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Private equity beyond the target: how buyouts reshape supply chains

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The importance of private equity (PE) for euro area firms is increasing, with annual growth rates in PE funds' assets under management exceeding 10%. PE buyouts affect more than just the firms being acquired. Using data for Belgium that encompass virtually all the firms in the country, this article shows that the sales volumes of suppliers grow faster when there is a higher proportion of business with customers backed by PE. But this advantage is lost during downturns, as such investors press for cost savings. Buyouts can also crowd out competitors that depend on the same suppliers, with implications for competition policy. And finally, high leverage implies greater interest rate sensitivity, so PE buyouts can intensify the transmission of monetary policy to target firms and beyond.

Private equity travels through production networks

PE buyouts are often judged by what happens inside the acquired company: does it grow or become more productive, does its management improve? Past research has documented the effects on jobs and productivity of firms being bought out by private equity (Davis et al., 2014). In line with their results, we find that after a PE buyout the financial leverage of target firms significantly increases and they grow faster than their peers (or “matched controls”). Moreover, also consistent with previous studies, we find that target firms outperform their peers even more strongly during economic downturns, when PE investors' managerial expertise may be particularly valuable (Bernstein et al., 2019).

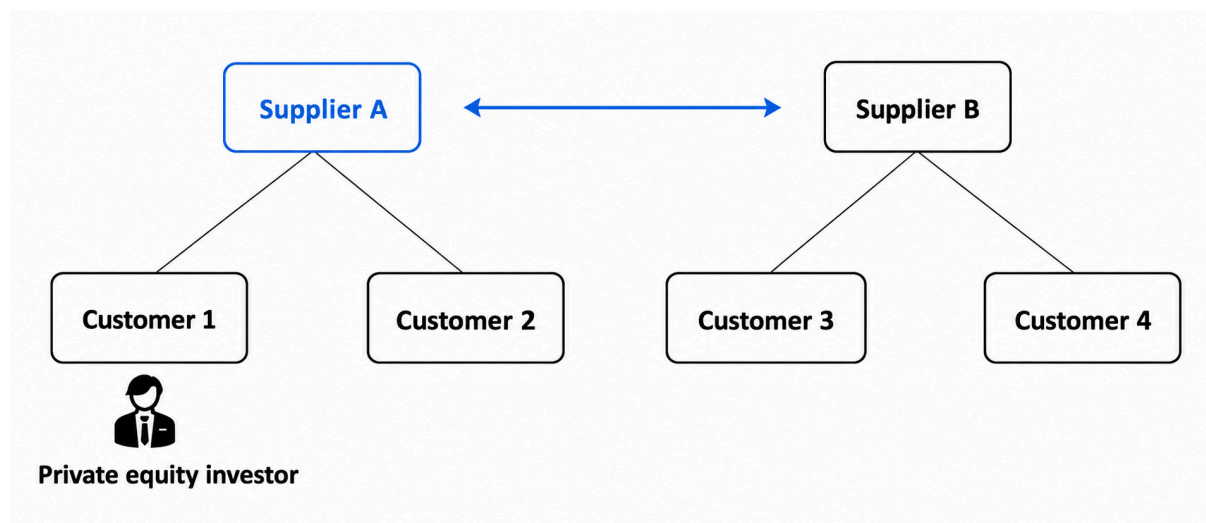
However, firms do not operate in isolation. They buy inputs from suppliers, sell to customers and compete with other firms that may rely on the same production networks. A change in ownership can therefore affect businesses well beyond the company that is being acquired.

In Huylebroek and De Jonghe (2026), we examine these effects using data from Belgium. The dataset links firm-to-firm sales, company accounts and PE transactions for 2002-21. It covers virtually all firms, including small private companies, which are the targets of most PE buyouts but are often absent from commercial supply-chain data.

We compare the economic trajectories, both before and after a buyout, of two types of firms: suppliers linked to customers backed by PE and similar suppliers connected to customers not backed by PE.

Figure 1

How to examine the effect of buyouts on suppliers of target firms?



