Stefan Povaly

Private Equity Exits

Divestment Process Management for Leveraged Buyouts

Table of contents

1	Inti	roduction	1
	1.1	Framework and intent of the work	2
	1.2	Research approach	7
		1.2.1 Research design framework	7
		1.2.2 Research approach and procedure	9
	1.3	Structure outline	12
2	Ва	ckground	15
	2.1	Private Equity	15
		2.1.1 Definition	15
		2.1.2 Evolution of the private equity market	18
		2.1.3 Stages of private equity financing	27
		2.1.4 Private equity market structure	30
		2.1.5 Market trends	46
		2.1.6 Hedge funds and private equity	47
		2.1.7 Corporate governance aspects	53
		2.1.8 Performance of private equity as an asset class	65
	2.2	Leveraged buyouts	82
		2.2.1 Definition and reasons	82
		1.2.2 The role of the interest rate environment for	
		leveraged buyouts	84
		2.2.3 Leveraged buyout principles and consequences	86
		2.2.4 Market overview and history	96
		2.2.5 Buyout market trends	108
		2.2.6 Performance of the leveraged buyout market	114
	2.3	Divestments of portfolio companies	117
		2.3.1 Exit phase in the 'Venture Capital Cycle'	117
		2.3.2 Potential divestment routes	118

VIII Table of contents

3	The	eoreti	cal foundation and literature review	127
	3.1	Agen	cy theory as an overall framework for	
		privat	e equity exits	128
	3.2	Underl	ying theoretical approaches - timing of exits	132
		3.2.1	Value-add and monitoring cost concept	132
		3.2.2	Asymmetric information and certification	135
		3.2.3	Grandstanding	136
		3.2.4	Resource dependence	137
	3.3	Underl	ying theoretical approaches - choice of exit route	138
		3.3.1	Agency theory	138
		3.3.2	Asymmetric information	139
		3.3.3	Grandstanding	140
	3.4	Existi	ing studies on portfolio company exits	141
		3.4.1	Framework literature	142
		3.4.2	Studies on IPO exits .	147
		3.4.3	Other forms of exit	151
		3.4.4	Exit timing and process	153
		3.4.5	Theoretical approaches relevant for exits	160
		3.4.6	Other aspects related to private equity research	164
	3.5	Tabula	r summary of existing studies	170
		3.5.1	Key studies on the choice of exit routes	170
		3.5.2	Key studies on tiining of exits	175
		3.5.3	Studies on exit process	178
1	The	e exit	process: Reducing exposure	
	to a	a port	tfolio company	181
	4.1	Exit p	process overview	182
	4.2	Proce	ess initiation and design	186
		4.2.1	'Pro-active'portfolio management	187
		4.2.2	Process objectives	194
		4.2.3	Role of investment banks and advisers	199
		4.2.4	Allocation of roles and tasks - relationship of parties	
			involved	206
		4.2.5	Single route or 'multi-track' process	208

	Table of contents	IX
4.3	Comparative characteristics of exit options	209
	4.3.1 Trade sale and secondary buyout - M&A exits	210
	4.3.2 Initial Public Offering - stock exchange listing	232
	4.3.3 Buy-back	255
	4.3.4 Recapitalisation	255
4.4	Relative importance of exit options	262
	4.4.1 Review of transactions by exit alternative	262
	4.4.2 European stock exchange environment for IPOs	264
4.5	Evaluation of exit options	267
	4.5.1 A note on valuation methods	268
	4.5.2 Type of consideration received	272
	4.5.3 Post-closing conditions: Warranties and indemnities	274
	4.5.4 Other stakeholders' interests	275
4.6	The importance of executive management in the exit	
	process	276
En	pirical analysis: Exit behaviour and efficiency	279
5.1	Research objectives	279
5.2	Research methods rationale	280
5.3	Data description	283
	5.3.1 Survey design and other data sources	283
	5.3.2 Target universe	285
	5.3.3 Characteristics of participating buyout investors	288
	5.3.4 Variables for statistical analysis	291
5.4	Timing of portfolio company exits	295
	/5.4.1 Tested decision factors .	207
	73.4.1 Tested decision factors .	297
	5.4.2 Hypotheses	301
	5.4.2 Hypotheses	301
5.5	5.4.2 Hypotheses5.4.3 Empirical results5.4.4 Summary and discussion	301 302
5.5	5.4.2 Hypotheses5.4.3 Empirical results5.4.4 Summary and discussion	301 302 305
5.5	5.4.2 Hypotheses5.4.3 Empirical results5.4.4 Summary and discussionChoice of exit route	301 302 305 306
5.5	5.4.2 Hypotheses5.4.3 Empirical results5.4.4 Summary and discussionChoice of exit route5.5.1 Tested decision factors	301 302 305 306 307

X Table of contents

5.6	Investor characteristics, exit preferences and process management styles	318		
	•	320		
	5.6.1 Exit route preferences			
	5.6.2 Exit process duration	322		
	5.6.3 Consideration of executives' aspirations-	22.1		
	the impact of management	324		
	5.6.4 Relative proportion of exit routes	327		
	5.6.5 The significance of corporate governance aspects	334		
	5.6.6 Summary and discussion	337		
5.7	'Multi-track'exit processes	338		
	5.7.1 Assessment of multi-track exit processes	339		
	5.7.2 Tendency to conduct dual- or multi-track exit			
	processes	343		
	5.7.3 Key determinants underlying decisions for multi-			
	track exits	345		
	5.7.4 A note on the downsides - the risk of discouraging			
	bidders .	348		
	5.7.5 Summary and discussion	351		
5.8	8 Changes in the private equity environment and exit			
	behaviour	353		
	5.8.1 Research rationale and hypotheses	353		
	5.8.2 Data sources and procedure	354		
	5.8.3 Data characteristics	355		
	5.8.4 Analytical assessment	356		
	5.8.5 Discussion of findings	359		
i	5.8.6 Specific limitations	360		
5.9	Exit trends in the context of recent buyout funds			
	performance	361		
5.10	Condition of Limitations of analysis	365		
	1 Summary and discussion	366		
J.1	i bailliar j and dibbabbion	200		

6	Conclusion	371
Αŗ	ppendices	377
	List of exhibits	377
	List of abbreviations	383
	Survey questionnaire	385
	List of interview partners	389
	List of buyout firms participating in survey	390
Bibliography		391
Abstract		413
Ri	iography	415

Table of contents

XI