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DO THE REASONS BEHIND GOING PRIVATE
DECISIONS ARE DIFFERENT ;
AN EVIDENCE FROM EUROPEAN MARKET*

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Résumé

Au cours des dernières années, nous avons vu des changements spectaculaires dans la forme des opérations du secteur public au secteur privé. Dans le scénario classique de la littérature, les sociétés anonymes publiques ont toujours été privilégiées, et ce pour beaucoup de raisons. La prédiction de Jensen ainsi que d'autres ont été faites en raison du nombre accru d'inefficacité évidente dans les formes d'irresponsabilité de la gestion entraînant des pertes substantielles pour les actionnaires, ce qui à son tour a diminué la valeur d'entreprise pour les actionnaires; l'objectif ultime de la société. En conséquence, nous avons observé un grand nombre de transactions du secteur public au secteur privé ces dernières années. Ce projet examine les entreprises européennes qui sont considérées comme privées avec l'aide d'investisseurs privés, et la façon dont les caractéristiques et la performance de ces sociétés diffèrent des sociétés privées qui sont prises sans le soutien d'un investisseur privé au cours de ces années. J'ai bon espoir que cette étude suggère que les transactions des fonds d'investissement privés diffèrent de la gestion des transactions traitées sans aucun soutien d'investisseurs privés de quatre façons. J'avais l'habitude de régression logistique multinomiale pour un échantillon d'entreprises européennes des opérations de fermeture terminée dans la période 2003-2007. Les résultats ont confirmé que la population de ces transactions est hétérogène et diffère dans les motifs de ces opérations sur la base de sous-évaluation, la visibilité, la structure de propriété et les flux de trésorerie disponibles.

Mots-clés: Public to transaction privée, private equity, la gestion des offres soutenue (MBB), hétérogène.

Abstract.

In the past few years we have seen dramatic changes in the form of public to private transactions. In classic scenario of literature, public limited company was always preferred due to lot of reasons. The prediction of Jensen along with others were made due to evident increased number of inefficiencies in the forms of unaccountability of management resulting in substantive losses for shareholders ,which were in turn diminishing the corporate value for shareholder; the ultimate goal of corporation. As a result we have observed a large number of public to private transactions in recent years. This project examines which European companies are taken private with the help of private equity investors and how the characteristics and the performance of these companies differ from companies that are taken private without the backing of a private equity investor during these years. I am hopeful that this study will suggest that private equity backed deals differ from management backed deals without any backing of private equity investors in four ways. I used Multinomial Logistic regression to on a sample of European firms going private transactions completed in the period 2003-2007. The results confirmed that the population of these transactions is heterogeneous and differ in the reasons behind the transactions on the basis of undervaluation, visibility, ownership structure and free cash flows.

Keywords: Public to private transaction, Private equity, management backed deals (MBB's), Heterogeneous.

1. Introduction

We have been witnessing in the past few years, some dramatic changes in the form of public to private transactions (ptp). Rather more in the classic scenario of literature, public limited company was always preferred due to lot of reasons. These reasons included separation of management and control¹, listing at capital markets like stock exchanges, more effective managerial control through specialization, wealth and risk diversification etc.

However Jensen himself in 1989 predicted, in his famous paper, about an eclipse of public corporation near soon. This prediction along with others were made due to evident increased number of inefficiencies in the forms of unaccountability of management resulting in substantive losses for shareholders ,which were in turn diminishing the corporate value for shareholder; the ultimate goal of corporation. As a result we have observed a large number of PTP transactions in recent years. And as per estimates in the studies of Olper and Titman in 1993 the volume of such transactions did increased to the amount of 250 Billion USD.

In recent past years, the going private market has seen a considerable boom in size and also has become more interesting for private equity investors. This higher involvement of private equity investors affects considerably the ptp market as these investors approach firms with different characteristics relative to the traditional management buy-outs. In recent years in US, after a period of low activity in the beginning of the 1990s, the public-to-private market experienced a steep rise in activity as of 1997 with a total value of \$65 billion over the period 1997-2002 (Renneboog and Simons, 2005).

