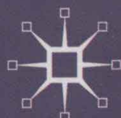
Private Equity Finance

Rise and Repercussions

Jamie Morgan

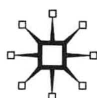


Private Equity Finance

Rise and Repercussions

Jamie Morgan

palgrave
macmillan



© Jamie Morgan 2009

All rights reserved. No reproduction, copy or transmission of this publication may be made without written permission.

No portion of this publication may be reproduced, copied or transmitted save with written permission or in accordance with the provisions of the Copyright, Designs and Patents Act 1988, or under the terms of any licence permitting limited copying issued by the Copyright Licensing Agency, Saffron House, 6-10 Kirby Street, London EC1N 8TS.

Any person who does any unauthorized act in relation to this publication may be liable to criminal prosecution and civil claims for damages.

The author has asserted his right to be identified as the author of this work in accordance with the Copyright, Designs and Patents Act 1988.

First published 2009 by
PALGRAVE MACMILLAN

Palgrave Macmillan in the UK is an imprint of Macmillan Publishers Limited, registered in England, company number 785998, of Houndmills, Basingstoke, Hampshire RG21 6XS.

Palgrave Macmillan in the US is a division of St Martin's Press LLC, 175 Fifth Avenue, New York, NY 10010.

Palgrave Macmillan is the global academic imprint of the above companies and has companies and representatives throughout the world.

Palgrave® and Macmillan® are registered trademarks in the United States, the United Kingdom, Europe and other countries.

ISBN-13: 978-0-230-20710-3 hardback
ISBN-10: 0-230-20710-3 hardback

This book is printed on paper suitable for recycling and made from fully managed and sustained forest sources. Logging, pulping and manufacturing processes are expected to conform to the environmental regulations of the country of origin.

A catalogue record for this book is available from the British Library.

Library of Congress Cataloging-in-Publication Data

Morgan, Jamie, 1969–
Private equity finance : rise and repercussions / Jamie Morgan.
p. cm.
Includes bibliographical references.
ISBN 978-0-230-20710-3 (alk. paper)
1. Private equity–United States. 2. Private equity–Great Britain.
3. Venture capital–United States. 4. Venture capital–Great Britain.
I. Title.

HG4751.M74 2009
658.15'224–dc22 2008030082

10 9 8 7 6 5 4 3 2 1
18 17 16 15 14 13 12 11 10 09

Printed and bound in Great Britain by
CPI Antony Rowe, Chippenham and Eastbourne

Private Equity Finance

Acknowledgements

I would like to acknowledge the support of the Centre of Excellence in Global Governance Research, University of Helsinki. I thank Professor Stephen Ackroyd for reading the manuscript and for some specific ideas on entitlement. I also thank Professor Heikki Patomaki and Professor Steve Fleetwood for their encouragement and for specific comments, particularly regarding Keynes. I thank Professor Paul Thompson for taking the time to read the original working paper and for passing it to his editor. I thank Professor Karel Williams and Professor Barry Gills for useful and stimulating conversation regarding finance markets. I thank Lisa von Fircks, Senior Commissioning Editor in Finance at Macmillan, and her assistant, Elodie Lecoq, for their patience during intervening illness. I dedicate this book to Laura and Alice.

> You are not the enemy of the system. You are not even a challenge to the system, as you seem to think. You have a system inherently exploitative and unjust, inherently cruel and inhumane, heedless of human values, and your job is to make such a system appear legitimate and moral by acting as though justice, as though human rights and human dignity could actually exist in that society – when obviously no such thing is possible. (Roth 1969: 262)

> Every man of ambition has to fight his century with its own weapons. What this century worships is wealth. (Wilde 1987: 489)

试读结束：需要全本请在线购买： www.ertongbook.co

List of Acronyms

AIM	Alternative Investment Market
BES	Business Enterprise Scheme
BSS	Business Star-up Scheme
BVCA	British Venture Capital Association
CDO	Collateralised debt obligation
CGT	Capital gains tax
CLEC	Competitive local exchange carriers
CLO	Collateralised loan obligation
CMBOR	Centre for Management Buyout Research
DIDMCA	Depository Institutions Deregulation and Monetary Control
ECB	European Central Bank
ERISA	Employment Retirement Income Security Act
ERM	Exchange Rate Mechanism
EVCA	European Venture Capital Association
Fed	Federal Reserve Board (FOMC: Federal Open Market Committee)
FIRREA	Financial Institutions Reform, Recovery and Enforcement Act
FSA	Financial services authority
GP	General partner
IPO	Initial public offering
LBO	Leveraged buyout
Libor	London inter-bank offered rate
LLP	Limited liability partnership
LP	Limited partner
LSE	London Stock Exchange
MBI	Management buyin
MBO	Management buyout
NAIC	National Association of Insurance Commissioners
NVCA	National Venture Capital Association
OFT	Office of Fair Trading
PEF	Private equity finance
SBA	Small Business Administration
SBIC	Small Business Investment Companies
SEC	Securities and Exchange Commission
SIB	Securities and Investment Board
SIB	Securities and Investment Board
SIFMA	Securities Industry and Financial Markets Association

