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Motivations and Performance of Public to Private Operations: An International Study

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Research questions:

The research deals with the analysis of the Public to Private's (PtoP) performance with an international point of view.

Since few years we observed a trend of increasing numbers of companies to "get out of the Exchange" ie close to their capital to the public, this is called Public to Private, symbol of PtoP.

The PtoP (Public to Private) operations are still little known in France even if they begin to develop. Indeed, PtoP include all the listed companies which decide to leave the fellowship, they are also synonyms for going private. A company is said to be going private when the company's value is replaced by equity participation of private investors. The company is delisted from the Stock Exchange and can not be purchased on the open market. The U.S. market was the pioneer in this field. We can quote the first value transaction in the USA: 250 billion dollars (Opler and Titman, 1993). In Europe and more precisely the United Kingdom which was the first country in Europe to discover these operations in the mid-80 operations. The first UK transaction in public to private transaction was in 1985 (Wright, Chiplin, Robbie and Albrighton, 2000). France, meanwhile, has realized its first operation PtoP in 1990. It remains in second position after the United Kingdom in terms of amounts of transactions. These operations tend to increase more and more. There is another example which illustrates this phenomenon and which is not yet studied, it is Asia. We can observe with the statistical by Thomson One Banker that it is an expansion area. From 2000 where there were only 3 transactions, we notice that in 2007 there are more 40 transactions per year. The evolution can be estimated to 1233 %. What's more the fact that the economic conjuncture is defavorable can contribute to their development. Moreover, they allow companies to create a more peaceful by eliminating any possibility of redemption. This applies to the company Clarins in France, in September 2008, decided to withdraw from the fellowship in order to avoid any possibility of redemption.

Methodology:

As we can note previously, Asia is a country where public to private transactions are developing but there is as yet no studies. That is the reason why we want to explore this new phenomenon. What's more two another areas will be integrated to our sample, the USA and Europe. Consequently our sample is composed by the USA, Europe (Germany, Spain, France, Holland, Italy, United Kingdom and Sweden) and Asia (North, Center and South). We have retained 399 transactions from 2000 to 2007. This sample represents 82% of the world population of PtoP.

Our research can be divided into three parts:

- ⇒ At first we study the motivations of public to private transactions
- ⇒ Then we estimate the impact of shareholder wealth
- ⇒ And finally we make a comparison between PtoP in Europe, in the USA and in Asia.

To evaluate the motivations of public to private transactions, we have selected some reasons and at the end, we have observed seven main motivations¹ which are: tax savings, reduction

¹ Renneboog, L., Simons T., 2005, Public-to-Private transactions:LBOs, MBOs, MBI and IBOs, ECGI, Finance Working Paper, n° 94/2005

of agency costs, transfer of wealth (the debtholders to shareholders on the one hand and employees to shareholders on the other hand), the economics of trading costs, protection against the takeover, the under-valuation. We will use a cross sectional regressions for premiums/CAARs in PtoP transactions.

To estimate the impact of shareholder wealth, we use two methods, first the calculation of premium and secondly the calculation of the Cumulative Average Abnormal Return. The two methods have got their own advantages but they can jointly increase the power of econometric tests in PtoP research.

Comparison Tests

And at the end, we analyse the comparison between Europe, UK, the USA and Asia, we take two variables, CAAR and Premium (with anticipation window equal to 20 days). First, we use a test of mean comparison then a Wilcoxon Test and finally a sign test.

Main results:

We divided this section into three parts:

Wealth effects of PtoP: abnormal returns and premium

We observed that a shareholder selling his shares to the final bidder will earn a premium of approximately 20% for Europe, 29% for UK, 27% for Asia and 34% for the USA.

The determinants of shareholder wealth gains from going private

The results are in this table:

Hypothesis	Variables	Expected Sign	Results
H1 : Tax Benefit	Taxes (% of sales)	+	+
	Gearing (NonCurrent Liabilities/Shareholder Funds)	-	+
H2 : Incentive Realignment	Managerial Ownership	-	-
H3 : Control	Institutional Blockholder	-	-
	Corporation Blockholder	-	-
	Family Blockholder	-	-

H4 : Free Cash Flow	Free Cash Flow	+	+
H5 : Economy of Trading Cost	Size (Ln (sales))	+	+
H6 : Takeover Defense	Prior Takeover Interest (1=yes)	+	+
H7 : Undervaluation	PER (Price Earning Ratio)	-	-

The comparison between Europe, UK, USA and Asia

We can confirm our expectation that the Europe has a lower CAAR and a lower premium than the UK, UK is the country in Europe where offered premiums are the most important. Asia has an important level of premiums and CAAR. The USA is the country of our sample where premiums and CAAR are the most important of all the four areas.