SELLING TO PRIVATE EQUITY

How private equity buys businesses, what "rolling over" equity means, and how a partial sale can pay you twice.

TYPE: GUIDE REVIEWED: NOVEMBER 2026 TIME: 9 MINUTES LEVEL: ADVANCED

AT A GLANCE

- **Private equity (PE)** firms buy established, profitable businesses, often a majority stake, aiming to grow them and sell within several years.
- Owners often **sell most of the business and keep a share** (rollover equity), so they can benefit when the PE firm sells later.
- Expect **detailed due diligence, regular reporting** and clear growth targets. See **R-12 Private Equity: When Bigger Investors Get Involved**.

Why it matters

For owners of strong businesses, PE can offer cash now, money and expertise to grow, and a potential "second bite" of value later. But it also means new partners with a set timeline and real influence over decisions.

How a PE sale often works

1. **The firm values the business**, usually as a multiple of EBITDA. See **X-03 How Businesses Are Valued When They're Sold**.
2. **They buy a majority**, often 60% to 100%, using their fund's money and often some borrowed money.
3. **You may roll over** part of your ownership into the new company.
4. **You may stay on** as CEO or in another role for a set time, often with incentives.
5. **The firm works to grow** the business: new locations, acquisitions, better systems.
6. **They sell** in a few years, often to a larger firm or company.

Example: the "second bite"

EXAMPLE

A PE firm values **Rosa's** company at **$2,000,000**. Rosa sells **60%** and receives **$1,200,000**. She keeps **40%** as rollover equity and stays as president. Over 5 years, the firm adds two cities and buys a smaller competitor. When they sell the larger company at a value of **$6,000,000**, Rosa's 40% would be worth about **$2,400,000**, before debt, fees, taxes and other terms that affect the payout.

That second payout isn't guaranteed. If growth stalls, the rollover could be worth less than expected. And if the company borrowed money for growth, the debt is repaid before owners are paid.

What to look for in a PE partner

Question	Why it matters
Have they invested in businesses like yours?	Relevant experience and connections
What's their plan for your business?	Their growth plan affects your team and brand
How much debt will they use?	More debt means more risk
What will your role be?	Authority, pay and length of commitment
How do they treat founders?	Call founders they've backed before
What's their timeline to sell?	Sets the pace of change

Common mistakes

- **Choosing only on price.** The partner matters for years.
- **Not understanding how rollover equity is paid**, including preferences and debt.
- **Agreeing to targets** you don't control.
- **Skipping calls** with other founders they've backed.

Your checklist

- ☐ Get 2 to 3 years of clean financials
- ☐ Decide how much you want to sell now and keep
- ☐ Model rollover outcomes in good and bad scenarios
- ☐ Call founders the firm has worked with
- ☐ Use an advisor and lawyer experienced in PE deals

Key words, explained

Word	What it means
Rollover equity	Ownership you keep in the new company after a sale.
Recapitalization	Selling part of the business while staying involved.
Platform	A business PE uses as a base to buy and combine others.
Leverage	Borrowed money used to buy or grow the business.

Where to go next

- **R-12 Private Equity: When Bigger Investors Get Involved**
- **X-07 Letters of Intent and Purchase Agreements**
- **X-10 Taxes When You Sell**

IMPORTANT
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