SIV	Structured investment vehicle
SPV	Special purpose vehicle
SWF	Sovereign wealth funds
USM	Unlisted Securities Market

Contents

Acknowledgements vi

List of Acronyms vii

Introduction 1

Chapter 1 The Emergence of Private Equity Finance in the US: Leveraged Buyouts, Institutional Investment, Junk Bonds and the Thrifts 13

Chapter 2 Constraints on the Growth of Private Equity Finance: The Emergence of Private Equity Finance in the UK and its Recovery in the US 39

Chapter 3 The Expansion of Private Equity Finance in the UK in the Late 1990s and the US Context of the Collapse of the dot.com Boom 68

Chapter 4 Private Equity Finance in the Twenty First Century: Liquidity and the Credit Crunch 92

Chapter 5 The Role of Fees and Gearing in Leveraged Buyouts 136

Chapter 6 Theories of Leveraged Buyouts and Theories of Market Instability 153

Chapter 7 The Empirical Arguments for Specific Benefits of Private Equity: Returns to Investors, Employment, and Tax 179

Chapter 8 Alliance Boots as an Illustration of the Dynamics of Private Equity: Issues of Entitlement, Governance and the Values of Value 208

Conclusion 233

Notes 244

Bibliography 290

Index 303

Introduction

In 2007 private equity finance (PEF) became a major public issue in the UK. The main reason for this was that private equity firms had, following a longer term trend, begun to buy larger and more prominent publicly listed companies. Beginning in 2006 the GMB union raised a wide range of concerns regarding the employment effects of PEF, focusing on the example of the AA. The failed bid by a private equity firm to buy J. Sainsbury and the successful bid to buy Alliance Boots added to the publicity PEF had begun to receive. During 2007 PEF came under increasing political scrutiny. In March, the Treasury launched a review of PEF. In June the Commons' Treasury Select Committee began an inquiry into its practices. The Bank of England, meanwhile, highlighted the potential problems that PEF might cause to the finance system because of its large scale and growing use of debt.[1] The main PEF industry representative, the British Venture Capital Association (BVCA), reacted by engaging in a media campaign to highlight the positive impact of PEF on the British economy.

The argument then crystallised along two lines. On one side the BVCA, its member firms and various advocates of free market economics made the case for PEF (Linthwaite 2007a, 2007b). The US neo-conservative economist and *Sunday Times* columnist, Irwin M. Stelzer summarised this position:

> By taking over troubled companies, private equity entrepreneurs cure the problems stemming from the separation of ownership and control. They and their partners now control former public companies, and have every incentive to reward only those managers who earn their pay by increasing profits and growth rates. Enter the invisible hand, and the further long-term result might prove to be job creation and enhanced value of the pension funds and to other institutional investors who share the profits of these ventures. (Stelzer 2007)

This focus on mutual interest and broader subsequent benefits has formed the core of the case for PEF. It is one that has been put forward in the UK

by the main longstanding source of academic analysis: Mike Wright and various colleagues at the Centre for Management Buyout Research (CMBOR). It is one that various other economics and business journalists, such as Anatole Kaletsky, have also contributed to. For Kaletsky the controversy has been a 'quintessential storm in a teacup' where the 'initial attacks on the private equity industry, when stripped down to their essence, amounted to a rejection of profit as the main yardstick for business success' (Kaletsky 2007). For the BVCA, the important points emphasised are that PEF acquisitions generate tax revenues to the state, that those acquisitions are employers, that the scale of employment by PEF is growing, and that investors in PEF earn returns that add to general wealth. The BVCA produces annual statistics based on voluntary reporting by its members to support its claims. These formed the basis of much of the media campaign and also the testimony of BVCA representatives to the Commons' Treasury Select Committee.

