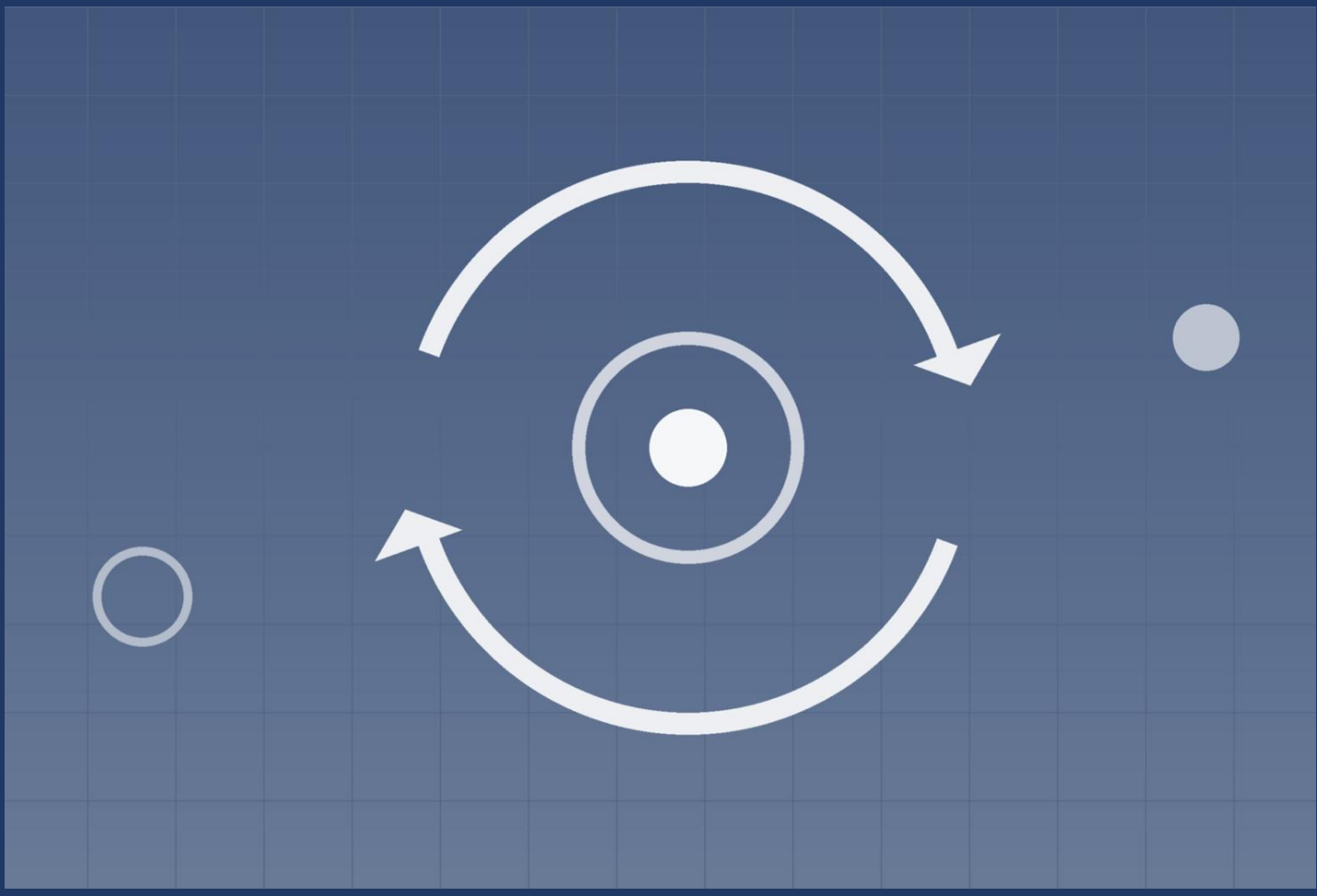
ROLLING OVER EQUITY

PRIVATE EQUITY TRANSACTIONS

HOW REINVESTING PART OF YOUR PROCEEDS WORKS, WHAT IT CAN BE WORTH, AND WHAT TO ASK BEFORE YOU AGREE



AEKLVYA

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WHAT IS AN EQUITY ROLLOVER?

When a private equity firm acquires a business, it often asks the owner to reinvest, or "roll over," part of the sale proceeds into equity of the new holding company that will own the business. The seller receives most of the value in cash at closing and retains a minority stake alongside the PE fund. Rollovers commonly range from 10% to 30% of the seller's proceeds, with around 20% a frequent starting point.

With the right structure and tax advice, the rolled portion can often be received on a tax-deferred basis, so tax is paid when that equity is eventually sold rather than at closing.

02

WHY BUYERS ASK FOR IT

For a PE buyer, a rollover aligns the seller with the investment: an owner who keeps "skin in the game" is motivated to support a smooth transition and continued growth. It also reduces the cash the buyer must fund at closing, and it signals that the seller believes in the business's future. Many PE firms view a seller's willingness to roll as a test of confidence in the numbers they have been shown.

ILLUSTRATIVE EXAMPLE: THE "SECOND BITE OF THE APPLE"

Rollover scenario	$ millions
Purchase price (equity value to seller)	**50.0**
Cash at closing (80%)	40.0
Equity rolled into new holding company (20%)	10.0
Value of rolled equity at next sale if equity value grows 2.5x	25.0
Total proceeds to seller across both transactions	**65.0**

Illustrative only. Outcomes depend on growth, leverage, the terms of the securities, and the timing and value of the eventual exit; rolled equity can also lose value.

03

THE UPSIDE, AND THE RISKS

PE firms typically aim to sell within four to seven years. If they grow the business, often through add-on acquisitions, professional management, and operational improvement, the rolled equity can be worth considerably more at the next sale than at the first. That potential **"second bite"** is the main reason sellers agree to roll. The trade-offs are real, however:

- You become a minority owner, without control over strategy, budgets, or the timing of the exit
- Your equity is illiquid until the PE firm sells, and the holding company usually carries significant debt
- Your shares may rank behind preferred securities or fees that are paid before common equity
- Add-on acquisitions and management incentive pools can dilute your percentage ownership

04

QUESTIONS TO ASK BEFORE YOU ROLL

The value of a rollover depends as much on its terms as on the headline percentage. Before agreeing, clarify:

Economics

WHAT YOU OWN

- Is the rolled equity the same class of security, at the same price per unit, as the PE fund's investment?
- Are there preferred returns, fees, or a waterfall that pays others first?
- How much leverage will the holding company carry?
- How will future dilution from add-ons or incentive plans be handled?

Rights

WHAT PROTECTS YOU

- Will you have a board seat or observer rights, and regular financial reporting?
- Do you have tag-along rights, and what do drag-along rights require of you?
- What happens to your equity if you leave the company: fair value, or cost?
- What is the firm's expected hold period and track record with past rollovers?

TAKEAWAY

ROLL WITH CLEAR EYES, AND CLEAR TERMS

A rollover can turn a good exit into a great one, but it is a new investment in a business you no longer control. Size it to what you can afford to leave at risk, insist on the same terms as the sponsor wherever possible, and involve tax, legal, and M&A advisors early. The headline percentage matters far less than the rights that come with it.

Every transaction is different. Contact us if you would like a confidential discussion about rollover terms or PE buyers, without commitment or pressure.

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