On the other hand we have observed that, private equity funds have become increasingly more involved in the going private market and perform a different role than in the past. In the 1980s, private equity investors often engaged in highly leveraged transactions, many of which were seen as hostile by the incumbent management. Nowadays, such private equity investors are often looking to partner with management. Importantly enough, they are interested in having sound strategic reasons to justify any going private deal. Also, low valuation on its own is not enough. In fact, private equity investors are after businesses that are basically strong enough. We can see that their typical target here is a long-term player that has leading market share within their defined niche, and has a strong customer base, with better potential of growth and relatively increased margins¹ . As pointed out in article in *Business Week*, 27 February 2006

¹ Famous paper of Jensen and Meckling on separation of ownership and control

that such Operational improvements have become more important than they were before in the 1980s. Moreover, these private equity investors appear to be very demanding, €suggested by the fact that 80 per cent of going private transactions considered by private equity investors in the UK never reaches completion (*Financial Times*, 12 March 2004).

On the other hand we have seen recent past several attempts in different empirical papers have examined these reasons for why publicly listed firms decide to go private (see Maupin et al., 1984; Lehn and Poulsen, 1989; Denis, 1992; Opler and Titman, 1993; Halpern et al., 1999 for US evidence and Weir et al., 2004, 2005 for the UK).

1.1. Objective and Scope of Study:

In the practice Venture capitalists/private equity investors are often looking to partner with management when financing a going private transaction where the company is taken off the stock market. This project examines which European companies are taken private with the help of private equity investors and how the characteristics and the performance of these companies differ after going private differ from companies that are taken private without the backing of a private equity investor during these years.

I am hopeful that this study will suggest that private equity backed deals differ from management backed deals without any backing of private equity investors in four ways.

My hypothesis is that, firstly, Jensen's free cash flow hypothesis seems not to quite apply to the private equity backed deals as these have cash shortage and thus pay high dividends. Secondly, they also differ on the basis of undervaluation. Thirdly, they also differ on the basis of visibility; while fourthly, the two types of deals differ in ownership structure. Private equity backed deals are likely to consist of higher ownership by financial institutions therefore their ownership is less concentrated.

2. Literature Review

2.1. Private Equity

We have observed that, private equity funds have become increasingly more involved in the Ptp market and perform a different role than in the past. In the 1980s, private equity investors often engaged in highly leveraged transactions, many of which were seen as hostile by incumbent management. Nowadays, such private equity investors are often looking to

partner with management. Importantly enough, they are interested in sound strategic reasons to justify any going private deal. Also, low valuation on its own is not enough.

2.2. Heterogeneous Characteristics in going Private concerns:

It can be conjectured from literature review that going private deals that have backing of a private equity house have different characteristics and go private for different reasons than management buy-outs that do not have the backing of a private equity house. In other words, the population of going private firms is not homogeneous in characteristics with respect to the reasons for the deal. These firms can be divided into several groups based on private equity versus sole management involvement in the transaction. I will show in coming pages that these two groups have their own unique characteristics and their own separate reasons for going private.

As Halpern et al. (1999) have also been found contemplating this idea of heterogeneity in going private firms. They have been of the opinion that "population of LBOs is heterogeneous and understanding the differences among LBOs is important in understanding both why each type of firm engaged in this transaction and what they did after the transaction" (p 282).

As here in this research I am trying to propose that reasons behind going private in MBB's are different from led by private equity investors, therefore in order to get a better picture of motives behind we should not tie up together the all deals, rather more suitable would be evaluating the reason behind separately in two different types.

I will use this idea of heterogeneity so as to highlight the involvement of private equity funds. As i am considering two different types of going private transactions i,e

Management backed buyouts (MBB's) where management initiates this deal, without some private equity being actively involved.

Transactions of going private actively backed by private equity.

To complete the whole population, there are other deals also initiated by whatever other reasons than above mentioned.

