# Chapter 5
# Financing of International Business Through Private Equity:
## European Industry Case Study

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## ABSTRACT

*The global financial crisis has greatly limited access to both public and private sources of finance in the recent decades. Markets and national governments emitted low interested and multi-structured financial means with low liquidity. In the post-crisis period national governments tend to regulate their financial sectors more strictly, paying more attention to risky and low interest financial sources, necessary for investments, on which private equity is dependent. Private equity funds grew significantly in the last two decades, both in the USA and in Europe. Such new ways of debt financing and cheap money support massive growth in the industrial sectors of individual countries. This research is studying the positive impact of private equity on management of the whole industries and economies in Europe. Our analysis stems from the general assumption that private equity has positive influence on industrial performance and our empirical data evidences that private equity reacts to economic decrease more intensively than under the business model without financial leverage. The goal of this chapter is to show how private equity contributes to the growth of industrial sectors, performance of industrial companies, with a special emphasis on the mining sector.*

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## INTRODUCTION

Global growth of private equity has become an important development factor in the last two decades. This growth was achieved mainly in the USA, though other impressive results in terms of growth have been also recorded in Europe. Private equity and risk capital have become popular types of investments in the USA, and that means this sector of financial activity will only gain more popularity in the future. At the same time, there are certain geographic, institutional, social and political features of private equity, which is orientated mainly on the expected revenue and risks of the companies and industries with under evaluated price and performance. Thus, there is a growing demand to identify the main basis for improving the attractiveness of enterprises and sectors from the standpoint of private equity and risk capital for investors, which includes, inter alia, the development of capital market, protection of investors and financial infrastructure. Strong and developed capital market is able to provide a broad scale of financial sources (Zámborský, 2016). When a foreign private equity fund is attracted to a certain country, it will be profitable for local economy and it will have also its positive impact on future investments' volume into the same country.

The goal of this chapter is to estimate the contribution of private equity financing on the example of European industrial companies. This is achieved through determination of individual types of investments and specific description of the private equity market with its influence on the performance of industrial sectors and national economies. The influence of private equity is analyzed as applied to individual countries' attractiveness from the investors' standpoint. The results are confirmed by the analysis of private equity influence in the mining industry. Private equity evaluation and its impact on the industries is oriented on the development capital as a whole with the emphasis on certain differences present among individual sectors with high, low or zero participation of private equity. The research results serve to set the measure, at which private equity investors become more vulnerable during the times of general economic crisis.

## BACKGROUND

### Foreign Direct Investments in the European Union

Foreign investments present one of the ways how long-term international capital flows, and they can be divided into:

- **Portfolio Investments:** When an exporter does not manage a company abroad, and only revenues from capital are flowing from abroad (interests, dividends, profit sharing etc.);
- **Direct Investments:** When investor is located abroad with the goal to obtain control over a company, into which they intend to invest on a long-term basis. Investor is therefore participating not only in company's profit, but also in its property to the extent they could manage and/or control this company (Dorożyński & Kuna-Marszałek, 2016).

Foreign direct investment can be defined in many various ways. According to the U.N.O. definition these are investments, based on the long-term relation and permanent interest of the subject with a seat in one country (direct investor) to control a subject with the seat in another country. The usual key goal of

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