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

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This article deals with the motivations and the different sources of value from Public to Private Operations in Europe, USA and Asia from 2000 to 2007. We test seven main motivations (Tax savings, Incentive realignment, Control, Free Cash Flow, Economy of transaction costs, Takeover defence and Undervaluation). Then we analyse the impact of shareholder wealth by measuring the offered premiums and the CAAR. Finally we make a comparison between the geographical areas. 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.

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1. Introduction

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 in the USA: 250 billion dollars (Opler and Titman, 1993). By the early 80s, the craze for this type of operation was born. This growth has been such that Jensen (1989) foresaw the end of the listed companies and to have only private companies. In the USA there is a large research which has developed about the analysis of public to private transactions. It is also the same case in Europe and more precisely in the United Kingdom which was the first country in Europe to discover these operations at the mid-80 operations. The first UK transaction in public to private transaction was in 1985 (Wright, Chiplin, Robbie and Albrighton, 2000). France, meanwhile, realized his 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 the phenomenon and which is not yet studied, it is Asia. We can observe with the statistical by Thomson One Banker that there 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 conjoncture 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 September 2008, decided to withdraw from the fellowship in order to avoid any possibility of redemption.

All the explanations given by the research of public to private transactions for the USA can't be applied to the operations for Europe and Asia. Several explanations can be cited: first the composition of the debt differs, in the USA the transactions are financed with junk bonds whereas in UK there is not the same (it is more privately placed mezzanine). Many details are very different such as the interest rates, the regulation, the tax benefit, the gearing (we can note that gearing are more important in the USA than in the rest of the world). What's more Toms and Wright (2004) note that UK venture capital and buyout markets have traditionnally been more closely linked than in the USA. So the goals between public to private transactions in the US and in Europe are not the same: in the UK the goal is to have growth opportunities whereas in the USA there are more focused on mature, cash-rich industries.

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:

- ⇨ 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 motivations (Renneboog, Simons, 2005) which are: tax savings, reduction of agency costs, transfer of wealth (the debtholders to shareholders of one hand and employees to shareholders on the other), the economics of trading costs, protection against the takeover and the under-valuation.
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 (CAAR).
And finally to make a comparison between PtoP for each country, we employ three tests: a test of mean comparison, a Wilcoxon Test and a Sign Test.

The results are relatively significant and confirm our expectations.

This paper is organised as: Section 2 is devoted to an overwiew of what is really a Public to Private transaction. Section 3 deals with the hypothesis of our research and all the literature references. Section 4 presents the datas, the methodology to elaborate our sample ans the statistics. Section 5 introduces the methology of empirical tests. Section 6 explains the results and section 7 concludes this study.

2. The rise of the withdrawal of the quotation: Public to Private (PtoP)

Is designated PtoP any operation by which a listed company decides to leave the stock market. According to EVC (European Private Equity and Venture Capital), transactions of Public to Private are defined as follows: are considered PtoP all transactions involving firstly, a bid on the entire capital of a company targeted by a new company called NewCo and secondly the restoration of the target company qualified private company. The shareholders of NewCo include members of the target company and investors in Private Equity. Additional funding for the bid come from other financial institutions (banks. ..). Note that in American literature, the term joint PtoP and LBO is often used. Indeed, as the PtoP, LBOs are financed largely by debt. The distinction between the two is explained in terms of composite mode of financing the debt: for example, PtoP with more than 50% debt financing of the LBO debt. The distinction is quite subtle, we should analyze the financial structure of each company, which is extremely difficult, which is why PtoP and LBO can be used simultaneously. When we employ LMBO, we refer to as the redemption of society made by its management team.

A. The implementation of a Public to Private

The establishment of an operation to PtoP uses many legal disciplines, whether in stock exchange or in tax law. Thus to understand and study these operations, some legal references
in advance which are helpful.
Two steps are necessary to achieve a PtoP.The first step is the collection of titles and the second step allows the withdrawal of the rating. For a better understanding of the operation we will consider it in a simple way, without going into details.
First, the collection of titles represents the preliminary stage because it is required for the withdrawing the need to have at least 95% of the company targeted by the PtoP. The second step is in turn, to achieve the withdrawal of listing of the company. The offers of withdrawal are governed by the General Regulation of Financial Markets of the provisions of Chapters 1 and 6 of Part V. It states that the withdrawal of the rating can take the form of a takeover bid (takeover bid) or the form of a public offer of exchange (share exchange offer). They should also target all the equity securities or provide access to capital and securities law to vote.

Note that in the case of the study, withdrawal of the offer will materialize only by the fact that the withdrawal is initiated by the majority shareholder holding at least 95% of the voting rights of the listed company. Public offer of withdrawal launched by the majority shareholders are most often followed by a squeeze.

