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SUMMARY

THE INFLUENCE OF LOCAL AND MULTINATIONAL PRIVATE EQUITY FIRM EXPERIENCE ON THE EXIT OF INTERNATIONALLY FUNDED BUYOUTS

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Principal Topic

The private equity (PE) industry is more internationally oriented than ever before with a growing number of cross-border buyouts. This raises the question whether international investors differ from local ones and to which extent the origin of the PE firm influences the exit pattern of their PE backed companies.

In order to exit, PE firms have to signal the quality of the portfolio company including the value of their involvement during the buyout. However, the mechanisms and procedures that ensure PE firms’ effective guidance and value adding in the domestic country are not automatically transferable towards non-domestic regions. For this reason, we expect non-domestic PE firms to face a liability of foreignness and to signal a lower quality. We expect this liability to be an important driver of the exit pattern. Exits towards new owners with higher needs for signals of quality such as listings and trade sales will be more challenging to achieve.

The goal of this study is twofold. First, differences between exits of domestically versus internationally funded buyouts are studied, both main and moderating effects of origin are examined. Second, this research will study to which extent PE firms’ liabilities of foreignness are compensated through local and multinational PE firm experience.

Method

This paper uses a sample of exits of domestically and internationally financed buyouts in Continental Europe between 1999 and 2008. Deal characteristics were obtained from the Centre for Management Buyout Research. Additional data on PE firm characteristics were provided, originating from SDC Venture Xpert.

Results and Implications

Preliminary findings do indicate that internationally financed buyouts have a different exit pattern than domestic ones. In addition, the signaling value of reputation on exit type is stronger if the PE firm originates from a domestic region or if the cultural difference with the host country is low. Hence, these differences are an important example of the liability of foreignness faced by distant, non-domestic PE firms.

We believe that our research will have important managerial implications for PE firms and portfolio companies that aim for an optimal exit. We also believe that our findings will be relevant for policy makers. They will enrich the debate about the consequences of international equity transactions.

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