Also Moreover, the going private literature do consider almost exclusively just the MBB's and, hence, does not offer much for reasons why private equity investors would engage in going private transactions at all in the first place. Thus, based on this literature, I consider different motives which in turn may motivate management backed deals and

propose that private equity backed deals do not share incentives as they target firms with shortage of cash that can be turned around and make the investment to pay off². It may include the concept of undervaluation, illiquidity, low visibility and the free cash flow idea of Jensen (1986) separately for the two groups of going private transactions. In particular, I will propose that private equity backed firms may have less agency problems associated with free cash flows as, in fact suggested by Gompers and Lerner (2001), they are more likely to have low cash balances.

Secondly, I will try to highlight the differences in pre-buyout ownership structure between the two types of firms. As Elitzur et al., also in 1998 have proposed that managers having larger amount of their personal wealth being invested in the company may be more likely to decide in favour of a going private deal. In contrast, we argue that private equity backed deals may have high institutional ownership so as the institutional investors may be willing to support their deal.

But since this concept of active involvement by private equity investors is relatively new idea, the literature explaining these reasons behind is very limited³ therefore it won't be easy to come up with rigorous hypothesis well backed by previous empirical findings or theoretical models. On the other hand literature has been quite useful in explaining motives behind MBOs. But still I have tried to formulate four relatively broad hypotheses explaining reasons behind:

- undervaluation of the going private firms as compared their peers in market;
- Low visibility being illiquidity of their stock and hence low analyst coverage;
- High free cash flows and tax shields issues; and
- High managerial ownership.

But at the same moment, I opine that none of these four motivations may be as important for deals backed by private equity as the general perception of such investors' activities suggests that private equity houses are normally interested in turning companies around within a three to five year horizon so as to make decent returns on their investment.ⁱⁱ I propose that private equity backed deals, as opposed to management backed deals, do not always match the profile of Jensen's cash-rich firms. Whereas intuitively, firms that search for private equity backing are more likely to suffer low cash balances and high

² Gompers & Lerner, 2001.

³One of very few references is G & Lerner (2001).

growth opportunities.ⁱⁱⁱ In contrast, managers of cash-rich firms with low growth prospects may see the potential of leveraged transactions as they may be aware of their ill-specified incentives and use the excess cash to fund the going private transaction or to service new debt and gain control over their firms (Fox and Marcus, 1992). Moreover, the leveraged transaction allows managers to avoid the prospect of hostile takeover and/or shared control with an active private equity investor who typically demands board representation and a say in the firm's long-term strategy (Cotter and Peck, 2001). Therefore, we predict that large cash balances may motivate *management backed* going private transactions but not *private equity backed* deals.

2.3. H1: Firms with large cash balance may motivate management backed deals than private equity backed deals.

As in Europe venture capital and buyout markets are more closely linked as compared to American markets.^{iv} Moreover as per study by Smit & DeMaeseneire in same year such private equity investors could follow strategy of buy & build, where their aim is on growth potential and opportunities within the industry and hire more managers who have experience of that industry. Therefore while adopting above mentioned such strategies, such investors take the role of consolidator of industry, by taking over lot of small companies. In such cases transaction value of such going private transactions may be dependent on earlier investment portfolio of such investors, rather than that of firm which is going through private transaction. Also it looks more interesting private equity investors have much lesser amount of information as compared to management concerned. In nutshell one may assume undervaluation has a role to play in both types of transactions. But the intensity of role varies in both. Moreover, we can infer following hypotheses:

H2: Undervaluation is likely to be of more importance in Management backed deals.

While

H3: Undervaluation is likely to be of Less Importance in deals backed by private equity investors

Since, they are more able to create addition in value due to their resources like network and industry experience despite having less or no advantage in private information.”

As per Bolton and Von Thadden in 1998, “if the firm’s shares are thinly traded, being public may not be worth the cost. Also Merton in 1987 asserted that thinly traded stocks have much lower analyst coverage generally and are open to risk of neglect by investors while they take their decisions of investments. Also Boot in 2004, highlighted the phenomenon of liquidity and low cost capital being important benefits in public ownership Vis a Vis private ownership. Therefore public firms will less liquidity normally having lower analyst coverage risk the higher cost of stock exchange listing without taking sufficient advantage of public company benefits.^v Thats why I conjecture that lower No. Of analysts following along with less liquidity may result in motivating managers to go private.

