EXITS OF INTERNATIONAL PRIVATE EQUITY INVESTMENTS (INTERACTIVE PAPER)

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INTERACTIVE PAPER

EXITS OF INTERNATIONAL PRIVATE EQUITY INVESTMENTS

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Principal Topic

One of the biggest challenges for international PE investors is to ensure the liquidity of their investments (Cumming et al., 2007). The reputation of the international PE firm can be an important source of information for potential new owners (Megginson & Weiss, 1991) as reputation legitimizes the actions of the portfolio firm towards other parties (Cohen & Dean, 2005). One of the long-standing debates within reputation research is whether a firm has one reputation or many: firms may be ascribed to a positive reputation on one area and a negative on another (Jensen & Roy, 2008). However, up till now it is unknown whether there are also geographical segmentations in the value of reputation. For this reason, we will not solely focus on the influence of overall reputation on the exit of the investment, but also measure the influence of reputation within the target country and within the target industry.

Method

The empirical setting of this study focuses on the later stage investment market. We have a database of 678 buyouts during the period 1997-2004 in six Continental European countries. All buyouts are PE backed by an international lead investor. We focus on four different exit strategies to determine whether a successful exit was achieved: IPO’s, trade sale exits, MBO’s and MBI’s. Deals are identified using the CMBOR database of Nottingham University. We test our hypothesis through competing risk models and use a panel data set to incorporate time dependent measures.

Results and Implications

Our results stress the impact of reputation in achieving a successful exit. We also provide support for the segmentation of reputation: industry-specific and country-specific reputation are more valuable for achieving a successful exit than overall reputation, indicating that the benefits of reputation are only to a limited extent transferable across industries and regions.

We also found that industry-specific reputation is particularly important for achieving exits characterized by a high information asymmetry such as IPO’s. In addition, the value of country-specific reputation is strong across all four exit types.

We hence stress the need for private equity firms to build a high reputation. Due to the limited transferability of reputation, it is more beneficial to build this reputation through an approach focusing on a limited number of industries and regions.

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