

Cross-Border Private Equity and Valuation Effects

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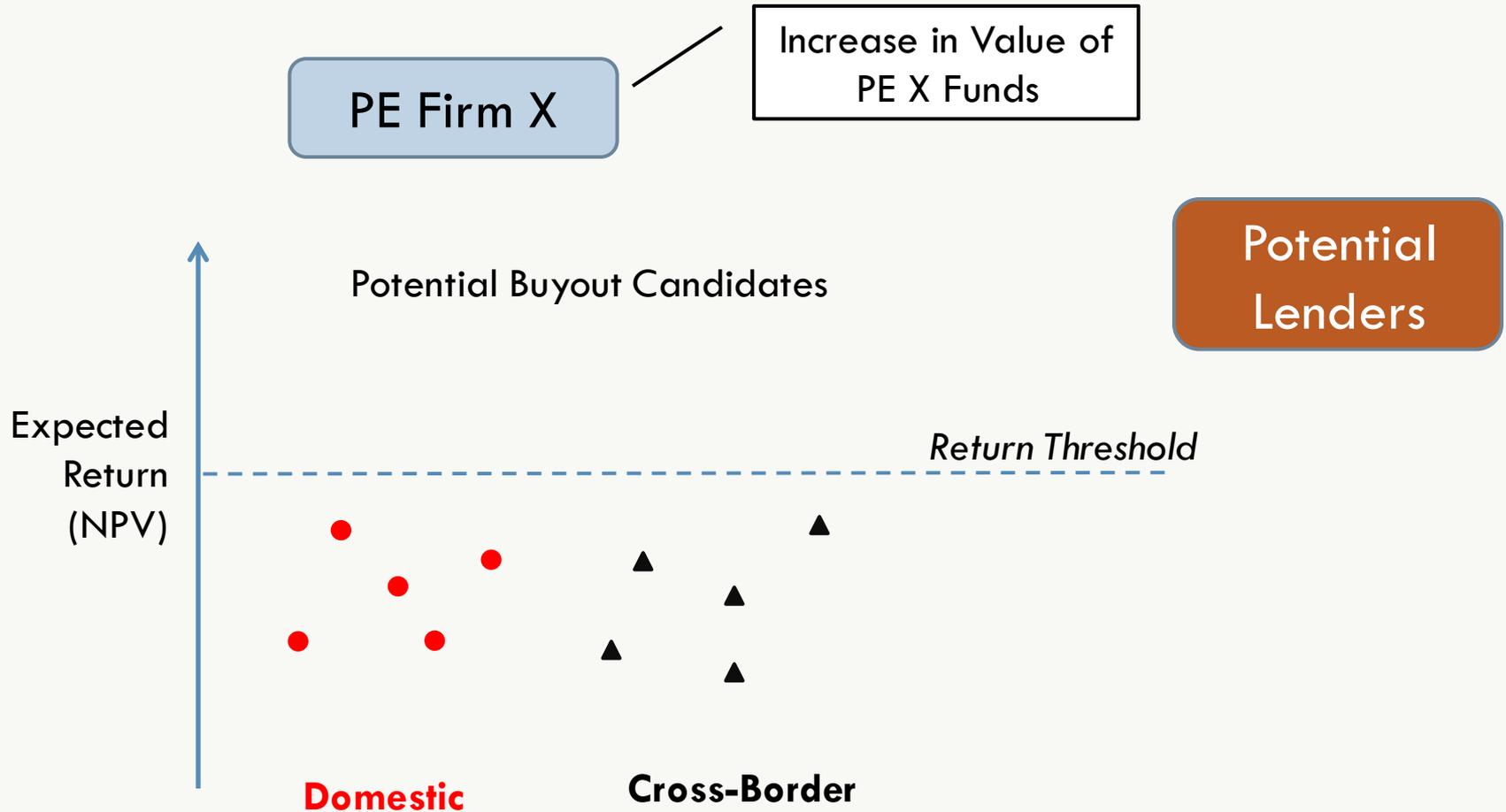
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Project Overview

- Impact of PE Firm Valuation on Cross-Border LBOs
 - Main Result: Increases in a PE firm's fund valuations → higher probability of cross-border buyout by such PE firm in subsequent period relative to a domestic buyout.
 - Effect is larger for:
 1. Low reputation PE firms, and
 2. During favorable global market conditions (flatter US yield curve, lower VIX, falling TED spread, excess market return, ...)
 - Contributes to literature on
 - Private Equity (Demiroglu & James, 2010; Malenko & Malenko, 2015) and
 - Cross-Border M&A (Erel, Liao, and Weisbach, 2012)

Misfit between Mechanism and Model



Misfit between Mechanism and Model

- Problem: Mechanism predicts increased likelihood of PE deals in period after positive $\Delta NAVCF$, but dataset used in regression analysis is at deal level
 - conditioned on a PE firm doing a deal, and
 - only picks up choice of domestic vs cross-border (& cannot say anything about $\Delta NAVCF$ impacting likelihood of a deal)
 - Deal-level Data OK, if likelihood of domestic is stable over time
- Solution: panel dataset at the PEfirm-YearQuarter level.
 - observe whether deals (domestic & cross-border) increase in time periods following $\Delta NAVCF$, and whether the link is stronger for cross-border deals.

Empirical & measurement quibbles

- Consider PE-Firm Fixed Effects
 - ▣ 654 PE Firms
 - ▣ 3,801 cross-border buyouts (out of 11,252 total)
- How many PE funds only allow investment in certain jurisdictions, through restrictions in their LP agreements?
- Multi-Office PE Firms / Endogeneity of PE Firm headquarter
 - ▣ Does the domestic vs. cross-border distinction hold up for PE firms that have offices all around the world (Blackstone, KKR, ...)?
 - ▣ Total number of PE firms is relatively small. Could verify whether multi-office PE Firms impact results.

More Quibbles

- $\Delta NAVCF$ only cover change over past 2 quarters. Are results robust to longer periods?
 - ▣ Plausible that strong results from a year or two years ago still relevant to lender perceptions.
 - ▣ Imagine following $\Delta NAVCF$ for two PE Firms over prior year:

	Firm 1	Firm 2
Q1	\$500M	0
Q2	\$500M	0
Q3	0	\$500M
Q4	0	\$500M

Smoothing $\Delta NAVCF$ over longer periods also addresses concerns over NAV manipulation.

good project!!

