

Part 27 of 32

## Secondary Transactions: GP-Led Secondaries, LP Transfers, and Tender Offers

GP-led secondary mechanics and financial governance, LP transfer facilitation, tender offers for employee liquidity, and the valuation and financial disclosure requirements of secondary transactions

## WHAT YOU WILL LEARN AND WHY IT MATTERS

---

Secondary transactions — the sale and purchase of existing private company equity interests without the company itself raising new capital — have become an increasingly important feature of the private capital landscape. For PE-backed companies, GP-led secondaries allow the fund to continue holding its best investments beyond the typical fund lifecycle without forcing a premature exit. For late-stage venture companies, tender offers provide employee liquidity without requiring a full exit event. For PE fund LPs, secondary sales allow rebalancing of portfolio allocations without waiting for the fund's natural liquidation.

The CFO of a private capital-backed company may encounter any of these secondary transaction types, and each creates specific financial governance obligations: the financial disclosure required to support the buyer's valuation analysis, the fairness opinion process, the financial documentation required by the SEC or other regulatory authorities, and the accounting and tax consequences of the transaction for the company and its stakeholders. Understanding these obligations in advance — rather than encountering them for the first time when a secondary transaction is imminent — is the preparation discipline that allows the CFO to manage these events efficiently.

## GP-LED SECONDARY TRANSACTIONS

---

A GP-led secondary transaction — also called a continuation fund, a GP-led restructuring, or a single-asset secondary — is a transaction in which the GP of a PE fund creates a new vehicle (the continuation fund) to acquire one or more portfolio companies from the existing fund, allowing the GP to continue holding the best investments beyond the original fund's lifecycle while providing the existing fund's LPs with the choice to receive cash (liquidity) or to roll their interest into the continuation fund (continued exposure).

**THE FINANCIAL GOVERNANCE REQUIREMENTS:** GP-led secondaries involve a direct conflict of interest — the GP is on both sides of the transaction (selling on behalf of the existing fund and buying on behalf of the continuation fund), creating the potential for the transaction to be structured in a way that benefits the GP at the expense of the LPs. Most institutional LPs and the emerging industry standards for GP-led secondaries require the transaction to be validated by an independent process: a fairness opinion from an independent financial advisor confirming that the transaction price is fair from a financial point of view to the existing fund's LPs, and in some cases a vote by an advisory committee of LPs to approve the transaction terms.

**THE CFO'S ROLE IN GP-LED SECONDARIES:** The portfolio company's CFO plays a central but often overlooked role in GP-led secondaries. The transaction price — the value at which the portfolio company is transferred from the existing fund to the continuation fund — is based on a valuation that requires the company to provide current financial data, forward financial projections, and the operational context required for the independent financial advisor to form a fairness opinion. The CFO must prepare this financial package with the same rigor applied to the preparation of a full sale process, because the LP advisory committee and their financial advisors will scrutinize the financial data as carefully as any

strategic buyer's due diligence team.

**THE VALUATION METHODOLOGY:** The portfolio company valuation in a GP-led secondary typically uses the same methodologies as an M&A; exit valuation: the comparable public company trading multiples applied to the trailing twelve-month and next-twelve-month EBITDA, the comparable transaction multiples from recent M&A; transactions in the same industry, and the DCF value from the company's forward financial projections. The CFO must ensure that the financial projections underlying the DCF analysis are rigorous and defensible — projections that are overly optimistic will be challenged by the LP advisory committee's advisors and can damage the GP's relationship with its LP base.

## **LP TRANSFER MECHANICS**

---

LP transfers — the sale of an LP's interest in a PE or venture fund to a secondary buyer — are technically transactions between the LP and the secondary buyer rather than transactions involving the portfolio company. However, the portfolio company's CFO may be involved in LP transfers in several ways: providing financial information to support the secondary buyer's valuation of the fund's portfolio, facilitating the transfer of information rights from the selling LP to the buying LP, and managing the governance implications of a significant change in the fund's LP base.

**THE INFORMATION PACKAGE FOR SECONDARY BUYERS:** Secondary buyers who acquire LP interests in PE and venture funds require detailed financial information about each portfolio company in order to value the fund interest they are acquiring. This information package — typically prepared by the GP with input from the portfolio companies — includes the most recent audited financial statements, the current management financial projections, and the qualitative business update that provides context for the financial data. The portfolio company CFO's role in preparing this information package is to provide the financial data and the financial projections in the format and level of detail that the GP specifies, with the accuracy and completeness required to support a secondary buyer's financial analysis.

**RIGHTS AND OBLIGATIONS OF THE INCOMING LP:** When an LP transfer is completed, the new LP acquires the same rights and obligations as the selling LP — including the right to receive financial reporting from the fund and, through the fund, from the portfolio companies. If the new LP has different reporting preferences or information rights than the selling LP, the CFO may need to adjust the investor reporting cadence or format to accommodate the incoming LP's preferences, subject to the terms of the fund's limited partnership agreement.