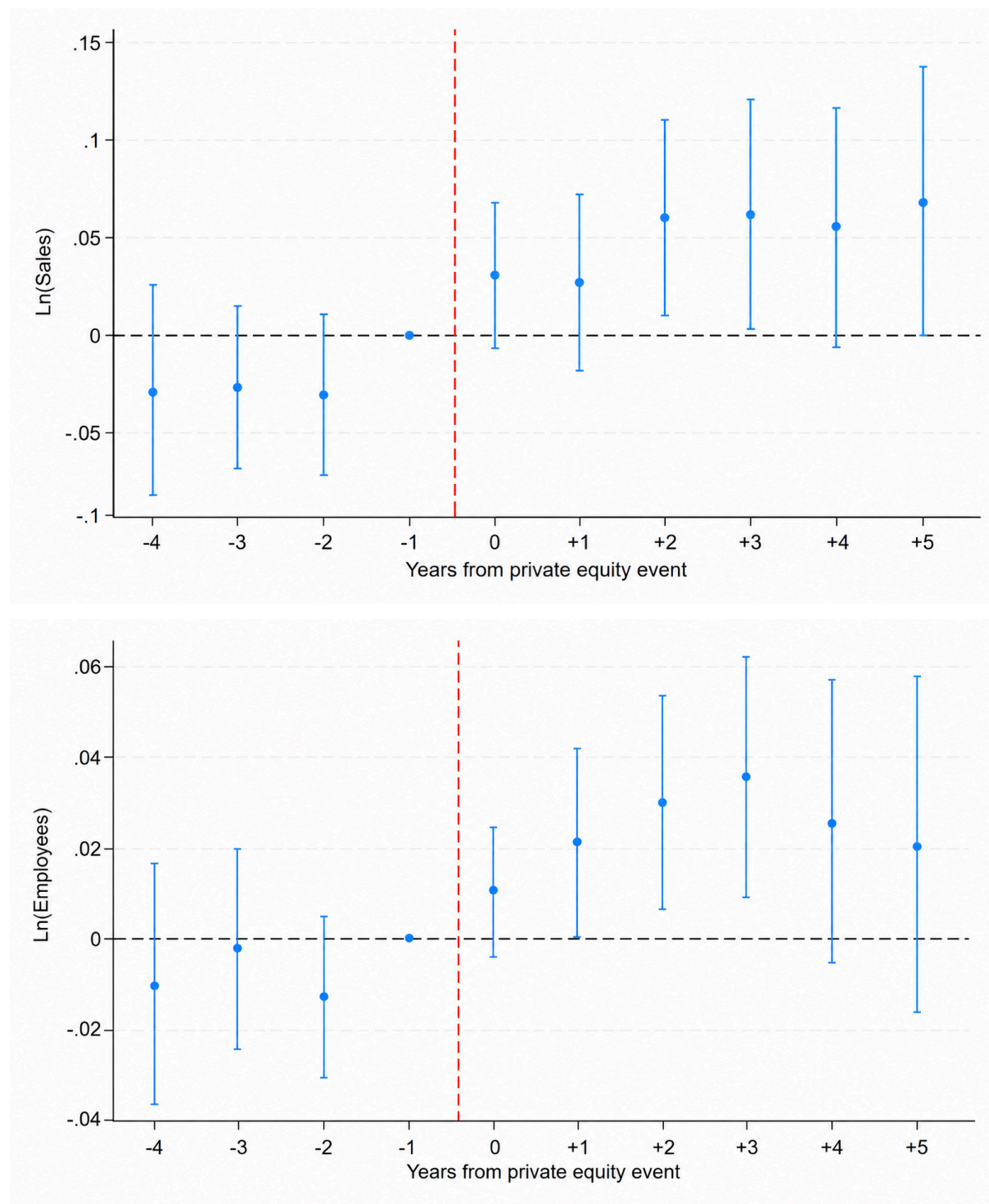
Notes: This figure illustrates our empirical strategy for estimating how PE buyouts affect target firms' suppliers. Suppose one of Supplier A's customers is acquired by a PE firm in year t . Our difference-in-differences design compares Supplier A's economic trajectory before and after the acquisition with that of a comparable Supplier B without a PE-backed customer.

Growing customers boost suppliers

After a PE buyout, suppliers of the acquired firm perform better than comparable suppliers not linked to a PE-backed customer. Across the full post-buyout period their sales are around 8% higher and employment around 4% higher (Chart 1).

Chart 1

Sales and employment growth of suppliers of the acquired firm

Dynamic difference-in-differences estimates for the effect of PE buyouts on suppliers of target firms

Source: Huylebroek and De Jonghe (2026).

Notes: This chart presents the dynamic difference-in-differences estimates of the effect of PE buyouts on the suppliers of target firms. The y-axis corresponds to the coefficient estimates (dots). The vertical bars represent confidence intervals at the 95% level. The x-axis corresponds to years relative to the year in which the target firm was acquired. The outcome variables are, in the left-hand panel, the natural logarithm of sales and, in the right-hand panel, the natural logarithm of employees.

The evidence points to an explanation: PE-backed firms pursue new growth opportunities and increase their purchases of inputs.

The suppliers already embedded in their production process receive more orders and respond by expanding. The gains are strongest when either the target has more room to grow, the supplier provides a relatively large share of the target's inputs, or the relationship between them is more established.

Customer-level comparisons confirm that the increase in supplier sales is driven mainly by purchases from PE-backed customers.

Demand matters more than knowledge transfer

A buyout can benefit suppliers through knowledge transfer, trade credit and/or certification as result of the change of ownership.

We establish that suppliers do not increase research and development or highly-skilled employment and changes in trade credit are not significant. Some suppliers gain customers within the PE investor's network, but this reputational "certification effect" is small compared with the direct increase in demand.

Downturns reverse the balance

The pattern changes sharply when the economy weakens.

During downturns, suppliers of PE-backed firms no longer outperform their peers. Their markups fall by approximately 8%, suggesting that they concede part of the value created in the buyer-supplier relationship through lower prices or less favourable terms.