Note that the threshold for holding of voting rights vary according to geographic areas identified:

Country	Allemagne	France	Italie	Royaume-Uni	**Etats-Unis**
Regulator	BAFin	AMF	CONSOB	Takeover Panel	**SEC**
Withdrawal threshold of the symbol	No threshold provided by law. GA resolution required.	95 % of voting rights	98 %	Always possible with a vote of shareholders	**Requests to the SEC if a certain minimum number of shareholders**
Tax threshold	**50%**	**95 %**	**50 %**	**75 %**	**80 %**

B. The development of the Public to Private

The development of the Public to Private can be interpreted as a strategic solution: the companies created in the stock market, saw their market conditions changed since their introduction. They are now faced with constant under-valuations of their securities and many difficulties to raise the capital needed for their development. The PtoP are presented as the solution to these three major challenges faced by these companies.

We can characterize a PtoP operation as one possible form of buyback of society with specific characteristics. In an operation PtoP, the acquired company is removed from the quotation and it is free of public scrutiny.
This has the advantage of freeing the company of three major constraints:

- ⇨ First, it will not appeal more to the constraints related to ongoing monitoring of the operations by the market,
- ⇨ Then it is no longer obliged to communicate the results of its activities,
- ⇨ And finally, the costs associated with the listing will disappear.

Unlike traditional buyouts, such as takeover bid or share exchange offer, PtoP are characterized by a massive use of debt, such as LBO. They are financed by private equity companies.
Moreover, the objectives of buyouts classic are different from those of PtoP. The takeover bid or share exchange offer are primarily carried out by a major motivation which is the search for synergies between the target company and the company bought. Unlike the latter, the purpose of PtoP is not in a trade or industry association between two companies and do not represent the response of a penalty to poor management (which would have resulted in a loss
of efficiency).
PtoP operations do not follow this logic; they are characterized as a group from target companies in relation to an acquisition. We discuss in the following paragraphs the sources of
value and motivations that are related to operations PtoP.

Finally we can summarize in a few words the definition of an operation PtoP.

Public to Private (P to P) is to acquire a significant block of shares in a listed company, to launch a tender offer and remove the company from the coast, possibly at the end of a squeeze-out.

Note: The operations of Public to Private, also called "out of stock exchange ", are to redeem a publicly listed company with a structure to leverage. Most often, those of LBO and LMBO
(involvement of managers) who are retained.

We can see from the Appendix 3 the recent developments PtoP globally. For this we have selected three geographical areas called strategic, because they represent 82% of the world's PtoP.

3. Determination of the main sources of value creation

Occurring in the context of operations PtoP and the economic theories, companies withdrew from the stock quote can be explained by seven motivations (Renneboog, Simons, 2005). We can already mention it, then we will go to an in-depth study of each of them.

They are:

- ⇨ Tax saving
- ⇨ Reduction of agency costs
- ⇨ Transfer value from debt holders to shareholders
- ⇨ Transfer value of employees to shareholders
- ⇨ Economy of transaction cost
- ⇨ Anti-takeover
- ⇨ Under-Valuation

We explain in the following paragraphs the explanation of each reason cited above. At the end of each of them we deduce an hypothesis that emerged from each study that's why the assumptions derived from the comments below will be represented by a box.

A.Tax Saving

As an LBO, the mounting of an operation PtoP leads to massive use of debt, therefore, by extension to the loan. The debt contracted by the company gives the money to carry out the montage. This loan will have a dual purpose: on the one hand enable the company to carry out the montage and also allow a tax deduction to the interest on loans. The latter will repay debt and pay shareholders through the payment of premiums. Thus, Kaplan (1989b) observed in the United States from 1980 to 1986 that 21 to 72% of premiums paid to shareholders during the acquisitions as part of a PtoP were linked to profits that shareholders get tax deductions. Although this tax benefit is offered to purchasers of the company, it is the shareholders of the target company who will benefit most through the premiums paid to shareholders. Therefore, the wealth obtained by shareholders of PtoP is positively correlated with a high level of taxation. However we can note that the impact will differ depending on the tax regime of the country in which the transaction takes place.

We can infer the following hypothesis concerning the taxation saving:

Hypothesis 1: Tax Saving

The wealth obtained by shareholders of PtoP is positively correlated with a high level of taxation.

B. Reducing agency costs

1. Realignment of the interests of shareholders and management

1.1 Divergence of interests between shareholders and managers

The conflict of interest that lies between the management and shareholders has long existed. Adam Smith (1776) raised this issue for the first time there are more than two centuries. The conflict of interest can be summarized as follows: the management is less interested in the results of the company and his conduct may deviate from what it should be to create value

that will benefit shareholders.