## TENDER OFFERS FOR EMPLOYEE LIQUIDITY

---

A tender offer — a transaction in which the company or a third-party buyer offers to purchase shares from existing shareholders, including employees who hold vested equity — is the primary mechanism for providing employee liquidity in private companies that are not yet ready for an IPO or a full exit. Tender offers are increasingly common in late-stage venture companies where employees have held equity for five or more years and are seeking liquidity before the company reaches an exit.

**THE TENDER OFFER MECHANICS:** A tender offer for private company equity is typically structured as follows: the company or a financial sponsor (a secondary fund or a strategic investor seeking early access to the company's equity) announces the offer to purchase up to a specified dollar amount of shares at a specified price per share, with the offer open for a specified period (typically twenty to thirty business days). Existing shareholders who wish to sell tender their shares into the offer; if the total shares tendered exceeds the amount the buyer is willing to purchase, the buyer either purchases all shares pro-rata or selects among the tendered shares according to the specified selection criteria.

**THE PRICE DETERMINATION:** The price per share in the tender offer is a critical financial governance question. For a company with significant outstanding preferred stock with liquidation preferences, the price offered for common shares in a tender offer must be carefully compared to the waterfall analysis — if the price is too high relative to the current enterprise value, the tender offer may be viewed as a distribution to common shareholders at the expense of the preferred shareholders' liquidation priority. The CFO must model the waterfall implications of the tender offer price and must confirm with legal counsel that the proposed price is consistent with the company's obligations to all classes of shareholders.

**THE SECURITIES LAW REQUIREMENTS:** Tender offers for private company equity are subject to specific securities law requirements under Rules 13e-4 and 14e of the Securities Exchange Act when the company has more than a specified number of shareholders of record. The CFO must work with securities counsel to determine whether the tender offer is subject to these requirements and, if so, to ensure that the offer materials, the disclosure documents, and the offer timeline comply with the applicable rules.

## FINANCIAL DISCLOSURE IN SECONDARY TRANSACTIONS

---

All secondary transactions — GP-led secondaries, LP transfers, and tender offers — require financial disclosure that is more extensive than the company's normal private company reporting obligations. This enhanced disclosure reflects the fact that secondary transactions involve the sale of existing equity interests to parties who are not already shareholders and who are relying on the disclosed financial information to make an investment decision.

**THE DISCLOSURE STANDARD:** The disclosure standard for secondary transactions varies by transaction type and by the sophistication of the buyers. For GP-led secondaries that require a fairness opinion, the disclosure must be sufficient to support the independent financial advisor's fairness analysis — which typically requires three years of audited financial statements, current-period management accounts, forward financial projections, and the qualitative business information that provides context for

the financial data. For tender offers with retail participants, the disclosure requirements are more extensive and may require SEC filing of an offering circular.

**THE FINANCIAL PROJECTION DISCLOSURE TENSION:** Financial projections included in secondary transaction disclosure documents create legal exposure for the company — if the projections prove materially optimistic and the secondary buyers suffer losses as a result, the company may face liability for the accuracy of the projections. The CFO must work with legal counsel to determine the appropriate caveat language for the financial projections and must ensure that the projections are genuinely the management team's good-faith estimate of the company's expected financial performance rather than aspirational targets that management does not believe are achievable.

## **ACTIONS TO TAKE BEFORE PART TWENTY-EIGHT**

---

Review the company's LP agreement and any side letters to understand the information rights and transfer restrictions that apply to LP transfers. Many LP agreements include right-of-first-refusal provisions that give the company or the other LPs the right to purchase a transferring LP's interest before it can be sold to a third party. Understanding these provisions before an LP transfer request is received allows the CFO to respond promptly and correctly when the transfer request arrives.

If the company is approaching a tender offer to provide employee liquidity, commission the 409A valuation that will be used to determine the tender offer price at least sixty days before the anticipated offer launch. The 409A valuation must be current and defensible — the fair market value of the common stock established by the 409A is both the legal minimum for option exercise prices and the analytical reference point for the tender offer price negotiation.

## CLOSING PERSPECTIVE

---

*Secondary transactions are the liquidity infrastructure of the private capital market — the mechanisms that allow investors to manage their portfolio exposures, employees to access the equity they have earned, and GPs to optimize their holding periods for their best investments. The CFO who understands these mechanisms, who can prepare the financial disclosure required for each transaction type, and who manages the governance obligations with the rigor they require, is providing the financial leadership that makes secondary transactions a productive governance tool rather than an organizational disruption.*

## COMING NEXT IN THE SERIES

---

### **Part 28 — SPAC Transactions: Structure, Financial Requirements, and the De-SPAC Process**

Part Twenty-Eight covers the special purpose acquisition company as an alternative IPO path — the SPAC structure, the financial requirements for a de-SPAC merger, the fairness opinion and financial analysis, the pipe financing, the combined company pro forma financial model, and the specific SEC disclosure requirements for de-SPAC transactions.