

Management buyouts have seen an uptick after Covid-19, shows data

Funding options, structural changes make increased traction likely



Structural differences may have an impact on traction for MBOs domestically compared to the rest of the world. | Illustration: Ajaya Mohanty

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There have been more instances of a management team buying out the owners of a company after the pandemic. There are eight such transactions, called management buyouts (MBOs), in the five years ending 2024, according to data from tracker LSEG shared with *Business Standard*.

This is higher than the six deals during the preceding five-year period before Covid took hold globally. Management buyouts are typically when the management, often with a private equity partner, borrows a large amount of capital to buy out the existing owners, with the hope of making money as the business does better.

These MBOs are a multi-billion dollar industry globally. There have been more than 200 deals per annum over the last five years worth over \$5 billion each year, according to LSEG data. The most recent MBO attempt which had grabbed global headlines was a \$58 billion attempted buyout of Japan's Seven & i Holdings which runs a chain of convenience stores. The bid was aborted in February after failure to cobble up the necessary financing. Russia approved a \$320 million buyout of brewer Carlsberg's Russia assets in December. It was reported in February that private equity firm KKR would help fund a \$4 billion management buyout of UK's largest

Growth report

MBO deals (in no.)



5 years leading up to pandemic (2015-19)



Past 5 years (2020-24)

MBO value* (in \$ mn)



5 years leading up to pandemic (2015-19)



Past 5 years (2020-24)

Note: MBO: Management buyout. It is a transaction where the management buys out existing shareholders in the business; *based on transactions for which value were available Source: LSEG

water company Thames Water. Logos SE Asia reportedly completed a management buyout of assets including in India. It is not counted as a deal in the LSEG database because the company is headquartered in Singapore. Management buyouts are likely to become more common with growing private equity penetration in India, suggested Sumat Chopra, partner at consultancy firm Kearney and head of its private equity and mergers and acquisitions practice.

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Private equity funds often provide financing for MBOs. Their rise has coincided with managements becoming more central to a company as many promoters realise the importance of professionals at the helm; and others go through generational shifts because of which promoter families may take less of an active role. All of this creates a more conducive environment for management buyouts in the future with established companies more likely to see action than startups, according to Chopra.

“New age businesses make it harder for MBOs because the cash flows are not stable,” he said.

He added that Kearney has advised on two separate MBOs worth over \$500 million on the private equity and management fronts in the last 6-9 months, both for India.

Structural differences may have an impact on traction for MBOs domestically compared to the rest of the world.

“Globally...ownership and management are different,” said Mehul Savla, partner at boutique investment bank RippleWave Equity Advisors. This separation is still not the case for most companies in India, reducing the pool of potential MBO candidates. The cost of funding an MBO can also be prohibitive for most professional managers in India, suggested Savla.

Regulations restrict them from tapping bank finance as they are not allowed to fund share purchases. This has limited the size of MBO deals. The lower cost of debt may have been a tailwind for MBOs in the post-pandemic period, but another reason could be the low valuations during the early part of Covid. This makes other exit routes like an initial public offering (IPO) less lucrative, while management buyouts can still occur due to the familiarity with the company and relatively affordable valuations, he said.