LIBERA UNIVERSITÀ INTERNAZIONALE DEGLI STUDI SOCIALI

Facoltà di Economia

Cattedra di Financial markets and intermediaries

Titolo dell’ elaborato: Leveraged buyouts: beneficial to whom?!

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Anno accademico 2009-2010

LEVERAGED BUYOUTS: BENEFICIAL TO WHOM?!

Is private equity really a swarm of hungry locusts or there's more than meets the eye?!

ABSTRACT

This dissertation concerns one of the most controversial, yet interesting, phenomenon of the latter thirty years, namely leveraged buyouts and private equity in general. Opponents of such transactions accuse buyout specialists of being corporate raiders, devoted only to targeting profitable companies and stripping them of all their valuable assets. LBOs and MBOs are assumed to be destructors of employment, proponents of short-termism and advocates of greed.

Despite all these claims and clamor, research papers have eventually cleared out most of the smoke blown upon the subject. The end result dismisses most of the allegations. Employment levels follow the general industry’s trend while, in some instances, they’re even found to be increasing; leveraged buyouts address mainly divisions of larger corporations and they may nonetheless unclip their wings, which might have been previously restrained by internal capital markets; all ratios relating to profitability appear to increase (cash flows per operating assets, EBITDA over sales etc).

Incentives’ realignment and the boundaries superimposed by debt servicing result in better run companies. Going back to the claims tackling the firm’s future competitiveness, there’s no decrease in either advertising or R&D expenses, while large capital expenditures do indeed decline (more focused investments though). Returns to capital providers offer mixed evidence, but large, more experienced funds consistently outperform the market benchmark.

This dissertation revolves around some of the seminal papers of the relevant literature and it’s organized as follows: in the first part I’ll briefly describes how LBOs work and their characteristics; in the second I’ll go over the financial returns enjoyed by capital providers; the third and core part of the paper deals with operating efficiency gains and improvements attributable to such a process; the fourth and latter one concludes.