The divergence of interests between shareholders and managers can be explained in three points:

a/ Heritage managers differs from that of investors. For an investor there are two types of risk in the market, on the one hand the market risk, also called systematic risk (the risk of title correlated to market risk, it affects all parts of the market) and on the other hand, the idiosyncratic or specific risk (risk that affects only certain elements of the securities market, which is neutralized by the technique of diversification). The two objectives in terms of asset composition are different between agents. Investors have a goal of diversification in order to maximize their portfolios and eliminate the specific risk. On the contrary the managers are much less quickly to diversify their portfolios. Usually they have invested the majority of their wealth in society; they avoid the use of investment and development strategies that would take a significant risk in relation to their investments in the company. Thus the vision of the shareholders and managers is completely different with regard to their investment strategy.

b/ The period during which the manager and the shareholder will be involved is different: the leaders were appointed to their office for a limited duration. In principle this does not exceed 15 years, especially for senior leaders or the duration of their function is more restricted. On the contrary, shareholders have a function in the deal which is unlimited; it is on this basis that their actions are evaluated. Therefore, leaders will tend to focus on short-term strategies at the expense of shareholders.

c/ The existence of a sense of very strong, a human link between the leadership and society,and not between the shareholder and deal. The society in which are the leaders and management can also be a place of social recognition and creating social ties important. Also they may have to perform actions with the objective which will not necessarily financially but will provide significant social recognition and a certain prestige. The latter are obviously not in the objectives of shareholders. This divergence of interests will lead to higher costs.

1.2 Consequences of these differences

The managers have two possible strategies available to them: first, they must adopt a policy in the management of the company making them essential or very difficult to replace, this strategy is described as a strategy to entrench, that is to say rooting. On the other hand, managers may choose projects of their own that is to say that control them totally outside the control of shareholders. These two strategies enable them to retain their position as leaders by
making them indispensable.

However, implementation of these strategies has implications for the financial plan of the company. They result in agency costs ie the costs of strategies implemented by management that go against the maximization of shareholders' investments by allowing them to lose opportunities to create wealth. As we have suggested strategies undertaken by management are conducted solely in their own interest. Therefore, shareholders should use the monitoring facilities in order to monitor the

management of the company and to align management with the objectives of shareholders. These supervisory structures in place are achieved through audits, regular presentation of the situation and the accounts of the company and sometimes the use of external experts of the company. They therefore involve an additional cost added to
the opportunity cost that is call agency costs.

In the end, it may be noted that three factors namely the involvement of management in the capital, the concentration of control and reasons related to Free Cash Flows are three characteristics that allow the development of operations PtoP.

1.3 Involvement of management in the capital

One of the challenges of operations PtoP is to realign the interests of management with those
of shareholders, which would minimize the agency costs.

Indeed, according to Jensen and Meckling (1976), it is possible to solve this problem of divergence of interests when the managers have an important part of the capital. This relationship is even stronger when the organizational structure is the subject of LMBO, managers are involved in the capital. In a study of Kaplan in 1989 he notes that there is an increased participation of management in the capital of which is subject to a transaction LMBO. This increase amounts to 4.41% for the President and CEO and 9.96% for other executives.
Therefore, the reunification of shareholders (= ownership) and managers (= control) leads to a better organizational structure where the increased efforts by managers are to maximize the value of the company. This suggests that the gains of shareholders are negatively correlated with equity participation of managers of the company.
We can deduce hypothesis 2:

Hypothesis 2: Hypothesis for realignment of interest: Earnings of shareholders will be lower in PtoP.

We have summarized in the table below a few studies concerning the realignment of interest:

Authors	Country	Type of transaction	**Results**
Cotter and Peck (2001)	U.S.	LBOs	**Active monitoring by a buy-out specialist substitutes for tighter debt terms in monitoring and motivating managers of LBOs. Buy-out specialists that control a majority of the post-LBO equity use less debt in transactions. Buy-out specialists**

			that closely monitor managers through stronger representation on the board also use less debt.
Cressy, Munari, Malipero (2007)	**UK**	**MBOs MBIs**	**Industry specialization, but not buy-out stage specialization, of private equity firm adds significantly to increase in operating profitability of Private-equity backed buy-out first three buy-out years.**

2. Concentration of control

The use of control structures is essential. Studies of Easterbrook and Fischel (1983), Grossman and Hart (1988) show why a share is low or dispersed, will underinvest in monitoring activities (the problem of free-rider). Indeed, a company that has a widely dispersed shareholding will have agency costs higher simply because the shareholders will not be encouraged to invest in management control, the costs are too high. For this we can deduce that if the shareholders have a small share of capital, they will under-invest in activities. PtoP operations are presented as being the solution of the reunification of the control and ownership: equity funds are concentrated, investors are more motivated and they have more information to invest in monitoring management (Maug and Admati (1998)). Thus PtoP would solve the free rider problem through the development control system.

The hypothesis of control implies that the gains made by shareholders in the operations of PtoP resulting mainly management system imposed by the management team in place.

Hypothesis 3: Hypothesis of control:

The gains of the shareholders of a PtoP are negatively correlated with the degree of concentration of equity held by outside shareholders.

3. Theory of Free Cash Flow

The Free Cash Flow is defined by Jensen (1986) as a cash flow in excess in relation to what is required to fund all projects that have a positive net present value. According to the author, managers are tempted to keep all resources instead of distributing them to shareholders in order to grow the company beyond its optimal size. This idea is at odds even with the interests of shareholders. This is especially true when firms produce cash.