Our paper attributes this reversal to more intensive PE involvement in cost-cutting. This is consistent with evidence that PE investors can be especially active when portfolio companies face financial fragility (Bernstein et al., 2019). Buyouts are typically leveraged, so preserving cash and meeting debt obligations become particularly important when sales and profits come under pressure. Investors can seek savings by renegotiating contracts, threatening to switch suppliers or actively redesigning the supply chain.

The pressure is concentrated on suppliers with weaker bargaining positions. It is greater for suppliers of standardised inputs, which are easier to replace, and for suppliers operating in highly competitive industries where customers have more alternatives. The pressure is also greater when the PE investor is larger and more experienced, as measured by past deal activity.

Consistent with this interpretation, PE-backed firms are more likely to terminate supplier relationships during downturns as they reduce their input costs.

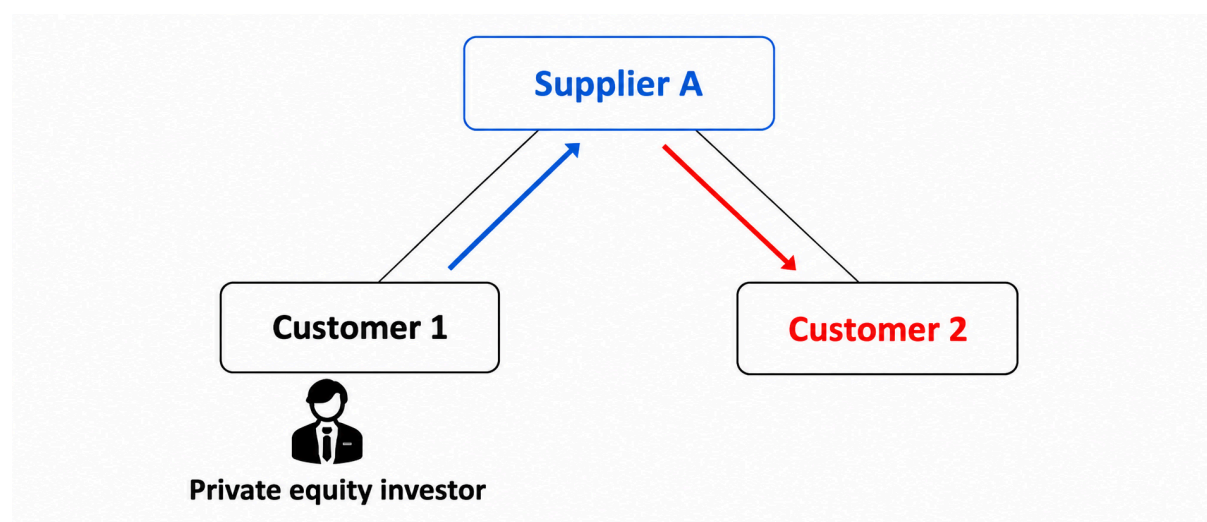
Shared suppliers can transmit the shock to rivals

The market structure consequences of PE buyouts extend beyond direct suppliers. A PE-backed firm that expands may absorb more of a supplier's available capacity. Its competitors, especially those relying on the same upstream firms, may then find it harder to maintain their relationships if suppliers prioritise their faster growing PE-backed customers over others, as illustrated in Figure 2.

Figure 2

Crowding-out competitors

Illustration of potential crowding-out effects of PE-backed firms on other firms through shared suppliers



We find that suppliers affected by a PE buyout are more likely to terminate relationships with rivals of their PE-backed customers.

This finding connects to research showing how shared suppliers and bargaining relationships can shape downstream competition (Giannetti et al., 2021). The pattern is strongest when supplier capacity is constrained and when their rivals are already performing poorly, which is consistent with suppliers prioritising fast-growing customers.

The effect is economically meaningful. An increase of one standard deviation in a competitor's exposure to common suppliers is associated with a 1% decline in employment, a 2% decline in core earnings (EBITDA) and a 1% decline in markups. More broadly, the result illustrates how firm-level shocks can propagate through production networks (Acemoglu et al., 2012), even when the acquired firm and its rivals do not have a direct ownership link.

Implications for policy

Overall, our findings underscore the central role of supply chains in understanding how PE investors create and redistribute value.

On average, PE ownership benefits upstream suppliers, but PE-owned firms exert greater pressure on suppliers during periods of economic distress. These results suggest that policymakers, such as central banks and competition authorities, as well as practitioners should consider the full implications of changing ownership patterns. These encompass not only the direct effects of PE investments but also the broader spillover effects on supply chains and the implications for market competition. In some countries, listed firms are required to publicly disclose their primary suppliers. Regulators could utilise this information to assess the degree of upstream overlap between PE targets and their competitors before approving a transaction.

Our finding that PE buyouts benefit suppliers through increased input demand – an effect we do not observe for firms funded by bank debt – can inform the debate on the role of bank versus non-bank financing in stimulating economic growth.

Finally and more broadly, our findings suggest that the growing role of PE may ramp up the transmission of monetary policy through production networks. PE activity and financing conditions are particularly sensitive to the interest rate environment (Ivashina, 2022). Therefore tighter monetary policy could affect suppliers more by inducing highly leveraged PE-backed firms to shift away from expanding, which benefits them, towards stronger cost cutting, supplier bargaining, and supply-chain reconfiguration.

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