

## **Motivations and Performance of Public to Private Transactions: An International Study**

**Aurélie Sannajust**

*This article deals with the motivations and the different sources of value from Public to Private Transactions in Europe, USA and Asia from 2000 to 2007. We determine eight main motivations (Tax savings, Incentive realignment, Control, Free Cash Flow, Growth of Prospects, Transaction Costs, Takeover Defence and Undervaluation). Then, we evaluate the shareholder wealth by measuring the offered premiums and the CAAR (Cumulative Average Abnormal Return). Finally we analyse the impact of Public to Private to the wealth shareholder. The main sources for firms from going private are incentive realignment, Free Cash Flow (mostly for Asia), the economy of cost transaction and undervaluation. Furthermore, taxation benefit is a source of wealth effects for Asia and family blockholder for the control hypothesis is significant for Europe. Premiums and CAAR are the most important for the USA and Asia. The main observation that we have made, is that Asia gets the same behavior as the USA.*

### **1. Introduction**

Public to Private (PtoP) transactions include all operation by which a listed company decides to leave the stock market. The pionner was the United States with the first value which is equal to 250 billion dollars (Opler and Titman, 1993). In Europe, only the United Kingdom has got a lot of PtoP transactions. Other countries have less even if these last years the number of PtoP in France or in German raise. Since the beginning of 2000's years, Asia has got a very important raise of these transactions (3 in 2000 and 40 in 2007).

### **2. Literature Review**

Occurring in the context of PtoP transaction and the economic theories, companies withdrew from the stock quote can be explained by eight motivations (Renneboog, Simons, 2005). This paper focuses on the impact of public to private transaction of shareholders wealth. So we have selected eight motivations of operations to go private : tax savings, percentage of managers share, the concentration of control, the level of Free Cash Flow, growth prospects, transaction costs, takeover defense and undervaluation. Kaplan (1989b) estimates that the tax saving of PtoP in the United States is estimated between 21 and 72% of premiums paid to sharaholders to take a company that withdraws from the listing market. The hypothesis of control argues that the wealth obtained by shareholders depends largely on the outcome of the supervision system imposed by the management team in place. Lehn and Poulsen (1989) confirm that the companies withdrew from the quotation have low prospects growth. What's more, we can observe that more firm is small and more benefit will be important. Indeed, the fixed costs of quotation are the same for all firms. Lowenstein (1985) notes that for many companies that withdraw (MBO...), it is a strategic defence against a final hostile offer to shareholders or cons of bidding. Harlow and

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Miss Aurélie Sannajust, Assistant Professor in Finance, CRCGM, University of Clermont-Ferrand, France. Email : [asannajust@gmail.com](mailto:asannajust@gmail.com)

Howe (1993), Kaestner and Liu (1996) confirm that in the case of MBO, there are important stock purchase made before going private: deals are undervalued. The listed company with small market shares will have low liquidity and financial problems and they will have to remain listed.

Shareholders wealth is mesuared with two indicators: the Cumulative Average Abnormal Return (CAAR) and the premium. They represent the two dependent variables for all models for the multiple regression.

### **3. The Methodology and Model**

To test eight hypothesis, we have conducted an empirical study and we have covered 413 firms from Thomson One Banker, Factiva and Osiris databases. The sample is international with three geographical areas: Europe, the United States and Asia from 2000 to 2007 which cover 82% of PtoP world population (Thomson One Banker). We have made two models where the two wealth indicators represent the two dependent variables. The independant variables are represented by the eight motivations.

### **4. The Findings**

We can notice that the United States has the most important of CAAR whereas Europe has the least results. All these results (for the USA, United Kingdom and Europe) corroborate those of previous studies (DeAngelo, DeAngelo and Rice, 1984; Kaplan, 1989). Tax Saving is only a real wealth for shareholders in Asia (significant with a 1% of level). All blockholders (institutional, corporation and family) for the control has a negative impact to the wealth of shareholders. First this negative relation shows that lower levels of control by corporations in the pretransaction firm are associated with larger expected wealth gains upon going private. We have only a significant result for the family blockholder in Europe. We can explain it by the fact that family shareholdings is very present in this area and they will have more benefits when firms will be private.

Free Cash Flow is very important: more Free Cash Flow are important and more wealth gains of shareholders are also big. When firms go private they don't support costs of quotation. We have obtained results which are more significant for Europe and Asia because in these two areas, size of firms is small, so the saving cost of quotation will be more important. We confirm that when firms are undervalued and have less liquidity, gains of shareholders will be less important.

### **5. Summary and Conclusions**

Tax saving, Free Cash Flow, saving of costs of cotation are the three main motivations which are a positive impact of wealth shareholders.

## **References**

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