According to the theory of Free Cash Flow, the PtoP include companies with more Free Cash Flow than other companies repurchased (the use of debt leads to more borrowing, therefore more financial flows). This operation is to transmit a fraction of

that free cash flow to shareholders.
The replacing equity with debt, forcing management to pay the future cash flows rather than retain them for its own interests. Similarly, increasing the debt involves a risk of default more important which allows management to be more motivated to be effective and make the company more efficient to avoid being in a situation of lack of payment.

Therefore, the establishment of a PtoP operation involves an important leverage (due to borrowing), this allows the management to be motivated to generate the cash necessary to repay debt instead of using for their own purposes in projects with negative net present value.

Hypothesis 4: Hypothesis of Free Cash Flows:

The level of Free Cash Flows will be more important for companies performing PtoP.

C. Transfer value from debt holders to shareholders

There are three mains mechanisms through which a firm can transfer wealth from bondholders to stockholders by:

- ⇨ an unexpected increase in the rick of investment projects,
- ⇨ dividend payments,
- ⇨ an unexpected issue of debt of higher or equal seniority or shorter maturity.

This is the last solution that is used for operations PtoP and can involve a substantial transfer of value bondholders to shareholders. However, this transfer of value can be offset by benefits related to the operation PtoP. Providers of debt can benefit from a transfer of value from other players who also have interests in the company and will reduce the value of their interest in the transaction. This is the case of employees who benefit from pension plans or stock option plan that may see their conditions change. It can also be the case that local communities will
be deprived of tax revenues.
Moreover, as mentioned in the preceding paragraph, the debt ratio is very important, it will have an important effect for the management. He will optimize the managing of managers in terms of performance of the company in order to face the risk of default, hence the creation of cash flow. According to the theory of signal (Ross, 1973), an LMBO implies financial management in the takeover of the company and sends a positive signal to the market in terms of its ability to repay its debts. U.S. studies have shown that the bond-holders not subject to
protection clauses can lose part of the value of their investment.

The level of indebtedness PtoP will be more important for companies PtoP.

D. Transfer of value to the employee shareholders

We may consider the transfer of value to the employees to shareholders. It is a very

important element to consider including the decision to conduct an operation PtoP. Marais (1989) supports the idea that the loss of employees' interests in the company after its takeover by new shareholders can challenge the implicit agreements between the company and employees is a primary factor in PtoP. The new shareholders have the goal of increasing cash flows of the company. The counterpart would be a reduction in salaries of employees or the reduction of the number of employees. These measures have a net present value which must appear in the premium offered and the evolution of the stock after the announcement of PtoP. Note that this transfer will more occur in Anglo-Saxon countries than in European countries because the
laws are much less protective and beneficial to employees.

E. The cost savings Listing

The costs of maintaining the listing of the company are high. In the United States they are estimated between 30 000 and 200 000 dollars depending on the size of the company. They include all costs related to the status of the listed companies, the fees, administrative costs and miscellaneous expenses. For example, if we take an estimated cost of 100 000 dollars and if it integrates this result in calculating the value of the company using a discount rate of 10% over a period ending when the company released of listing, the value increases by one million dollars. One can give another example in taking the case to a British company with a market capitalization of 100 million pounds sterling, it needs 43 700 pounds sterling to be admitted on the London Stock Exchange in 2003 with an annual fee of 6 280 pounds for the maintenance of its registration. These costs may vary depending on the size of the company, the market quotation and all expenses (administrative costs of registration fees of lawyers, brokers, reporting ...). They can reach up to 250 000 pounds sterling.

Hypothesis 5: Economy of transaction costs

The economy of the transaction costs will be stronger for companies performing PtoP.

F. Anti-takeover

Another reason which may lead to the launch of an operation to PtoP is the fear of being redeemed. In principle, after the takeover of a listed company, it is very probable that part of management lost their jobs. Many studies have investigated this case. We can cite some
results of studies.

In the UK, Kennedy and Limmack (1996) observed that 40.14% of companies acquired in the form of traditional buyouts, have replaced their CEO in the first year following the acquisition

and that 25.7% did it so during the second year.

In the United Kingdom, a more recent study conducted by Dahya and Powell (1998) estimated that 35.24% of the teams leave the company in the first year of operation and 25.8%
do it so during the second year.

In the United States, Martin and McConnell (1991) observed that 41.9% of the teams, leave
their jobs in the first year of operation.
Therefore, a LMBO protects the leaders of this phenomenon. Management who is taking a significant stake in the company, is covered against any potential hostile takeover.

Hypothesis 6: Hypothesis of anti-takeover protection:

The anti-takeover protections are lower for PtoP.

G. The under-valuation

By definition, the market is considered efficient, so it values companies based on public information. However, it may happen that there is information asymmetry between management and shareholders. Indeed, managers may have access to more information, it will have a better appreciation and evaluation of future performance of the company and therefore realize that the stock is undervalued. In addition, small firms, which have low liquidity, will have problems as regards the transmission of market information, resulting in a share price that may not reflect its fair value. Similarly, it is possible that in a type LMBO, the use of financial and accounting techniques can bring down the share price before the announcement of the transaction. They use and internal information to their advantage. Kaestner and Liu (1996) show that LMBO are preceded by a stock above normal by the
management whereas it is not the case for PtoP operations.

