

Does Private Equity Time Reverse LBOs to Exit?

by
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Comments

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The paper

The author studies a relevant topic, complementary to Cao Lerner (2008):

- How do PE firms exit through RLBOs?
- What does their behavior reflect?

The paper explores the topic in a comprehensive dataset, with a variety of approaches, looking at accounting performance

Main results:

- Reverse LBOs are not lemons
 - Q-Flippers are different
- Exit is staged and varied
- PE remain active post-IPO

Paper will benefit from thorough re-writing

Overview of comments

Hypotheses

Data construction

Analysis and interpretation

Hypotheses

Hypotheses are not (yet) clearly derived from theoretical trade-offs:

- e.g., why include underpricing in operating performance regressions?

Careful sample construction

Interesting the use of accounting data, which sheds more light than stock prices on what is happening within companies

Some issues:

- Why are REITs included?
- Data should be deflated over such a period

- Relative 'importance' of a company for PE firm should be:

PE firm investment/PE fund size

not

company assets/PE firm 'capital'

- Table 4: ownership shares sum to more than 100%

- Table 11: you should scale RLBOs by PE firm total portfolio

Univariate analysis

Three benchmarks:

- industry-matched IPOs
- industry-matched 'old' listed companies
- year-matched LBOs
 - Why not closely-held firms?

Univariate analysis

Reverse LBOs come out as not so different from standard IPOs, performance-wise (even window-dressing of ROA), and do not underperform

Not enough to conclude that PE firm monitoring/leveraging/governance change these firms.

Hard to argue that the debt timing can be driving the IPO decision

Multivariate performance analysis

The missing element here is fund 'vintage': how far is the fund into its life (and interaction with PE firm age/reputation)

Indeed analysis should move to fund level

Time fixed effects should be there

More precision in identifying the timing of variables would help the reader

First stage for Q-Flippers: 3month-IPOs are appropriate for underpricing, or for IPO *timing*, not for the decision to go public

Multivariate exit analysis

How to interpret the result that PE firms do not exit at IPO?

- puzzling: what is the opportunity cost of funds to PE firms?
 - Cashing in fees?
 - Taxation?
 - Fund-level portfolio decision?
- analysis of PE firm/fund heterogeneity would help (beyond size, age)
- closer link to theory would also provide more guidance

There are two choices involved: going public and PE firm-company assortative matching.

The paper compares different sets of *public* firms, thus taking care of the first source of endogeneity (which would be a great topic for a paper).

But what about PE funding?

This is different when looking at Q-Flippers, though the result relies on a very 'thin' first stage.

Caveat: low explanatory power of your regressions

Summing up

A carefully constructed dataset with good potential

There is some way to go, but the direction is the right one

Additional points for Jerry

Results for debt ratios, but what about absolute debt issuance?

Clean up inconsistencies (reference to wrong table number etc)