

Mergers and acquisitions: leveraged buyouts

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Leveraged Buyouts Leveraged Buyouts Leveraged buyouts involve the acquisition of another company, funded mostly by debt and a smaller proportion of equity. Leveraged buyouts enable companies acquire other companies without having to commit high percentage of their finances (Jansen, 2008). Leveraged buyouts are a popular merger wave where private equity firms raise funds to lend out to Newcon companies.

Junk bonds are high yield type of bond with high default risk (Mobius, 2007). They are rated below the investment grade by Standard and Poor's and considered risky. They are issued to companies with low credit ratings but have higher yields to offer. However, they have high yields to offer, which the investors consider as compensation for the high risk of investing in these companies

There are various types of leveraged buyouts. Management buyouts involve cases in which the existing management finances the take-over of the control of interest in the company. In investor buyout, the existing management forms part of the bidding team. In management buy in, the external management team replaces existing team. Club deals involve cases in which private equity companies join forces to acquire a target (Rosenbaum & Pearl, 2013). A company should consider the most suitable type of leveraged buyout for its investment.

Shareholder value in leveraged buyout is high in U. S. compared to U. K. Returns from private equity investors is high especially over long horizons but under adjusted risks, index returns are higher than private equity returns. Management buyouts increase plant productivity levels and caused improved operations performance level.

References

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Mobius, M 2007, Debt Markets: An Introduction to the Core Concepts, John Wiley, Chichester.

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