Hypothesis 7: Hypothesis of under-valuation:

The companies in PtoP will be more PtoP under-valued.

4. Datas sources, descriptive statistics and methodology

The study identifies 399 public to private conducted between January 2000 and January 2007. The study focuses on three geographical areas, first, the USA, then Europe (Germany, Spain, France, Holland, Italy, United Kingdom and Sweden) and

Asia (North, Central and South). These three areas cover 82% of the world's PtoP. The choice of these three is justified by two reasons: it is the first time a study has been conducted, most of them covers a single country like the United Kingdom (Wright, Weir, 2004), or the USA (Kaplan (1989)). Nothing has been done on a global scale. On the other hand, the study is recent it is done over the period 2000 to 2007 and revolves around three points of study: impact phase, intend phase and comparison phase. To see all these operations, several databases have been required and used. Thomson One Banker identified all going private. For the three geographical areas studied, about 1,000 companies were found. However they are not all called PtoP that is the reason why every society has been verified and checked on Factiva to ensure that companies were delisted stock and if they had not changed names. At the end of this first screening, the sample size was reduced to 550. As Thomson One Banker does not provide financial and government datas, another database has been used, OSIRIS, which is part of Van Dijk. This database contains all the companies that came out of stock quote, it contains a maximum of all financial information of companies and government based on the reports of each of them. Each company has been verified again, some did not contain enough information to complete and sometimes none. After completing these two filters, each company has been verified both in data quality and quantity of information. Finally, the sample contains 399 firms. The study includes three parts and one which deals with the impact of PtoP on shareholders' wealth. For this study it as we see in greater detail in the following paragraph, involves the calculation of the cumulative abnormal returns. To do it stock prices of these companies are required to calculate. Only Datastream database contains these stock quotes. Each company was found by its code ISIN. In addition, all over the benchmarks were also collected over the period studied. We used the Nasdaq Composite for the United States. In Europe several indices were used, each representing the country of origin of the firm, for France the SBF 250, for the United Kingdom it is FTSE 350 , for Italy it is MIBTEL, for Allemagne it is Dax, for Sweden it is Swedomx, for Spain it is Ibex and for Holland it is AEX.
For Asia, we use MSCI AC Index.

Industrial Compostion

The sample to 399 firms is quite large. We will, however, elaborate a study of the industrial composition of it. To do it, each geographical area studied contains the proportion of industrial companies (large companies), the proportion of so-called family-and the proportion of financial institutions (banks, insurance, private equity funds ...).
Regarding the Europe a distinction was made between European countries such as Germany, Spain, France, Holland, Italy, Sweden and the United Kingdom. This distinction is also made in our empirical study. Indeed, this choice is justified by the fact that the United Kingdom has pioneered the establishment of operations in Europe PtoP. Other European countries have started several years later. In addition, the legislative rules as we saw at the beginning of the study are not the same between UK and the rest of Europe. Comparing UK and selected European countries can be compared to the distinction we make between the United States and Europe, which is why the United Kingdom will not be part of our sample Europe. We note that the European sample contains a little less than half of industrial firms 45% against 66% in the United States. In addition we find that the United Kingdom identified the largest proportion of family businesses 16.67% against 9.94% in the United States

and only 2.94% in Asia. For all three geographical areas or even four in putting the United Kingdom alone, there is a general view that industrial firms are the majority in each of them. Moreover, the introduction of Asia in our sample is the first in all studies. Some features may be available. Indeed there is a high proportion of industrial, 52.94% and a low proportion of family firms 2.94%, this is exactly the same observations as we can see in the United States 66.08% (industrial) and 9.94% (family businesses). The low proportion of family businesses in the United States due to the fact of a strong line of large industrial corporations in the United States. This suggests a certain similarity between the USA and Asia. There is also a trend to a large industrial companies and family businesses as opposed to the other two areas studied. We can already assume that the results will follow a certain trend between geographical areas (Table 2).

Deals Information

The statistics of our sample and for all the deals in our sample is represented by Table 1. The size of the average firm measured by total assets amounts of dollars is around 765 million for the USA and the most important deal is also in the USA. We observe that deals in Asia have got the least assets of our sample. However we notice that the numbers of PtoP that we have in our sample is less important than in Europe and we remark that the total assets in Europe is near those in Asia. So we can deduce that Asia has got important deals. It is also confirmed that it is the beginning of PtoP's wave.

Ownership

Shareholders (including the proportion is at least 3% of shares holding of shares in the company), have been classified in several categories: banks, financial company, insurance company, industrial company, mutual /pensions funds, foundation/research institute, public authorities/states governments, one or more known individuals or families, employees/managers/directors, Private Equity Firms, other unnamed shareholders, unnamed private shareholders. All statistics are given in Table 2. We can note that effective leaders reduce agency costs and problems of information asymmetry. Two authors, Franks and Nyborg (1996) show that the presence of external blockholders increases the likelihood of industrial restructuring (corporate restruturing).

