Macro Roundup Article

Headline: Private Equity Operational Improvements

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Tweet: .@verdadcap Minje Kwun and Lila Alloula argue that there is little evidence to support the claim that the private equity industry as a whole engineers operational improvements.

Summary: For EBITDA margins, we notice that PE firms tend to target companies outperforming their industries: EBITDA margin is on average 0.5% above industry standard in the three years before the deal. In the year the transaction is completed, the metric drop sharply. We hypothesize that major LBO transactions are distracting to management and lead to suboptimal outcomes from a sales and margin perspective during the deal year. Once the deal has been completed, growth and margins recover, but do not on average return to pre-deal levels. EBITDA margin averages out to exactly the industry standard, 50bps lower than pre-acquisition. While PE firms are typically praised for their efficiency and cost-control, the graph on EBITDA margins shows a negligible difference in actual profitability. The supposed efficiency and cost-cutting isn't showing up in the numbers. Instead, PE firms appear to be buying slightly higher-performing companies that then experience some mean reversion post-acquisition.

Related Articles: Private Equity Fundamentals

Primary Topic: Financial Markets

Topics: Database, Financial Markets, GDP, Op-Ed/Blog Post

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