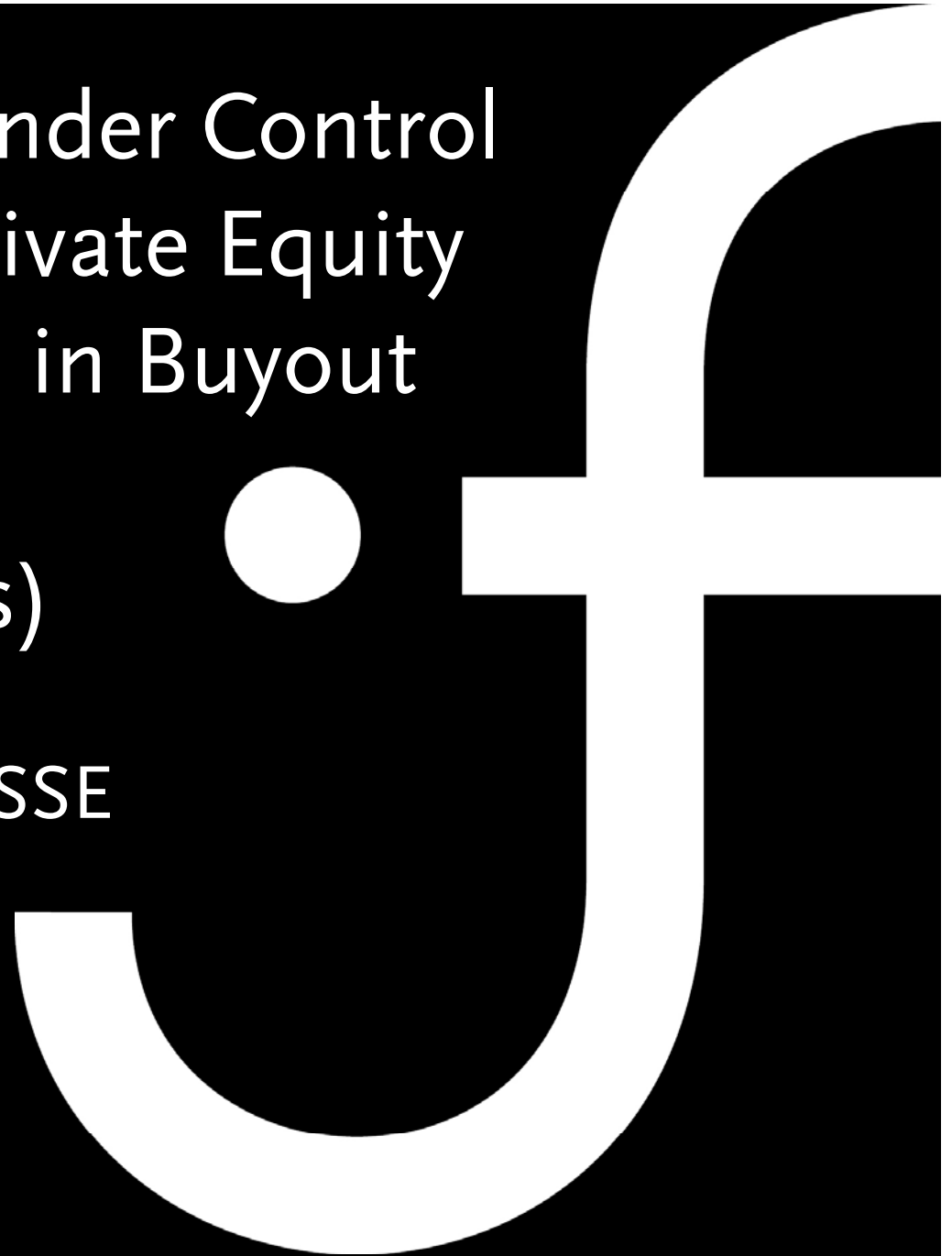


Discussion of “Lender Control  
and the Role of Private Equity  
Group Reputation in Buyout  
Financing”  
(Demiroglu James)

Ulf Axelson, SIFR and SSE





# Findings

- Macro: Trend to lower spreads, less bank debt, less covenants, PIK, higher leverage, longer maturities
- More reputable buyout funds have
  - Lower spreads, less bank debt, less covenants, higher leverage, longer maturities
  - Default less?



