



M&A Transactions Involving Individual Limited Liability Companies (PT Perorangan)

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In 2021, the Job Creation Law introduced the concept of an ‘individual’ limited liability company, a new concept allowing a company to be established and owned by a single individual (**Individual LLC**). This concept departs from the general limited liability company (*Perseroan Terbatas*) which is defined as a capital association formed pursuant to a contract, conducting business activities, with its capital divided into shares and operating as a capital-based limited liability company (**LLC, or PT**).

Individual LLCs are reserved for micro and small enterprises (*Usaha Mikro dan Kecil* or **UMK**) and were designed to simplify business formalities, reduce establishment costs, and encourage entrepreneurship by eliminating the need for multiple shareholders and a notarial deed of establishment. While this simplified structure represents a significant shift in Indonesia’s corporate framework, it raises important legal issues when an Individual LLC becomes involved in mergers and acquisitions (**M&A**), particularly in transactions involving foreign investors.

1. Legal Nature of an Individual LLC

An Individual LLC is formed by submitting a Statement of Establishment electronically. Legal entity status is obtained once the company is registered with the Minister of Law and an electronic registration certificate is issued. There is no General Meeting of Shareholders (“**GMS**”) in an Individual LLC. Decisions are made unilaterally by the sole shareholder and recorded as a GMS decision.

The Individual LLC is strictly tied to UMK criteria, with a maximum capital of IDR 5 billion. A micro enterprise has capital of up to IDR 1 billion or annual revenue of up to IDR 2 billion, while a small enterprise has capital of between IDR 1 billion and IDR 5 billion, or annual revenue between IDR 2 billion and IDR 15 billion, excluding land and buildings. Certain

regulated sectors impose higher minimum capital requirements, which may exclude Individual LLCs from operating in those sectors.

2. Merger or Acquisition of an Individual LLC

As a matter of law, a direct merger or acquisition involving an Individual LLC will often not be legally feasible without an intermediate step. An acquisition typically involves the transfer of shares to one or more new shareholders. Similarly, a merger entails the consolidation of two or more companies, resulting in the transfer of assets and liabilities and a reconfiguration of capital and ownership structures. In both scenarios, the transaction would in many instances lead to the Individual LLC having more than one shareholder and/or a fundamental alteration of the company's capital structure. This outcome is incompatible with the defining characteristics of an Individual LLC, which is strictly limited to a single shareholder.

Accordingly, to be directly merged with or acquired by another party, an Individual LLC may first need to undergo a change in legal status into an LLC.

Notwithstanding the above, complete transfer of ownership to another single Indonesian individual, without introducing additional shareholders, is permissible and will be treated as a change of the sole shareholder rather than an acquisition under the Company Law. Such a transfer is effected through a share transfer arrangement, followed by an update of the company's ownership data in the Ministry of Laws' AHU system. The procedure involves accessing the change of business owner menu, completing the business transfer form, entering the relevant transaction details, and transferring control of the company's data to the new prospective owner's account.

3. Mandatory Conversion into an LLC and the Applicable Procedure

Under Government Regulation No. 8 of 2021 on Company Authorized Capital and Registration of Establishment, Change and Dissolution of Company which Meets the Criteria for Micro and Small-Scale Businesses ("**GR 8/2021**"), an Individual LLC is required to convert into an LLC if it no longer has a single shareholder and/or no longer qualifies as a UMK in terms of capital—conditions that an M&A transaction will, in many cases, trigger.

GR 8/2021 further explains that the conversion process must be carried out by notarial deed and registered electronically with the Ministry of Law. The notarial deed must, among other things, contain a statement declaring the change of status, conversion from a Statement of Establishment to Articles of Association, and updated corporate data.

Only after this conversion is completed does the company become legally capable of participating in a merger or acquisition under the general M&A framework applicable to an LLC (in addition to the limited exception noted above).

4. Foreign Buyers: Additional Regulatory Requirements

Where the acquiring or merging party is a foreign individual or foreign legal entity, additional regulatory layers apply. An Individual LLC cannot have foreign shareholders. Therefore, once a foreign party becomes involved at the ownership level, the company must not only convert into an LLC, but must also adopt the Foreign Investment Company status (*PT Penanaman Modal Asing* or **PT PMA**).

This change triggers compliance with Indonesia's foreign investment regime, including an assessment under the Positive Investment List to ensure that the relevant business activities are open to foreign ownership and to determine any applicable foreign shareholding limits. In addition, PT PMA are subject to a minimum investment requirement of IDR 10 billion (excluding land and buildings in most cases) for each Indonesia Standard Classification of Business Field (*Klasifikasi Baku Lapangan Usaha Indonesia* or KBLI) per project location. For businesses that originated as UMK-scale Individual LLC, this capital requirement can be a significant practical hurdle.

Further approvals, licenses, or notifications may also be required depending on the sector and the transaction value.

5. Practical Implications and Risks

While the Individual LLC is an effective vehicle for small and early-stage businesses, it is not designed for complex corporate actions such as M&A. Transactions involving Individual LLCs require careful planning due to mandatory conversion requirements, capital thresholds, and potential foreign investment restrictions. Early legal due diligence is essential, particularly for foreign investors, as an M&A transaction may fundamentally transform the business beyond the UMK framework.

In practice, the Individual LLC should be viewed as a transitional corporate form, rather than a long-term structure for M&A-driven expansion.

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