On the other hand, for private equity investors main aim is restructuring of their target companies. As argued by Amit in 1998 that fixing problems is easier in the case of private companies rather than public companies. The main reason could be conflict of short term goals with long terms aims and goals involving strategic ones as most of the shareholders are more interested in quarterly earnings. In this way going private concerns with private equity investors on their back may desire to remain hidden from public market scrutiny and relative higher amount of visibility. Moreover , private equity guys most of time prefer those projects that have relatively lower cost of selection and monitoring along with less severe cost of information asymmetry.

Therefore, i can conjecture that:

H4: Private equity backed deals are more likely to have higher analyst coverage as compared to management backed deals

h5: Private equity backed deals are more likely to have liquidity of stock as compared to management backed deals

Private equity investors typically look for support of a number of incumbent blockholders before they take a firm private. This results in increases in their chances of the transaction to be successful. In fact, the private equity investor usually contacts the existing blockholders in order to receive irrevocable undertakings wherein the existing blockholders promise to accept the private equity investor's offer (Wright et al., 2007). After receiving the support of several blockholders, the private equity investor makes a public offer for the remaining shares at the same price. These irrevocable undertakings are easier to obtain when ownership is concentrated in the hands of a small number of outside shareholders.

Institutional investors may be of special importance as most of them are passive and not interested in monitoring management closely themselves (Faccio and Lasfer, 2000). They are likely to sell their shares in case they are able to negotiate a premium price and earn a return on their otherwise illiquid investment. Therefore, we expect that high institutional ownership increases the likelihood of a going private transaction *backed by private equity*.

H6: It is expected that high institutional ownership increases the likelihood of a going private transaction backed by private equity

3. Research Design and Methodology

I utilised Multinomial logit regression in which In My model the observed group for the given firm ‘*i*’ takes value ψ_i which has discrete values from 1 to 3. By using the maximum likelihood function its very easy to estimate straightforwardly the coefficients in my multinomial logistic regression model where the probability of a particular firm ‘*i*’ belongs to the group m (that is conditional on the explanatory variables vector ($k \times 1$), consisting of a constant and firm characteristics), is given by following model equations:

$$P \left[\psi_i = \frac{m}{x_i} \right] = \frac{\exp[\beta'_m x_i]}{\sum_{l=1}^3 \exp[\beta'_l x_i]} \quad \text{EQUATION 1}$$

And in next equation is given by the modified probability after taking into account the sampling error. Since our data is not randomly drawn so as per the authorities of (Fok 2002) for the detailed analysis in the cases of binary logistic regression.

$$P \left[\psi_i = \frac{m}{x_i} \right] = \frac{\delta_m P \left[\psi_i = \frac{m}{x_i} \right]}{\sum_{l=1}^3 \delta_l P \left[\psi_i = \frac{l}{x_i} \right]} \quad \text{EQUATION 2}$$

For, all ‘ m^l ’ taking the values from 1 to 3. And δ_m is the fraction of sampled firms in the given group m . I prefer to take log so as to consider the log add ratios of the group m versus group l for easier interpretation of these parameters. Therefore

$$\text{Log} \frac{P \left[\psi_i = \frac{m}{x_i} \right]}{P \left[\psi_i = \frac{l}{x_i} \right]} = x'_i (\beta'_m - \beta'_l) \quad \text{EQUATION 3}$$

Therefore, the net marginal effect of a change in a change in $x_{i,j}$ on the group probability of group can be taken while taking partial derivative of he $P[y_i = m/x_i]$ with respect to them therefore:

$$\frac{\partial P[y_i = m/x_i]}{\partial x_{i,j}} = P[y_i = m/x_i] \left(\beta_{m,j} - \sum_{l=1}^3 \beta_{l,j} P[y_i = l/x_i] \right) \text{ EQUATION 4}$$