The composition of the ownership of the companies surveyed has a major character on the governing structure (Holderness and Sheehan, 1988). One example of Franks et al. (2001) who found that the presence of institutional investors does not increase the performance monitoring role in the United Kingdom.

Summary

All the descriptive statistics have shown that the sample has not an homogenous population. Some characteristics can be already deduced. First the USA present the most important asssets for the deals, Asia has probably the same comportment than the USA. UK will be more active than Europe.

5. Methodology

To study the impact of shareholder wealth in buyout, we are generally used two different methods: on the one hand a premiums analysis and on the other hand an event study. The two methods have got their own advantages but they can jointly increase the power of econometric tests in PtoP research. These method is also used by Wright, Renneboog and Simons (2006).

5.1 Analysis of premiums

We have specified that there are two methods to evaluate the wealth effects of shareholders: first it is the analysis of premiums. A few authors like Kaplan (1989a), Lehn and Poulsen (1989), Halpern et al. (1999) used this method. We get the premium as follows: it is the logarithm of the final price offered by the acquiring party divided by the share price before the first announcement so premium is equal to Ln (final price offered/ pre-takeover share price). However, to make the measure of premium, some information will be required: the informational competition, the identification of the acquiring party.

We have also notified that we face with two problems: which definition can we use to the final price offered and the pre-takeover share price. Concerning the final price, we employ the final price of the winning bid. Harlow and Howe (1993) use the same method. Another definition exists and they are also used by Halpern and al. (1999), Lehn and Poulsen (1989). They use the final traded price of the shares in the market before the delisting. For them, the final traded price reflects perfectly the market value of a bid comprising securities. But like Renneboog, Simons, Wright (2004) notice, a PtoP bid frequently contains payment in loan notes and the market value of such an offer cannot be inferred from the last traded share price because the shares which are tendered are not sold to the bidder via the market.

Secondly we face to the problem of the choice of the date for the pre-takeover share price. To solve it, we have to choose the anticipation window; it is to allow for the share price run-up in the period preceding the first announcement of takeover interest. Generally this period is equal to twenty or forty days prior to the event date. Kaplan (1989a) in a study of LBO in the USA and Goergen and Renneboog (2004) in a study of M&A in Europe used an anticipation window equal to two months before the initial announcement. We also choose forty working days. We made test statistics. The method is given in Appendix 1.

5.2 Event Study Methodology

We also use the event study. We know that when the marketplace is rational, all the information content of an event should be immediately reflected in asset prices (Campbell and al. 1997). However we face up to a problem when we study the LBO. Indeed the abnormal return (AR) may be cross-sectionally incomparable due to the non-uniformity of the information releases. Consequently, two subsamples can be established. The first the initial announcement is a recommended offer, a firm

intention or simply a notification of negotiations with a disclosed party. Consequently, investors know what type of deal has emerged (a leveraged PTP of the type MBO, MBI or IBO). For the second subsample, the information reach the market in two stages: there is an initial notification of an imminent deal it is the event 1 but the announcement disclosing the deal type only follows later, it's the event 2. We can observed that in previous research (earlier research) has taken the second date as the event date. This solution presents some disadvantages because such results can be biased due to the fact that the initial announcement (the event 1) has a large effect on the share price and that event 2 could be regarded as a correction to the event 1. Thus a correct analysis of the shareholder wealth effects of the announcement of a PtoP takes into account the definition of the two events which are:

Event 1: the very first announcement of takeover interest in the target firm that eventually leads to the PtoP;

Event 2: the very first announcement that identifies a going private proposal.

Then we add the cumulative average abnormal returns (CAARs) for the two events.

The estimation of abnormal return

Abnormal return is obtained by the difference between the daily logarithmic returns corrected for dividends and stock splits, and the expected returns as predicted by the CAPM (Appendix 1).

What's more, to test the null hypothesis that ARs are equal to zero, we report to three tests: first, the parametric significance tests based on the variance of ARs in the estimation window which is employed by Kothari and Warner (1997), then we use a T-test (Test of Student) and finally we utilize a nonparametric generalized sign test (Cowan, 1992) in order to verify the robustness of the results. All explanations are given in Appendix 2.

5.3 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 and then a Wilcoxon Test and finally a sign test.

6. Results

6.1 Wealth effects of leveraged PtoPs: abnormal returns and premium: phase impact

The table 3 shows the results of calculations for the premiums offered in the four areas that we have selected from 2000 to 2007. According to a general point of view, 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 results are in line with the US results where the premium range is between 30% and 56%. The results for Europe and UK are a little less important than the studies from Renneboog, Simons and Wright (2006) but they are in the same premium range as the results from Geranio, Zanotti (2007). The explanation comes from the period. Indeed, this study and the study from Geranio, Zanotti (2007) are the most recent. Renneboog, Simons and Wright make their research from 1997 to 2003. As we know the economic growth changed, it is now more variable, instable and in a downward trend the regulations are more strict. As we can observed, the premiums for the USA are the most important, it is not surprising. The numbers confirm it, with 34 %. The premiums for Europe are less important than those in UK. It is the same constatation that we have made previously. We confirm our interpretation that we have the same contrast between the USA and Europe, where premiums in the USA are the most important and between Europe and UK where premiums in UK are more important than in Europe. Consequently these results are well confirmed. However the new result where we don't have previous study, is for Asia. We note that premiums are very important: 27%. From our statistical results, we have deduced that probably the results that we will have for Asia were be like those in the USA. It is exactly right, USA have the most important result for premium in our sample and Asia comes in a second position with 27 %. The extreme premium offered in our sample for a company is in the USA and it is almost 178%.

