ACQUISITION STRATEGIES

Private Equity vs. Strategic Buyers: How the Deal Terms Change

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A founder gets two offers for her company. The private equity fund offers more. The industry competitor offers less, all in cash at closing. Once the terms are laid side by side, the gap often narrows or reverses: part of the higher offer is equity she keeps, part depends on future earnings, and all of it depends on the fund lining up debt.

The headline price is the least useful way to compare buyers. Private equity and strategic buyers build their offers differently, and those differences show up in the deal terms, not the number.

How Each Buyer Gets to a Price

A strategic buyer, usually a company in the same or an adjacent industry, can pay for synergies: combined customers, cut overhead, new products to sell. A private equity buyer is pricing an investment it plans to sell again, usually within several years, and it typically funds a large share of the price with debt. That leads to different priorities at the table.

Where the Terms Diverge

Rollover equity. PE buyers often ask the seller to reinvest part of the proceeds in the new company. That can mean a “second bite” when the fund sells, but it also means taking less cash now and becoming a minority owner under documents the fund writes. Strategic buyers usually pay cash.

Financing risk. A PE deal depends on lenders. Sellers should look closely at financing conditions and whether the buyer will pay a reverse termination fee if its financing falls through. A strategic buyer paying from its balance sheet usually offers more certainty.

Your role after closing. PE buyers generally want management to stay and run the business, often with new incentive equity. A strategic buyer may fold the company into its own operations, which can mean a short transition role and a new name on the door.

Post-closing protection. PE buyers commonly use representations and warranties insurance, which can limit how much of the price the seller has to leave in escrow. Strategic buyers more often rely on traditional indemnification and larger holdbacks.

Regulatory and confidentiality risk. A competitor buying you may face antitrust review, which can lengthen the timeline. It also means handing sensitive pricing and customer data to a company that keeps it if the deal falls apart.

The Rollover Documents Deserve Their Own Review

When a seller rolls over equity, the purchase agreement is only half the deal. The new company's operating or shareholder agreement controls drag-along rights, how and when the seller can sell, whether the seller's stake can be diluted, and what happens to it if the seller leaves. Restrictive covenants are often tied to that equity as well. These terms decide what the "second bite" is actually worth.

Final Thoughts

Neither type of buyer is better by default. The right comparison is what each offer delivers after rollover, earnouts, escrow, financing risk, and the seller's role are accounted for. Sellers who compare offers on those terms, not just price, negotiate from a stronger position with whichever buyer they choose.

About the Author

Ari Tuchman is a Los Angeles transactional attorney and founder of Tuchman Law, APC. He focuses on real estate transactions, business acquisitions, and general counsel services for companies and investors throughout California.

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