The sign may be positive or negative depending upon the value of x_i .⁴ Therefore marginal effect may not be necessarily being positive or negative as per the sign of coefficient⁵. I considered the group probabilities themselves⁶ to measure the effect of different characteristics on probabilities of different transactions. Also the effect of other explanatory

variables were averaged out by calculating
$$P[y_i = m/x_{i,j}] = \frac{1}{N} \sum_{n=1}^N P[y_i = m/x_{i,j}, x_{n-i}]$$
 where N is the given size of sample.

3.1. Model Assumptions and Tests

Following are some assumptions in the above mentioned models:

1. All alternatives are independent of each other, in given equation No 1.
2. The validity was examined by the tests of Hausman and McFadden (McFadden 1984)
3. As per the implication of heterogeneity hypothesis of Private Equity backed and Management backed transactions, the coefficients $\beta_{m,j}$ varies across groups as certain firm attributes like cash flow and management ownership effect the relative probabilities of the firms.
4. Testing of the heterogeneity is done by means of likelihood ratio test by (Ridder 1991)

⁴ As sign of term inside the brackets depend on it.

⁵ $\beta_{m,j}$

⁶ $P[y_i = m/x_{i,j}]$

4. Data

My sample consisted of non financial firms that have gone private in the Europe during the years 2002-2008. In order to identify such public-to-private (PP) transactions the data was taken from number of resources including from the database of the Centre for Management Buyout Research (CMBOR),Extel cards, Thomson One, Data stream, Zephyr, 10K database, and some others. For all the PP firms, I also obtained the offer documents accompanying these going private transactions from Thomson Research and other databases.

I used these documents to determine the fact that whether the deal is backed by private equity investors or not. This will be the key basis of the primary classification criterion and will decide on whether a deal falls in the private-equity backed group or otherwise.

In case if the transaction is not backed by a private equity house I will further examine whether any of the firm's executive directors are involved in the deal. If this is the case, the transaction will be coded as a Management-Backed deal. In all other cases, the transaction is classified into the 'other' category. This category will include deals backed by non-executive directors, wealthy individuals or families or institutional investors other than private equity houses and can be included for completeness of our model. In fact such kind of private equity backed deals may be backed both by and without management involvement. In fact, private equity funds often prefer management involvement in their deal.

On the other hand so as to obtain get a much more detailed view of the characteristics of these going private transactions in general and the two individual types of going private transactions in particular, I also intend to contrast these going private firms with the firms that have remained publicly listed. I opted for a random sample of control firms that remained public: in each of the years of the sample period and thus can randomly select some control firms from a population of more firms that would have been continued to be publicly traded in a given year. In my view this sampling procedure will allow for a control firm to be included in the sample more than once. For both the PtP firms and control firms, I got market prices from Datastream, financial statement data from Worldscope, and hand-collect ownership structure and board

composition information from Price Waterhouse Coopers' Corporate Register (various issues).

5. Data Analysis and Research Findings

The table shows that how the coefficients had their effect on the probability of the firm going peculiar private transaction from a given group. I also calculated p-values which are likelihood test among three different ways of PTP deals. Overall the results prove the concept of heterogeneity among pTP transactions. Also as per the no heterogeneity test of Ridder, it has been shown that infact all groups of deals have very different kind of characteristics among each other.

At the same time interdependence test as per last column shows that such decisions were independent of each other. Therefore this test of independence among irrelevant alternatives shows that going private decision was taken at same time as the type of deal.

5.1. Cash Flow Hypothesis

My hypothesis that more cash rich firm will be more likely to undergo management backed deal than private equity backed deal. The results in above table suggest the same inference, as management backed deals have very higher cash availability as compared to Private equity backed deals. The resulted coefficients are significant at one and ten percent. And differ significantly at one percent level.