On the other side, various trade unions, some members of parliament, and some political economists have made an alternative case against PEF (Kenny 2007). Adam Lent, TUC head of economic affairs brought the union movement's point of view before the OECD. The T&G union under Tony Woodley sought to pressurise the Financial Service Authority (FSA) to improve the regulation and reporting of PEF (Hencke and Treanor 2007). The basis of the alternative case has been that PEF uses debt to buy companies. The use of debt is what enables the buyout to occur. The debt reduces the tax liabilities of the acquisition, reducing tax revenues to the state. The acquisitions are treated by the private equity firms as an opportunity to make rapid returns through the creation of debt and through selling off parts of the acquisition. The private equity firms are 'asset strippers' and the partners in the private equity firms make large personal fortunes. These too are under-taxed because they are treated as capital gains rather than income. The main emphasis is that the private equity firms get away with this because they are private and because they are secretive. They are under no obligation to publicly report their activities, which are essentially about short term profits. The private equity firms do not genuinely care what happens to the companies they buy. They do not care about the terms and conditions of employees. In fact they have strong incentives to cut costs and do so by cutting wages, reducing employment, and attacking other terms and conditions, such as pension provision. One way in which they are able to do this is through failing to recognise unions. Paul Maloney, GMB senior organiser, summarised this position:

> The case of the AA illustrates why we at the GMB union oppose the unaccountable activities of [private equity] capitalists, their tax relief on loans, and the effect they have on companies, jobs, pensions and the economy. We consider the private status of [private equity] capitalists to be an abuse of company law and of the privilege of limited liability

> status... In effect it is a vehicle whereby the multi-millionaire elite are able to cream off large sums of money away from the public gaze. (Maloney 2007)

Clearly, the two sides of the argument are diametrically opposed. They are opposed in terms of actual claims concerning benefits or effects. For example, the effects on employment and tax. They also encapsulate different views regarding the legitimacy of sources of profit, value and returns.

Arbitrating between these two views is not simple. Most of the data is skewed towards the positive view because most of the data is supplied on a voluntary basis by the private equity firms. At the same time the issue itself is more complex than merely claiming that there are no potential benefits from PEF. The real issue is: what is the basis of any claimed benefit and how does this relate to the changing context in which PEF operates? Many of the new studies now being conducted on PEF have this in mind. Professor Karel Williams, for example, provided some damning testimony to the Commons' Treasury Select Committee regarding the way PEF generates returns to private equity firms and to its investors. He and colleagues at the Centre for Research on Socio-Cultural Change (CRESC) have tended initially towards an 'against' position on PEF (Froud and Williams 2007) but are engaged in follow up research. CRESC has produced a wide variety of material on the subject of 'financialisation' (Eerturk *et al.* 2008). This refers to the increasing influence of finance on economic, political and social life. Private equity firms use debt to buy companies. The company is a financial asset owned by its investors. PEF very clearly falls under the remit of financialisation and can, therefore, be usefully considered in terms of this kind of wider context. Professor Justin O'Brien (2008) takes a similar view that what is important is not just the disputed individual benefits of PEF but the overall context and ramifications of PEF. It is this line of argument of context that I pursue in this book.

What is private equity finance?

PEF is a historical phenomenon. It emerged, grew and developed as capital markets in the US and then in the UK changed and developed. Although PEF has a global presence it has been an industry focused on and through the US and the UK. To truly understand it requires an understanding of how it developed and how it grew in terms of the broader growth of capital markets in these two countries. The history of PEF has been a history of changing regulation, changing investment cultures, and changing access to debt and to sources of investment. My own interest and the ultimate focus of this study is the buyout of large companies by private equity firms using debt. A buyout using debt is termed a 'leveraged buyout' (LBO). However, the changing dynamics of PEF that have affected LBOs have not just been

试读结束：需要全本请在线购买： www.ertongbook.co

about LBOs. They have encompassed all the different areas of PEF. The initial growth of private equity firms and of LBOs in the US was a partial beneficiary of changes in regulation brought about to encourage investment in new business. This is the domain of venture capital. Later, the failures and learning processes of PEF resulted in a wide range of other kinds of investment activity. It is important, therefore, to have from the outset a clear sense of what the different elements and types of PEF are.

