

ADVANCED PHASE

MIPs in secondary transactions: what changes when the fund changes hands?

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Sponsor-to-sponsor sales are a large share of European exits, which means the secondary is not an edge case but a standard scenario every MIP should expect. For the plan, and for the people in it, a secondary raises questions a trade sale never does: how much of the crystallised value rolls into the new structure and how much is taken off the table; whether vesting, terms and leaver provisions carry over or reset; and how the record of five years under one owner survives the transition to the next.

This article looks at the secondary from the plan's perspective: what genuinely ends, what genuinely begins, the rollover decision that connects them, and the administrative handover that determines whether the new hold starts clean or starts with inherited ambiguity.

What ends, what begins, and the decision in between

What ends. For the plan, a secondary is a genuine exit. The waterfall runs, entitlements crystallise, vested positions convert into proceeds, and every question the exit-readiness and waterfall articles described gets asked in full. The buyer being another fund changes the diligence style (a sponsor knows exactly where MIP records go soft, because it has seen its own), but it does not soften the requirements. The old plan should close the way any exit closes: reconciled, calculated, settled, and documented.

What begins. The incoming sponsor almost always wants a management incentive plan of its own, designed to its house style, priced off the new entry valuation, and vested against the new hold. For the management team this is a genuine new inception: new documents, new terms, new entry values, new leaver provisions, and everything the early articles in this series said about setting a plan up correctly applies from zero. Terms do not carry over by default, and assuming continuity is the most common source of disappointment: the new plan may be better or worse on any given dimension, but it is new, and it deserves to be read as such.

The decision in between: the rollover. The connective tissue is the question of how much of the crystallised outcome the team reinvests into the new structure. Incoming sponsors typically want meaningful reinvestment (alignment, and a signal of confidence); the team typically wants some de-risking after years of concentrated exposure. The negotiated answer, so much cash out, so much rolled in, at the new valuation, on the new terms, is one of the most consequential financial decisions the individuals will make, and it deserves individual advice: the right answer differs by person, by stake, and by stage of life. From the plan's side, what matters is that the mechanics are precise: the rollover value, the instrument it buys, and the terms it is subject to, documented per participant, at completion.

DIMENSION	OLD PLAN	NEW PLAN
Value	Crystallises through the waterfall at completion	Entry at the new valuation; rollover buys in at the same price the sponsor pays
Vesting	Applied as at the completion date; the record decides balances	Typically restarts against the new hold, on the new schedule
Terms and leaver provisions	Extinguished with the old documents	Newly negotiated; no default continuity
The record	Closed, final, and archived as the answer to future questions	Opened fresh, with the closing statement as its verified starting point

The handover: closing one record, opening the next

Administratively, a secondary is the one scenario where a plan must be shut down and started up in the same motion, and each half has its own failure mode. The closing failure is leaving the old plan's final state fuzzy: completion happens, proceeds are distributed, and the final reconciled statement of who held what, vested what, and received what is never quite produced, because everyone has moved on to the new structure. That statement matters for years: tax filings, departed participants' questions, and any later dispute all point back to it. Produce it, verify it, archive it.

The opening failure is the mirror image: the new plan inherits assumptions instead of records. Rollover amounts taken from the deal model rather than the final completion statement; vesting start dates "as per the old plan" without anyone checking what the old plan actually said; participant data copied across with its accumulated errors intact. A secondary is a rare, valuable opportunity: the new record can start perfectly clean, seeded from a verified closing statement, with every entry value equal to a price actually paid at completion. Programmes that take that opportunity begin the new hold with the discipline this series describes already in place. Programmes that do not have imported the old hold's drift into a plan that is supposed to be new.

Seen from the plan's side, a secondary is the full lifecycle compressed into one completion: an exit that must be exit-ready, and an inception that must be set up correctly, back to back, for the same group of people. It is the single best argument for treating administration as one continuous discipline from inception to exit, because in a secondary those two ends of the lifecycle literally touch.

What this means in practice

FOR FUND MANAGERS

Selling into a secondary: prepare for sponsor-grade diligence. The buyer knows where MIP records fail. The exit-readiness work is the same as for any process, with less room for soft answers.

Buying in a secondary: seed the new plan from verified facts. Insist on the final completion statement as the source for rollover amounts and participant data. The clean start is worth more than the week it takes.

Design the new plan as new. Inherited expectations are real even when documents are not. Communicate explicitly what the new terms are, especially where they differ from what the team knew.

FOR CFOS AND MANAGEMENT TEAMS

Take the rollover decision with advice, not momentum. How much to de-risk and how much to reinvest is a personal financial decision inside a collective negotiation. It deserves individual attention.

Read the new documents as if you had never seen a MIP. Vesting, leaver provisions, and the waterfall position may all differ from the plan you knew. The old plan's terms are gone; only the new ones pay.

Keep a copy of the closing statement. Your final position under the old plan is the reference for your tax filings and your rollover basis. It should be in your file, not only in the company's.

One last thought

The secondary is where the lifecycle framing of this whole series stops being a metaphor. Inception, hold, and exit are usually spread across five or more years; in a sponsor-to-sponsor sale, an exit and an inception happen on the same day, to the same people, and the quality of each depends directly on the other. A clean exit makes a clean start possible; a fuzzy one contaminates the next hold before it begins.

Handled well, a secondary leaves everyone with something rare: a fully closed record behind them and a perfectly seeded one ahead. That is the discipline, and it is the work we do at MIP Desk.

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