

Minority Investments in M&A | PE – Key Considerations


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2. Economic Protections & Anti-Dilution
3. Exit Architecture & Liquidity Planning
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5. Risk Allocation, Liability & Capital Structure

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Governance, Control & Information Rights

- Governance rights substitute for control: board seat/observer is baseline, but quorum rules must prevent sidelining and preserve effective participation; information rights (reporting, KPIs, audit access) enable oversight.
- Veto/consent rights over reserved matters (e.g. M&A, budgets, financing, share issuances, related-party deals) are essential but must be calibrated to avoid de facto control triggering potential regulatory clearance requirements.
- Deadlock mechanisms (escalation, buy/sell) are common but often asymmetrical in minority settings, reducing effectiveness and limiting real bargaining leverage.



2

Economic Protections & Anti-Dilution

- Pre-emption rights protect the investor's stake: subscription rights for new issuances and transfer restrictions (ROFR/ROFO) help maintain ownership percentage despite future capital increases or shareholder changes.
- Anti-dilution mechanisms (weighted average vs full ratchet) safeguard value; tag along rights ensure proportional participation in exits and alignment with controlling shareholders.
- Dividend policies mitigate retention or leakage of value; key risk is economic dilution and non-arm's-length value diversion without robust protections.



3

Exit Architecture & Liquidity Planning

- Drag-along rights enable majority-driven exits (often 50–75% thresholds), requiring a careful balance between liquidity and protection against premature sales; tag-along rights ensure minority investors can exit on equal terms.
- IPO provisions (e.g. lock-ups, conversion mechanics) must align with the investor's timing and broader exit strategy.
- Put/call options offer fallback exits but may trigger valuation disputes; exit cooperation obligations and “exit optionality” (e.g. dual-track readiness) are increasingly key to execution.



4

Alignment, Incentivisation & Structural Risks

- Management incentives (e.g. sweet equity, ratchets, hurdle shares) align interests with value creation and exit outcomes but require careful structuring to avoid excessive dilution.
- Leaver provisions (good/bad leaver) protect continuity and value; however, management may align de facto with majority shareholders, especially due to appointment rights or longstanding ties.
- Minority risk: informal alignment can undermine formal protections; robust incentive design, governance rights and calibrated vetoes are key to maintaining balanced stakeholder alignment.



5

Risk Allocation, Liability & Capital Structure

- Warranty protection is more limited in minority deals; investors rely instead on specific indemnities and downside protections, including W&I insurance, as post-closing remediation through control may be challenging.
- Risk allocation is contract-driven: unlike control-based majority deals (enabling operational influence), enforcement depends on precise drafting and upfront risk identification.
- Capital structure is critical: equity vs shareholder loans affects returns and insolvency ranking; minority investors need safeguards over future financing to avoid leverage-driven risk shifts without influence.

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