The first distinction to be made is between private equity firms and private equity funds. Private equity firms are investment and business management organisations usually comprised of a small number of executive partners and employees. Many of the firms were originally divisions of investment banks or were begun by the partners after leaving the acquisitions arm of an investment bank. Many of the investment banks still operate private equity divisions that compete with the firms. These firms solicit capital from investors and that capital is then pooled as a fund that is a separate legal entity from the private equity firm. Both the firms and the funds are usually registered as limited liability partnerships (LLPs). A partnership agreement is drawn up between the firm, who acts as the general partner (GP) of the fund, and the investors, who are designated as limited partners (LPs). This document defines the duration of the fund, usually ten years. It also defines the capital commitment of each investor, the range of permissible investments, the rights of investors to dissolve the partnership, the fees the GP is able to charge, and the duties and obligations of the GP. This legal structure has numerous advantages for the participants. It is extremely flexible enabling the parties to incorporate any criteria they desire that do not conflict with the law of the land.[2] It is 'tax efficient': the fund itself is not subject to taxation: tax is liable on investors when they receive returns. It is private, preserving the confidentiality of the financial activities of the investors. It involves limited liability: investors are only liable for the capital committed and not for the subsequent losses of any entity invested in.

The basis of the investment and of the original solicitation is that the private equity firm's partners act as 'professional intermediaries' between the investors and the investment. This is what makes PEF a specialist industry: the investment service it offers on the basis of the claimed finance and management skills of its professionals. A firm may administer several different funds. Venture capitalists specialise in investing solicited funds in small businesses of various kinds (Gompers and Lerner 2000). The business may be anything from a 'start-up', with no more than a business plan and an idea or invention, to a small firm wanting to restructure and expand. The venture capitalist takes a stake in the firm in exchange for the investment capital. The venture capitalist takes a seat on the board of the company invested in. The invested capital is usually delivered in a series of 'rounds' when certain targets or time periods are reached. Depending on the size of

the investment and the terms of the initial agreement the venture capitalist may have the right to hire and fire other board members and may bring in a variety of other specialists to help in business development. The eventual aim is to 'exit' the investment through an initial public offering (IPO). Venture capital covers the whole range of types of company but is associated in the public's mind with hi-tech investment. Venture capital has historically had a high failure rate, particularly of investments at the start-up phase. Its successes, however, are high profile: Amazon, Apple, Netscape and so forth.

Private equity buyout firms specialise in investing solicited funds in LBOs (Tannon and Johnson 2005). The GP of the fund identifies potential targets for an LBO. A portion of the committed capital from the fund is used as the initial basis for the buyout. This is the equity stake of the investors in the buyout. It may be added to by an additional equity stake from other investors, including the private equity firm. The majority of the buyout is funded using debt. The GP negotiates a debt structure with investment bankers and the acquisition is used as collateral for the debt. The more debt used as a proportion of the buyout, the higher the level of leverage. The buyout typically takes the form of a majority or entire holding of the company. Buyout targets can be of a variety of kinds under a variety of circumstances. They can be divisions of larger companies (a divestment). They can be companies bought out of receivership. They can be previously nationalised or state-owned companies. They can be privately owned former family businesses or publicly listed companies. Types of LBO can be subdivided by the nature of the additional participants. If some of the original management are retained and have an equity stake then the LBO is termed a 'management buyout' (MBO). If a new management team are brought in and have an equity stake then the LBO is termed an 'management buy-in' (MBI). If the management have no equity stake then the LBO is outside investor-led. The usual LBO process is that the GP forms a holding company that administers the acquisition on behalf of the fund. The GP oversees the new management structure and engages with the new board of directors. The acquisition itself is also typically restructured, involving a combination of new investment, cost cutting, and asset sales. The GP regularly reports on the performance of the acquisition to the investors in the fund. As with venture capital, the eventual aim is to exit the investment by selling it on either as one company or several. The three main exits are an IPO, a secondary sale to another private equity firm, and a 'trade sale', usually a sale to another company operating in the same industry as the acquisition. Exit usually takes place within three to seven years, typically four.

In both venture capital and buyouts some firms and funds specialise in particular industries and particular geographical locations. The largest most prominent firms, however, tend to be general. The largest firms focus

mainly on buyouts. Globally these firms include KKR, Blackstone, Bain Capital, Carlyle and TPG. British private equity firms, such as Apax, tend to operate in both venture capital and buyout markets. Most of the larger firms are also quite diversified, operating a variety of different kinds of funds. Funds of funds are solicited to invest in other private equity funds. Debt funds, buy up discounted forms of debt: the bonds of companies that are performing badly, mortgage bonds and other kinds of debt instruments that are, because of prevailing financial conditions, also being discounted. Mezzanine funds buy some of the offered debt of LBOs rather than taking an equity stake. Some firms also administer hedge funds.