As per Jensen famous cash richness hypothesis given in 1986, agency problem related to cash tend to result in lesser growth prospects of firm. Sales growth variable was included as control variable, which was insignificant enough to imply that growth opportunities are not very effective in growing private. While controlling for growth; one can mark a sharp difference for the cash level effects on probabilities of going private in management backed deals as compared to private backed ones.

However after checking for an additional in the form of firm dividend, it yielded that it have quite much effect on the corresponding cash levels of firms. I also found that free cash agency problems may be mitigated by high dividend ratios. As per table the coefficients are positive but not much significant. So it can be inferred that private equity backed deals pay higher dividends but yet short in cash. Therefore, Jensen cash flow is not much supported. Also in

following table it can be viewed and easily noticed that probability of management backed deal increase with the increase cash while private equity backed deals are on decline.

Figure 1

Therefore it may be concluded that equity deals are marked with high dividend payout ratio and lesser cash while firms being rich in cash are more likely to happen among management backed deals rather than being supported by private equity ones.

5.2. Undervaluation Hypothesis

The results in above table also prove my hypothesis of importance of undervaluation in triggering management backed deals than private equity backed transactions. As per the coefficient of market to book ratio, its value is negative for both type of deals showing undervaluation of both type of transacted firms in comparison with those who opted to remain public yet private equity management backed transactions are lesser undervalued in contrast to those backed by management. But their difference is statistically significant and positive.

In the mean while the rumours being positive and high in both cases show high takeover activity in these while the difference is non-significant in this case. Hence it may be inferred that low market to book ratio shows lower growth prospects. Therefore if one includes returns on assets and average sales growth for last three years and regress, one may found them also non significant. Therefore both type of deals can't be separated out on the basis of profitability and sales growth. But following table shows probability of these firms belonging to certain group as being functions of sales growth, ROA and market to book ratios. It also infers that undervaluation is more related to management backed deals than private equity backed ones. Also it yields that probability of both deals decline with the number of take over rumours.

Figure 2

Hence it is yielded and suggested that market undervaluation has important role to play in the case of management backed deals having lesser market to book ratio than control who didn't opted for going private. Whereas, undervaluation doesn't play very significant role in the cases of private equity backed transactions.

5.3. Visibility Hypothesis

Also as mentioned in the above table hypothesis regarding visibility was also supported. As its clearly indicated that high illiquidity and low coverage by analysts do increase the probability of management backed transactions as compared to private equity backed.

The coefficient for illiquidity is positive for both deals yet its significant at one percent in the case of management backed deals than the private equity backed deals. Whereas they are significantly differ to each other. Its obvious that smaller number of analysts following the transaction increases the chances of being management backed deal, as its more significant in their case, despite being positive to both private equity backed and control firms also.

One may think that the visibility of the firms is also dependant on their respective size. But I can't find its support from resulted coefficient. However on careful examination of correlation matrix it came to know that the illiquidity and size are highly correlated to each other. This asks for more careful explanation of results.

It may be due to the reason that since the chosen firms especially management backed deal firms are quite smaller in size hence they remain illiquid and followed rarely by analysts. These all firms are smaller in size hence prove the point. However as per this following table, it become evident that even though sample is underrepresented yet high inter-association among visibility and chance of going private is not due to factor of size

In the above panel study its also made clear that even while being calculated separately for these group of firms, yet same results by size have been obtained. It shows illiquidity declines in the case of non PTP transaction firms while analyst coverage increases with increase in size. The same behavior has been observed in private equity backed deals however they show bit more illiquidity whereas management backed deals are highly illiquidity marked with quite a low coverage by analysts. Hence it can be inferred that management backed deals are marked with higher illiquidity and lesser analyst coverage's.

While being observed on alternative markets with quite a lower level of requirements for listing, it was noticed that such listings analysis still make any difference result than previously observed ones.

FIGURE 3

The above mentioned figures also show that the chances of management backed deals increase highly with low coverage by analysts and higher illiquidity. Whereas in private equity it's not such a relationship.

