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WORKING PAPER

Private Equity Firm Experience and Buy-out Vendor Source: What is their Impact on Efficiency?

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Abstract

Using a dataset comprising 102 private equity (PE) backed leveraged buyouts (LBOs) completed and exited during the period 1999-2008, this study sheds new light on the impact of buyout vendor source and PE investor experience on post-buyout efficiency during the first three years after the transaction. There are three main findings. First, we observe increases in post-buyout efficiency over time, although LBOs from different vendor source differ in terms of post-transaction efficiency levels and improvement trajectories. Private buyouts are about as efficient as the average. Divisional buyouts show highest efficiency levels overall. Secondary buyouts remain below the average. Second, multivariate analyses suggest a positive and significant effect of PE firm experience on post-buyout efficiency. Finally, the observed efficiency patterns seem to be convex, suggesting the major improvements happen in the first two years after the transaction.

Keywords: private equity; management buyouts; efficiency; dynamic data envelopment analysis