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Cross-border acquisitions and restructuring: Multinational enterprises and private equity-firms[☆]

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ABSTRACT

An increasingly large share of cross-border acquisitions are undertaken by private equity-firms (PE-firms) and not by traditional multinational enterprises (MNEs). We propose a model of cross-border acquisitions in which MNEs and PE-firms compete over domestic assets and which incorporates endogenous financial frictions. MNEs' advantages lie in firm-specific synergies and access to internal capital markets, whereas PE-firms are good at re-organizing target firms. We show that stronger firm-specific synergies, lower restructuring advantages for PE-firms, higher exit costs for PE-firms, better access to internal capital markets, a higher risk premium on lending, higher moral hazard problems, and higher trade costs all favor MNEs over PE-firms. We also present cross-country correlations that are consistent with these predictions.

1. Introduction

It is well established that cross-border acquisitions by multinational firms (MNEs) play a key role in the global industrial development and restructuring process. It is less known, however, that more than 8% of all cross-border acquisitions that took place during 1998–2010 were cross-border acquisitions undertaken by private equity firms (PE-firms). PE-firms are financial buyers of assets that acquire firms with the goal of restructuring and then reselling them. Data from the Capital IQ database displayed in Fig. 1 shows that there is a substantial variation over time, across countries, and across sectors in the share of cross-border acquisitions that are acquisitions by PE-firms as opposed to by MNEs (the "PE cross-border share").

Despite a burgeoning literature on cross-border acquisitions by MNEs, there is, to our knowledge, no work on the determinants and effects of cross-border acquisitions undertaken by PE-firms and their interaction with cross-border acquisitions undertaken by MNEs. What are the potential determinants behind the variation we observe in Fig. 1?

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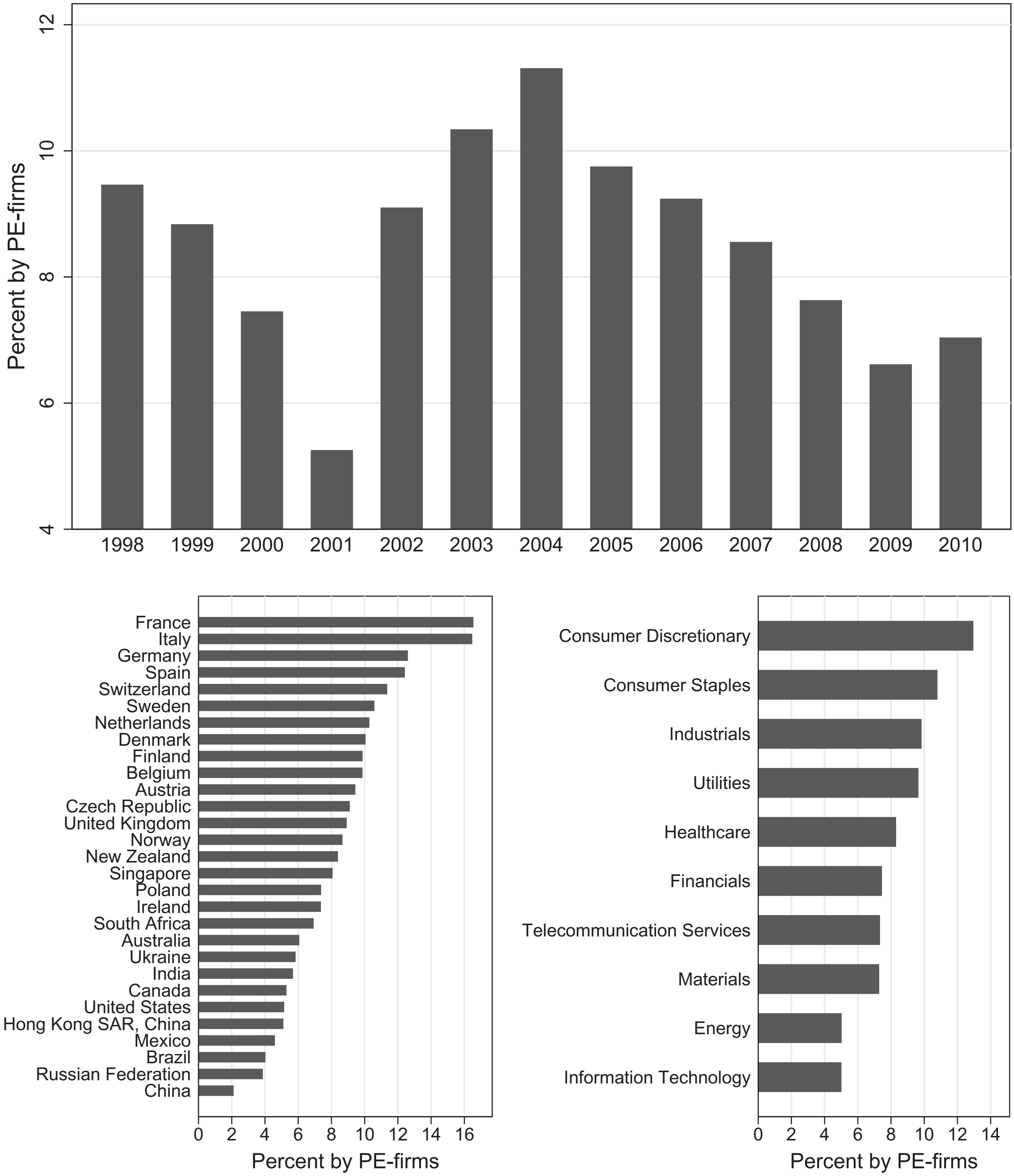

Fig. 1. The percentage of cross-border acquisitions undertaken by PE-firms.
Notes: These figures display the percentage of all cross-border acquisitions between 1998 and 2010 in the Capital IQ database undertaken by PE-firms across time (top), country (bottom left), and sector (bottom right). We selected all "Mergers/Acquisitions" that had the feature "Cross-border" and "Acquisition of Majority Stake" and with the transaction status "Closed" or "Effective". Then, we characterized the transaction as a transaction by a PE-firm if the transaction had the secondary feature of "LBO (Leveraged Buyout)". The figures display the percentage of all cross-border transactions across time, country and industry for countries with more than 500 transactions in total.