The argument: private equity finance and liquidity

PEF has an intimate relationship to what is termed liquidity. Liquidity is a technical term in economics that initially describes the capacity to engage in the buying or selling of something without significantly affecting the price of the type of thing being bought or sold. It also refers to the ease with which an asset can be disposed of. A liquid asset is easily disposed of. A liquid market is one where buying and selling are quickly and easily undertaken. It also has a looser meaning where it refers to the general circumstances that facilitate transactions. This essentially refers to the liquidity of other markets: markets for debt, markets for investment and so forth. Economists tend to talk in general terms about the liquidity of the economy in all its aspects. Highly liquid markets are generally perceived in a positive way and illiquid ones in a negative way.

Liquidity too is a historical phenomenon. Financial liberalisation in the US and the UK since the 1970s has greatly increased liquidity. Within that general increase liquidity has been highly variable. This has been important for PEF buyouts because PEF solicits investment funds, accesses debt, and exits its acquisitions by a further sale. It is, therefore, highly dependent on a broad range of aspects of liquidity. This, of course, is neither a controversial nor stunning insight. However, what I want to suggest is that when looked at in terms of the dynamics of capital markets PEF buyouts exhibit a variety of tendencies. The scale of funds, the size of acquisitions, and the degree of leverage used tend to increase as liquidity increases. This is subject to the constraints of other historical factors: regulation, investment culture, banking practices, new financial innovations and so forth. But as these also change there is an interconnection between growing liquidity and growing PEF activity where available capital and credit creating resources are channelled into PEF. PEF in turn tends to respond by exploiting all available liquidity. As such, PEF can be viewed from a systemic perspective as a constitutive part of the instability of the growth of liquidity.

This places a quite different inflection on the claim that PEF turns around troubled firms than the purely positive one. PEF becomes a claimed sol-

ution to problems it helps to create. It becomes one constitutive element in the creation of an adverse economic environment based on the rapid expansion and sudden collapse of particular markets. From this perspective, PEF may well have beneficial effects on particular businesses that are bought out. At the same time, it has macro effects as it grows: it is one reason why liquidity surges and, in turn, can contribute to why liquidity collapses. This is a broad problem of and through capital markets. It is a problem for what we are used to thinking of as the real economy and also for the finance system.

Furthermore, any specific benefits created by PEF buyouts are contingent. They are contingent on context because the benefits are disputable in terms of the different parties subject to a buyout (investors, employees, etc.). They are contingent on the historical dynamism of PEF in a way that also relates to its underlying tendencies. A buyout is an investment using debt. The acquisition is an investment asset. The central focus of the process is a return to the PEF fund and the PEF firm. The buyout is a means to this end. Returns to the fund can be created using a whole variety of strategies. There is, therefore, no simple relation between a buyout and the necessity of improving the acquired business in any unequivocal way. Buyouts are not simple asset stripping ventures. They are not simple situations of cost cutting through the slashing of wages and employment. However, they are exercises in treating companies as financial instruments. They do involve the restructuring of management processes, employment relations and industrial relations. The basis on which this occurs is a form of the neoliberal reconstruction of work. It further involves a debt structure and, as liquidity grows, larger levels of leverage for larger scale acquisitions. As such it involves debt vulnerability. One can reasonably ask, therefore: is a PEF buyout a claimed solution to problems that creates new problems? If larger scale acquisitions and higher levels of leverage only become possible as liquidity surges then the most vulnerable debt structures are created as markets become increasingly unstable and liable to collapses. The future is unwritten but it is not utterly opaque. The most recent scale of PEF activity is unprecedented. It requires no apocalyptic scenario to see that greater levels of debt linked to problems of adverse economic conditions create the possibility of debt servicing problems, with all that this entails: defaults to creditors, unemployment, insolvency and so forth.

Of course, defaults, unemployment, and insolvency may not occur. But this raises the additional question of whether any gains from PEF warrant the risk that they might. This in turn raises three ancillary issues: what are the gains from a PEF buyout? How should one view the entitlement of PEF firms to the returns they generate from buyout activity? Was the buyout necessary to any of the 'improvements' that may or may not have occurred to the acquisition? These issues raise the further issue of whether PEF should be regulated and how. All of these issues are more than just empirical matters. They are, as the different terms of debate of the two sides in

the argument regarding PEF indicate, also fundamental issues about how one views economy and society. Kaletsky is not wrong to suggest that the negative case involves an attack on profit. He is wrong, however, to imply that this makes it a storm in a teacup because the attack is both unwarranted and essentially unencumbered by facts. The underlying terms of the debate involve the sources of the returns (what the profits actually involve), the wide-ranging effects of the practices, and the need to think about the norms that underpin the ability to access the returns and engage in the practices.

