

THE ROLE OF SPONSOR'S PREVIOUS EXPERIENCE IN SYNDICATED PRIVATE EQUITY DEALS

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Abstract

Syndication allows two or more private equity sponsors to takeover targets that would have been overlooked due to lacking financial resources, risk capacity and/or skills (especially highly specialized sponsors may consider syndication). While financial resources mostly belong to size, skills come from sponsor's experience: beyond its amount, different types of skills i.e. specialization profiles – come from different types of experience. Literature about private equity syndication is mostly devoted to its determinants, while the performance implications of syndication compared to stand-alone private equity are under-researched. This paper investigates the effect of different types of sponsors' previous experience on the target's performance (ROA) and whether this relation changes in syndicated versus stand-alone deals. A fixed-effect panel analysis is performed on a European sample of 427 targets over the 2008-2016 period; sample selection is formalized in a propensity score matching where the covariates are target's size, country, and industry while the treatment is the dummy syndication that takes one when the target is owned by two or more sponsors and zero when owned by one sponsor; also, model selection and results validity thereby are tested

statistically. Findings indicate that sponsor's previous experience matters and have a different effect on target's ROA when the deal is syndicated. First, and preliminarily, the amount of sponsor's previous experience (for each sponsor, number of previous deals) is better exploited by syndicates: related skills are pooled to exploit their complementarity to better meet target's needs, while stand-alone sponsors could not have a specialization profile as to meet target's needs comprehensively. Second, and turning to the different types of previous experience, the one gained from past syndication (for each sponsor, ratio of previous syndicated deals on all previous deals) has no effect on stand-alone deals and a negative effect on syndicated deals: in other terms, previous experience in syndication is not associated with a better ability in pooling complementary skills of multiple sponsors; rather, some sponsors could be inclined to syndication in order to free ride on monitoring i.e. to tacitly delegate target's monitoring to other members of the syndicate, thus weakening the positive aspects of syndication. Third, experience gained as advisor, acquiror, and vendor (for each sponsor, the ratio among previous deals where the role was acquiror, advisor, or vendor on previous deals) negatively affects stand-alone deals while positively affects syndicated deals: specialization comes at the expense of lacking expertise belonging to other roles, but syndicates involve multiple sponsors whose skills i.e. specialization profiles are heterogeneous but complementary, as to meet target's needs comprehensively. These results can be useful for investors and targets. Investors in private equity funds could look at sponsors' track records to better decide where to allocate their financial resources; moreover, potential targets could consider sponsors' type of previous experience as an additional antecedent of their expected contribution during the holding period, but evidence indicates that a strong inclination to syndicate could result from a propensity to free ride. To sum up, since both the amount of experience, and the different types of experience are beneficial especially when exploited within syndicated deals, these results imply that syndication can be a positive phenomenon for European targets of private equity deals as a result of the exploitation of positive aspects of pooling skills and financial resources; however, investors and potential targets may consider being cautious when track records involve a relevant component of syndicated deals.