# Interpretations

- Financial structure largely determined by credit market / fund conditions (more than firm characteristics)
- Fund reputation seems important
  - No strategic default?
  - Screening?
  - Monitoring?
  - Bargaining?

# f Iffy interpretations

- Drawing conclusions from limited default sample very hard
  - 10 "defaults"
  - Covenant lite / long maturity loans will take longer to default
- Drawing conclusion that the easier credit up til 2007 is due to better reputation, not overheating, very iffy

We need to wait 3-5 more years.



## What does the "reputation" variable really measure?

- "# deals last three years" has a big time trend
- So does the easing of credit market conditions
- Is this reverse causality?
- Time dummies is a must, probably not enough
  - Can you do cross sectional regressions per quarter?



## My regressions

- 255 buyouts including european and private-to-private
- Redid regression with debt/ebitda
- Three reputation measures:
  - Number of total deals
  - Age of fund
  - Fraction of deals by sponsor (not reported)



|                                | 1                  | 2                  | 3                  | 4                  | 5                  | 6                  |
|--------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| ln(Ent. Value)                 | 0.15***<br>[0.02]  |                    | 0.16***<br>[0.02]  |                    |                    |                    |
| ln(Industry Debt/EBITDA)       | 0.0097<br>[0.0396] | 0.04<br>[0.05]     | 0.0102<br>[0.0395] | 0.04<br>[0.05]     | 0.05<br>[0.05]     | 0.05<br>[0.05]     |
| ln(Industry EV/EBITDA)         | 0.00<br>[0.13]     | 0.0878<br>[0.1512] | -0.00<br>[0.13]    | 0.0555<br>[0.1542] | 0.1187<br>[0.1496] | 0.0807<br>[0.1522] |
| Industry Market/Book           | 0.12*<br>[0.07]    | 0.16*<br>[0.09]    | 0.12*<br>[0.07]    | 0.17**<br>[0.09]   | 0.05<br>[0.08]     | 0.07<br>[0.08]     |
| Industry Stdev of ROIC         | -0.69<br>[0.59]    | -1.40*<br>[0.79]   | -0.65<br>[0.59]    | -1.34*<br>[0.77]   | -0.99<br>[0.77]    | -0.93<br>[0.74]    |
| ln(1+Number of deals since 80) | 0.02<br>[0.02]     | 0.05**<br>[0.02]   |                    |                    | 0.05**<br>[0.02]   |                    |
| Age of sponsor                 |                    |                    | -0.00<br>[0.00]    | 0.01<br>[0.00]     |                    | 0.01<br>[0.00]     |
| creditcond                     | -0.03***<br>[0.01] | -0.04***<br>[0.01] | -0.03***<br>[0.01] | -0.04***<br>[0.01] | 0.01<br>[0.02]     | 0.01<br>[0.02]     |
| NorthAm_Deal                   | 0.17***<br>[0.04]  | 0.14***<br>[0.05]  | 0.15***<br>[0.04]  | 0.11**<br>[0.05]   | 0.11**<br>[0.05]   | 0.09*<br>[0.05]    |
| clubdeal                       | -0.06<br>[0.04]    | 0.06<br>[0.04]     | -0.06<br>[0.04]    | 0.06<br>[0.04]     | 0.08**<br>[0.04]   | 0.08**<br>[0.04]   |
| Time dummies                   | No                 | No                 | No                 | No                 | Yes                | Yes                |
| Observations                   | 236                | 255                | 236                | 255                | 255                | 255                |
| R-squared                      | 0.40               | 0.23               | 0.40               | 0.22               | 0.39               | 0.39               |



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