To recap then, the central themes I develop in the following chapters are whether PEF buyouts are:

- A claimed solution (turning round an acquisition) to problems they help to create: the instability of liquidity resulting in periodic adverse economic conditions and problems within the finance system.
- A claimed solution that creates new problems within the dynamics of liquidity and subject to the constraints of changing liquidity: the terms and conditions of work and problems of debt vulnerability.
- A claimed solution that involves issues of entitlement, gains, and regulation.

The chapters

In Chapters 1 to 4, I set out the historical development of private equity finance in the context of changing liquidity and the instability of liquidity. The chapters establish how the size of PEF as an industry has grown and how the scale of buyouts and the use of debt have been linked to liquidity. They establish how the development of PEF has involved changes in regulation and investment culture, as well as changes in the finance system. The initial development of PEF occurred in the US and in the context of the transformation of investment banking practices and the growth in the junk bond/high yield market. It came to an end with the collapse of the junk bond market and the associated savings & loan banking crisis. I explore this in Chapter 1. In Chapter 2, I set out the initial development of PEF in the UK and explain why the size of the industry did not achieve a similar scale to the US prior to the late 1990s. I also set out the conditions of the initial recovery of PEF in the US in the 1990s. In Chapter 3, I set out the context within which PEF became a more integrated industry between the UK and the US and how this led to the unprecedented growth in PEF buyouts in the twenty first century. I also place that growth within the context of the collapse of the dot.com boom, noting how venture capital activity contributed to the boom and how PEF LBOs reacted to the 'New Economy' and were ultimately beneficiaries of the collapse. In Chapter 4, on the basis of the changes explored in Chapter 3, I set out the new scale of

PEF funds and buyout activity that was achieved in the mid-2000s. I place this in the context of why the banks were prepared to offer higher levels of leverage for larger debt structures and with betters terms and conditions for the borrower. I then set out the basic problems this created, focusing on issues relating to securitisation as a main source of the growth in liquidity. This in turn gives a context for exploring the 'credit crunch' and its significance for PEF and the finance system. I have tried to make the material in Chapters 1 to 4 as accessible as possible. By the end of the chapters the reader should have a good grasp of how PEF has grown, a general grasp of how three of the major liquidity surges of the era of financial liberalism have occurred and collapsed, and also a good grasp of the standard terminology and functioning of various aspects of modern finance and capital markets (mezzanine finance, CDOs, Libor and so forth). Chapter 4 in particular should also give the reader a good grasp of the various ways in which rising leverage can also be a problem for the finance system.

In Chapter 5, I set out how PEF firms earn fees and how they use financial gearing to create a debt structure in order to undertake an LBO. Setting out this material addresses the question: what aspects of PEF cause it to expand to exploit all available liquidity? In essence this approaches the issue of the rising scale of PEF buyouts from the opposite end to that which initially motivates Chapters 1 to 4 (how liquidity expands and is channelled into PEF). Chapter 5 focuses more strongly on the challenge to the PEF firm of achieving high returns to the PEF fund and in earning its most lucrative fee (carried interest). It highlights how returns to the fund can be made through a variety of strategies (the initial gearing, special dividends, subsequent dividends paid to concentrated equity, the exit of the investment) and that those strategies do not cohere to a single overall method that requires the general partner to improve the acquisition in any unequivocal or neutral sense. By the end of the chapter the reader ought to have a good grasp of how gearing works as a technical process and the limitations that rising debt levels for larger acquisitions place on any reliance on a single source of returns to the fund.

Chapter 5 begins the process of thinking about entitlement and also begins the process of exploring in what sense a PEF buyout is a claimed solution that creates new problems. At the heart of this is the role of debt creation, debt servicing, and debt vulnerability based on rising leverage and the instability of liquidity – including future credit markets. In Chapter 6, I set out the main theorisation of PEF LBOs and also some useful theoretical insights on the instability of capital markets. It is common practice to set out theory at the beginning of a book rather than half way through. However, most of the key critical and analytical points relating to PEF LBOs and to unstable liquidity are about historical dynamics. As such, the critical comments make more sense when there is the historical material of Chapters 1 to 4 to draw on and when the basic elements of the mechanism

试读结束：需要全本请在线购买： www.ertongbook.co