Finance & Accounting

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[1/4]: Achleitner, A.K.; Bauer, O.; Figge, C.; Lutz, E., Exit of Last Resort? Empirical Evidence on the Returns and Drivers of Secondary Buyouts as Private Equity Exit Channel, Despite an increasing importance of secondary buyouts in the private equity market, little is known about the perspective of the seller and his motives for choosing this exit type. Do private equity firms have a clear pecking order regarding the exit channels for their portfolio companies? Is a secondary buyout only an 'exit of last resort'? And furthermore, have company or market related factors an influence on the decision to pursue a secondary buyout? This article’s aim is to answer these research questions. Based on a proprietary dataset of 1,112 leveraged buyouts exited in North America or Europe between 1995 and 2008, the authors empirically analyze the return potential of different exit channels including public, private and financial exits. They find that based on the realized returns, there is no clear pecking order of exit types. Secondary buyouts, i.e. financial exits, deliver returns that are equally attractive to the ones achieved through public exits. In addition, the authors empirically assess the relationship between the likelihood to choose a financial exit and company as well as market related factors. They show that portfolio companies with a higher lending capacity are more likely to be exited via a secondary buyout. Furthermore, the liquidity of debt markets and the amount of undrawn capital commitments to the private equity industry increase the probability of a secondary buyout. Overall, the authors conclude that private equity firms engage in market arbitrage between debt and equity as well as private and public equity markets., 2012


[3/4]: Braun, R.; Jenkinson, T.; Stoff, I., How Persistent is Private Equity Performance? Evidence from Deal-Level Data, The persistence of returns is a critical issue for investors in their choice of private equity managers. Most academic research, and industry practice, considers the performance of successive limited partnership funds. This is problematic given that performance is only known when the fund has exited all its investments, which often takes a decade or more, and relative performance benchmarking is notoriously difficult. In this paper we approach the issue in a different way, using a unique database containing cash-flow data on 10,637 portfolio company investments by 236 private equity managers. For each fund manager we construct a sequence of portfolios containing only realised deals. We investigate how performance persistence has evolved as the industry has matured, and whether this development is contingent on GP experience. We confirm earlier findings of persistence until the late-1990s: which we find was driven by experienced GPs with strong relative outperformance. However, we find that for investments made since the late-1990s, experienced fund managers no longer exhibit performance persistence. Private equity has, therefore, conformed to the pattern found in most other asset classes where past performance is a poor predictor of the future., 2013

[4/4]: Figge, C.; Bauer, O.; Braun, R.; Achleitner, A.K., The GP-LP Conflict in Private Equity Funds Revisited: The Impact of Fund-Level Considerations on the Divestment Decision, This article examines the impact of private equity (PE) fund-level dynamics on the PE fund’s general partner’s (GP) divestment decisions and whether these decisions are to the detriment of the PE fund’s limited partners, indicating a moral hazard problem. We use a unique sample of 1,112 buyout transactions realized between 1995 and 2008 which allows us to link fund and deal-level data. We find that the exit routes chosen change (i) if a PE GP is in the process of fundraising and if the PE fund (ii) has distributed comparatively little capital back to its investors. However, as related deal-level equity returns are not lower, we observe no moral hazard problem associated with these fund dynamics. In contrast, if a PE fund (iii) approaches the end of its lifetime, not only the exit route decision is affected but these exits also yield lower deal-level equity returns. We conclude that GPs do not maximize income from the current and next fund, but all future funds. Hence, they refrain from divestment decisions harming their limited partners’ returns. However, this relationship breaks down as a fund approaches the end of its lifetime and the GP increasingly focuses on managing subsequent funds., 2012