Rollover Equity in a PE Sale: What Sellers Need to Know Before Reinvesting – A Blog Post by David Goldenberg

Private equity buyers often ask sellers to reinvest part of their sale proceeds into the post-closing company. That rollover can create meaningful upside—but “20% rollover” tells you surprisingly little about the investment you are actually making.

For many business owners, selling to private equity does not mean walking away with a check and moving on.

PE buyers frequently ask and typically expect the seller to reinvest a portion of the proceeds into the business after closing. The rationale can be attractive: the owner takes substantial liquidity today while retaining exposure to a potential “second bite of the apple” when the PE sponsor ultimately exits.

But sellers should view rollover equity for what it is: **a new investment decision**, not simply another component of the purchase price.

Here are five questions worth answering before agreeing to the rollover.

1. What Does the Rollover Percentage Actually Mean?

If a buyer proposes a “20% rollover,” clarify: 20% of what?

Usually, the seller is reinvesting a percentage of the transaction proceeds. That does **not** necessarily mean the seller will own 20% of the post-closing company.

The new ownership percentage depends on the buyer’s valuation, capital structure, financing and other equity invested at closing.

Sellers should understand both how many dollars they are reinvesting and what those dollars actually buy.

2. What Security Are You Receiving?

Not all equity is economically equal.

The PE sponsor may hold preferred equity while management and sellers hold common equity, or different classes may have different liquidation, distribution or conversion rights.

That matters enormously on the next exit. A seller should understand where the rollover sits in the capital structure and what gets paid before it.

For instance, in one of our recent transactions, the PE firm relied on multiple layers of financing to purchase the business. When we received the buyer's operating agreement, it turned out that all of those other investors would be paid back in full before seller received anything for their rollover equity.

3. What Happens If More Capital Is Needed?

The business may make acquisitions, incur additional debt or require another equity investment after closing.

Can the seller be diluted? Does the seller have a right to participate in future financings? Will the seller be subject to future capital calls? Can the sponsor issue additional preferred securities ahead of the rollover equity?

The answers can materially affect the value of the investment.

4. What Rights Come With the Equity?

A former controlling owner may go from making virtually every major decision to becoming a relatively small minority investor overnight.

Sellers should understand the governance package: board representation, information rights, consent rights, transfer restrictions and protections such as tag-along or preemptive rights.

The objective is not necessarily to preserve control (in most PE transactions, that is unrealistic). The goal is to understand exactly what rights you have and value the rollover equity accordingly.

5. How Do You Eventually Get Your Money Out?

Unlike publicly traded stock, rollover equity typically has no ready market.

The sponsor may control the timing of the next sale, recapitalization or other liquidity event. Sellers should understand the drag-along provisions, transfer limitations and what happens if their employment relationship ends before the buyer's exit.

PE buyers will often promise a strong business plan with a planned exit of a larger enterprise in five years. However, typically the buyer has no obligation to exit in any specific time frame. Without protective rights, holders of rollover equity will have little to no insight in the value or prospects of their investment.

The Bottom Line

Rollover equity can be one of the most attractive parts of a private equity transaction. Many owners have created substantial additional wealth by continuing to participate in the business after a first sale.

But the right question is not simply, "How much am I rolling?"

It is: **What am I investing in, what rights am I receiving, and how does this investment produce a return?**

Those questions are best answered while the deal still has negotiating momentum—ideally at the LOI stage, not after the definitive documents arrive.