Private Equity, Buy-outs, and Insolvency Risk

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Private Equity restructuring using debt has been criticised for increasing financial distress and bankruptcy especially following the financial crisis. We build a unique dataset comprising the population of over 9 million company-year observations and 153,000 insolvencies during 1995-2010. We compare the insolvency hazard of the spectrum of buyout types within the corporate population over time and investigate the risk profile of the
companies pre-buyout. Controlling for size, age, sector and macro-economic conditions private-equity backed buyouts are no more prone to insolvency than non-buyouts or other types of management buyins. Moreover, leverage is not the characteristic that distinguishes failed buyouts from those surviving.

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