The table 5 presents the wealth effects corrected for market reactions as captured by the CAARs. These table are divided into two groups: the first group with only the event 1 and the second group with event 1 and event 2. Indeed if we don't take into account the two events, like it is the case in a few studies in PtoP, the results and the wealth effects will be biased. For each event, a CAAR's study was elaborated for each geographical area: Europe, UK, USA and Asia.

The left hand-side of the table presents the abnormal returns over different event windows for the first announcement of the PtoP. Over the event window [-5; +5], the CAARs amount to 26 % for the USA, 11 % for Asia, 10 % for UK and 8% for Europe. The CAARs reach 29 % for the USA, 20 % for Asia, 12 % for UK and 11% for Asia. Table 4 allows us to compare these results with those from another studies, previous and recent researches.

6.2 Comparison between Europe, UK, USA and Asia: phase comparison

To make this comparison we use CAAR as variable which we can compare between Europe, UK, USA and Asia. We use three event windows, [-5, +5], [-10, +10], [-20, +20]. Indeed, we employ the methodology as follows: at first we use a test for mean comparison, then we use a Wilcoxon test and finally we employ a sign test.

Table 7 allows us to understand the mean comparison. We take three event windows and we show all the results by each pair of tests. The pair represents two groups and more precisely two countries that we compare in order to confirm our hypothesis. All the results are significant for the three event windows and for all pairs. The results confirm our expectations and our interpretations. Europe is the country where CAAR for each event windows that we have selected is less important than the others. UK is the country in Europe where offered premiums are the most important. We can also

confirm that CAAR between Asia and the USA are near even if CARR for the USA is a little more important. These result is more significant for CAAR [-5, +5]. 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.

Table 8 represents the Wilcoxon test. We take the same event windows as we used for the mean comparison. The board shows the statistics of z-value which give us the significativity of the test. We take the same pairs as we have used for the mean comparison. All the statistics show us that all the pairs are significant.

And finally Table 9 is consecrated by the sign test. This test is more robust that Wilcoxon Test that is the reason why we also make it. Our results are confirmed.

6.3 The determinants of shareholder wealth gains from going private: phase intend

In this section, we test the entire seven hypotheses that we have presented in the section 3 with an estimating cross-sectional regressions using two dependant variables, the premium and the CAARs (with an event window). All models are tested for the presence of heteroscedasticity by means of a White test (White, 1980) and the results are not biased by multicollinearity.
Each hypothesis are estimated for each areas. That is the reason why we have Tables 12 to 15 which indicate all the results.

The tax benefit hypothesis predicts that firms with higher pre-transaction tax bills will benefit more from the interest deductibility associated with increased leverage. For it, we include the taxation and a second parameter, the gearing. It is measured as folloms: it is the
ratio between the non current liabilities to the shareholders funds. We divided it by the amount of assets to avoid extrema numbers for taxation. Compared to a previous study, Renneboog, Simons and Wright (2006) expected to have a positive relation and finally they obtained a strong negative effect with a non significant hypothesis. Our results obtained, show that we have a positive relation between the levels of taxation and wealth effects. However the t-value is not significant for Europe, UK and the USA but significant for Asia. We can deduce that tax deductibility of the interest on the new loans creates a major tax shield increasing the pre-transaction value. Consequently for Asia our expectation are confirmed: the wealth obtained by shareholders of PtoP is positively correlated with a high level of taxation.

We made an assumption where the gains from going private came from a stronger alignment of incentives in the post-transaction private firm. Indeed firms where the managers hold small equity stakes, are expected to benefit most from going private, as the buyout is expected to reduce potential agency problems. But the relation can be contested when the levels of managerial ownership are important and when agency problems induced by managerial entrenchment may dominate. So, we have decided to introduce a dummy variable. It allows to identify firms where managerial control reach 25% of the firms'equity, it corresponds to the highest quartile of managerial ownership of the sample. This threshold is the same as Morck et al. (1988) and Renneboog, Simons and Wright (2006). The table 12 to 15 confirms the

significativity of the hypothesis: higher premiums are paid and higher CAARs are realized for firms with low managerial stakes. We obtained a negative impact, as we have expected, the main reason is: if managers have a percentage of shares of the company important, no other blockholders would come, they would be discouraged. We observed that the hypothesis is more significant when premium is the dependant variable.

We expect for the control hypothesis that from the moment where the firm is private and when there is a strong outside shareholders monitor in the firm, the scope for performance improvement will be less important. Consequently, there will be a lower premium and a lower CAAR. We must note that we define a strong outside shareholders as a shareholder who controls an equity stake of 3% of more in the pre-buyout firm and is an institutional investor (banks, financial, insurance or industrial companies, mutual and pension funds, individuals or families, private equity firms or other unnamed shareholders).

