

Table of contents

1	Introduction	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	Background	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
2.2.2	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

3	Theoretical foundation and literature review	127
3.1	Agency theory as an overall framework for private equity exits	128
3.2	Underlying 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	Underlying 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	Existing 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	Tabular summary of existing studies	170
3.5.1	Key studies on the choice of exit routes	170
3.5.2	Key studies on timing of exits	175
3.5.3	Studies on exit process	178
4	The exit process: Reducing exposure to a portfolio company	181
4.1	Exit process overview	182
4.2	Process 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

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
5	Empirical 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	297
5.4.2	Hypotheses	301
5.4.3	Empirical results	302
5.4.4	Summary and discussion	305
5.5	Choice of exit route	306
5.5.1	Tested decision factors	307
5.5.2	Hypotheses	310
5.5.3	Empirical results	312
5.5.4	Summary and discussion	315

5.6	Investor characteristics, exit preferences and process management styles	318
5.6.1	Exit route preferences	320
5.6.2	Exit process duration	322
5.6.3	Consideration of executives' aspirations – 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	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
5.8.6	Specific limitations	360
5.9	Exit trends in the context of recent buyout funds performance	361
5.10	Limitations of analysis	365
5.11	Summary and discussion	366

6 Conclusion	371
Appendices	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
Biography	415