5.4. Pre-buyout Ownership Structure in Firms Going Private

And this hypothesis is related to pre buyout ownership structure and it was suggested that firms with higher executive ownership will drive the chances of firm undergoing deal backed by private equity. The above mentioned table showed that coefficient is really positive and suggests that higher ownership stakes by executives in pre buyout structure makes the firm more liable to underwent private equity backed deal. It also shows that higher ownership stakes by executives also drive company for going private transaction owing to statistically significant coefficient. It helps my conjecture that private equity investors seek help from management in their buy out deals. Even though the coefficient for management backed deals is quite a high yet while testing the difference, I didn't found it very significantly different. Therefore higher ownership stakes induces the chances of firm going private in either form of deal.

While on other hand during computing Herfindahl index with expectation of higher management stakes in cases of management backed deals , it was found that ownership structure really matters as its high for management backed deals.

Also, as per following diagrams, there was found significant difference regarding financial institution ownership thus confirming hypothesis partially. As financial institutions higher stake in ownership structure induces more chances for the private equity backed deal than management backed deals. Therefore with increase in ownership by financial institution the chance to go private backed by private equity increases considerably.

FIGURE 4

Also in order to confirm the suggestions by Gompers and Lerner in their research in 2001 about association of private equity deals with higher uncertainties and riskiness, I also included control variables like tax, standard deviation of returns and total debt. The table shows that tax also increases the chances of going private through management backed deals. While, total debt is more associated with the fact management backed deals are more indebted and private equity backed deals are lesser indebted as compared to non-PTP transacted firms.

But tests are not significant to draw a viable conclusion. Whereas standard deviation increases the chances of going private with the backing of private equity.

6. Conclusion and future Research Directions

This research endeavours to peep into the reasons behind firms going private based on their belonging to different groups. And it was suggested and has been found that these transactions differ strongly on the basis of their membership to certain type of deal. For instance the reasons behind companies going private backed by management are widely differ than those supported by private equity houses. Even if these two transaction groups have same reason the intensity of the factor still remains highly different.

The data was collected on the continental Europe transactions happened in recent past. Although the sample was not widely represented being it drawn not fully on random basis from the corresponding groups. Yet the results drawn are quite generalizable and in line with recent researches being taken place in the recent history.

The availability of data was one of the major issue yet it was made available to represent as maximum as the target population. The analysis of the data and results show that, chances of firm going private and being backed by management or private equity houses is purely based on the insider characteristics of the firm.

I have drawn several conjectures and hypothesis ranging from visibility, cash flow hypothesis, undervaluation and pre buyout ownership structure for going private transactions backed by management. Whereas the reasons for deals backed by private equity houses sharply differ as a matter of fact these private equity houses have more easy access to funds and are more strategically sound as compared to management backed deals. These private equity backed deals therefore do not have the same factors behind their transactions as management backed deals.

One of the main contributions of this study is to verify and prove the heterogeneity in the population of going private transactions in Europe and hence proved that the motives behind each going private transaction there are varying underlying motives which in turn differentiate them from the other existing population and helps them finding right group to belong. Therefore, the reasons of quitting the share market for both main underlying groups are different in its origin. Whereas the management backed deals are statistically significantly lowly visible, more undervalued, higher cash levels, higher level of debt, less analysts following, higher ownership concentration and high tax paying. The private equity deals are

in total contrast to them in most cases being higher financial institution ownership, higher executive stakes with cash shortage and higher dividend pay out ratio.

Moreover Jensen cash rich hypothesis is more diligently followed by management backed deals being illiquid and significantly undervalued. Therefore the agency costs for remaining publicly listed grow higher hence pushing them towards going private transactions mostly backed by management themselves. Whereas on contrast to it in the case of private equity backed deals the agency costs are not yet high rather its more beneficial to remain listed as they are relatively lesser undervalued, with more liquidity and visibility but yet they are facing cash shortage.

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ⁱ *The Deal*, 24 November 2003

ⁱⁱ *Business Week*, Feb,27,06).

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^{iv} By toms & Wright in 2005

^vAs By Mehran & Peristiani in 2005