Private equity investments: does the investment tenure matter for target performance?

Berezinets Irina Vladimirovna

Associate Professor, Graduate School of Management, St. Petersburg University

Ilina Yulia Borisovna

Associate Professor, Graduate School of Management, St. Petersburg University

Burov Alexander

Head of Retail Business Development Department, JSC "Bank St. Petersburg"

Private equity investments play an important and growing role in a modern economy. One of the alternative forms of financing that gained popularity in recent years is private investment in public equity (PIPE), provided by private equity (PE) funds. PIPE is a transaction, in which a private equity fund purchases a privately issued share in a public company. Main purpose of a PIPE is to raise capital for growth or to refinance current debt. Besides a provision of capital, private equity funds bring managerial expertise and are actively involved in succession planning and post-investment support.

This paper examines if there is any relation between the investment tenure of a PE fund and performance of investee. The study investigates the relationship between the tenure of private equity investments in public equity and performance of European companies. A study of the relationship between private equity investment tenure and cash flow growth, as well as solvency of target companies (as measured by net debt to EBITDA ratio), allows making conclusions, whether actual improvements in companies' solvency and performance occurs over the investment period. The relation between a cash flow growth and tenure, as well as the link between the solvency ratio and PE tenure are reported to be non-linear. The relationship between a tenure and investee performance measured by cash flow growth is positive till 3.8 years of private equity investment period, when a portfolio company improves its financial results, while beyond this threshold the growth is decreasing, and a PE fund will probably search for new target. The relation between a tenure and net debt to EBITDA ratio is positive for tenures over 3.4 years, thus we conclude that private equity funds seek firms with a decent track record of debt repayment with further prospects to increase their solvency and, consequently, attract more debt capital.