

Private Equity Debt Funds: Who Wins, Who Loses?

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 - Q: Is there value transfer from debt to equity in sponsor-levered deals?
 - Mixed theory: informational advantage vs conflict of interest

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Fund level:

- Debt funds engaging in sponsor-levered buyouts do not underperform
⇒ LPs get compensated by superior performance on normal buyouts

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 - Why are PE firms becoming one-stop capital providers?
 - How is the PE industry changing the debt market dynamics?

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All of these: ✓ on “why should we care?”

Comments/Suggestions

- More information on CEPRES data
 - Representativeness? Comparison with other data? Across geographies?
- Prevalence of sponsor-levered buyouts
- Interpretation of results
- Paper scope

Q: How prevalent are sponsor-levered buyouts?

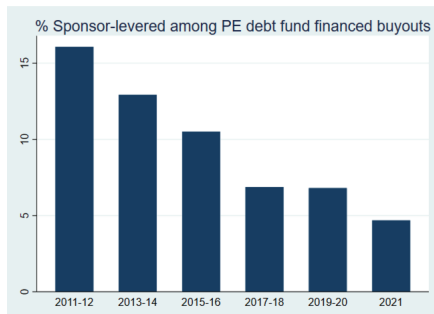
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Q: How prevalent are sponsor-levered buyouts?

In-sample: $276/1835 \approx 15\%$ between 1971 and 2017

According to Preqin, they seem to have become less prevalent over time...

- 1306 buyouts financed by PE-affiliated debt funds (2011-2021)



Is this true? If true, investigating why would be interesting.

Interpretation of results

Results: Compared to normal buyouts, sponsor-levered buyouts'

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Loan quality vs capital structure risk

- Result 2: PE debt akin to banks in making senior loans & monitoring?
- Lower cash flow rights & stronger control rights = worse terms?
- Can the lower return be driven by less risk assumed?
 - Value extraction vs risk management/diversification

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- Table 16: Sponsor-levered deal targets are smaller firms
 - Small firms more likely liquidated upon distress (e.g. Lian & Ma 2021)
 - PEs exert debt expertise to resolve distress (e.g. Bernstein et al 2019)

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 - Small firms more likely liquidated upon distress (e.g. Lian & Ma 2021)
 - PEs exert debt expertise to resolve distress (e.g. Bernstein et al 2019)
- PE debt funds alleviate financing frictions by creating a structure with efficient monitoring to withstand higher debt
 - As a lead lender, monitor/re negotiate on behalf of junior term lenders (e.g. split-control rights; Berlin et al, 2020)

Summary

- Thought provoking paper on a very interesting phenomenon: sponsor-levered buyouts
 - Clear motivation & salient setting to study debt-equity conflicts
 - Novel findings with unique data on private debt
 - Raise important questions on PE boundaries in capital markets
- My suggestions are:
 - More detail on the data
 - Documenting prevalence of sponsor-levered buyouts
 - More thoughts on interpreting results as value transfer from D to E
 - Widening the paper's scope to tell borrower's side of the story