As a general observation, we note that the corporation blockholder has a very important role for all the sample, it is a good monitor. This result confirms our comments from the descriptive statistics on the composition of shareholders. We observe that the presence of family blockholder has a good role in Europe; it is the main geographical area where the variable is really significant. This corresponds with the fact that it is in Europe where family is the most present in the firm contrary to the USA where family blockholder has no importance. As the opposite, we note that the institutional and corporation blockholder in the USA are significant like in Asia where the institutional blockholder is very important. The negative relation that we have observed between the three blockholders will be explained by the fact that the improvements of performance by the firm will be reaching its private status.

As we have noticed, a firm which generates a lot of Free Cash Flow (FCF) can waste resources. As Jensen defined, Free Cash Flow is “cash flow in excess of that required to fund all projects that have positive net value (NPV) when discounted at a relevant cost of capital”. The fact that a PtoP implies a big loan so an important debt, the amount of resources for managerial reduce. Hence, all the decisions taken by managerial will be very efficient for the firm and for the shareholders. We expect that the higher the FCF, the more wealth gains can be created through a PtoP. So that is what we have observed in Tables 12 to 15. There is a positive relation between FCF and wealth effects and more for the USA and Asia where it is more significant. So the FCF for PtoP transactions are the result of debt-induced mechanisms forcing managers to pay out free cash flows.

The transaction costs hypothesis deals with the fact that firms which are going private will have some gains due to the elimination of the costs related to a stock exchange listing. We have the following hypothesis: the economy transaction costs will be stronger for companies performing PtoP. This is especially true for the deals which have an important turnover. These costs related to a stock exchange will be more important. That is the reason why we employ a variable “size” which is estimated by the logarithm of the amount of sales. Ultimately, this variable is significant for all the four areas and there is a positive relation between the size of the firm and the amount of the elimination of the cost of transaction. So the shareholder wealth gains result from the elimination of direct and indirect cost associated to a stock exchange. We

can see that this hypothesis is more significant for the USA (in general, in the US deals are bigger than the others).

The hypothesis of a takeover defence implies that there is a defensive strategy for the firms which go to private. What's more the pressure from the market for corporate control leads a raise of premiums. To measure it, we take a dummy variable which equals 1 if there has been any takeover interest in the year leading up to the PtoP announcement. And we expect a positive sign. It is confirmed, we obtain a positive relation as we can see in Tables 12 to 15. However this variable is not significant.

And finally, the undervaluation hypothesis is also a reason to confirm the wealth gains from going private. In fact the higher the discrepancy between the market value of a firm and the potential value under private ownership, the larger will be the wealth gains in a PtoP. To estimate the past performance, we have chosen the Price Earnings Ratio over a one year period prior to the PtoP ending one month before the first announcement. The expected sign is negative. The results that we have in the Tables 12 to 15 confirm the undervaluation hypothesis: lower Price Earnings Ratio leads to higher premiums and CAARs. These results confirm the presence of information asymmetry and it suggests that the wealth gains for shareholders result from the undervaluation of assets.

We conclude that this study supports the taxation benefit only for Asia, it is a really source of wealth gains. For the other countries it is not the same. The incentive realignment is a source of wealth. The presence of family blockholders is a real source of wealth shareholders for Europe. It can be explained by the fact that firms in Europe represent the most important share of family members as a composition of shareholders. Corporation Blockholder is very important for all countries, it is confirmed by the statistics. Free Cash Flow is also a really source and it is more significant for the USA and Asia. The elimination of cost transaction is a real advantage for the firms from going private and more for firms which have got an important turnover. The hypothesis of takeover defense is not very significant. And finally there is a negation and significant relation between undervaluation and wealth gains.

7. Conclusion

The last years, as we can see on our graphics, show that Public to Private transactions raise in the world. It is true for the world population for firms which decide to go private. There has been some previous studies in the US and in UK. But there is no recent study about this topic and there is also no study with an international point of view. That is the reason why this study adds some new contributions. Indeed, it is a recent topic and mostly it is an international study. That is the first in the literature of public to private. What's more we have integrated in the sample a new continent, Asia, which has got an important concentration of PtoP, they raise rapidly.

The paper analyses a large sample comprising the population of Europe, the USA and Asia, it represents 399 firms. To identify the wealth effects of public to private transactions we use two methods like Renneboog, Simons and Wright (2006): a

premium analysis and an event study. On average PtoP generate premiums of more 20 % for Europe, 29% for UK, 27% for Asia and 34 % for the USA.

In contrast to our results for Europe, the USA and UK, the taxes paid by the target firm prior to the PtoP transaction in Asia are really significant. It is a real source of wealth gains.

Our strongest result relates to the economy of costs transaction. We obtain a positive and significant relation mostly for the firms which have got an important turnover, all firms which have a big size. It confirms with the really stronger impact for the USA firms.

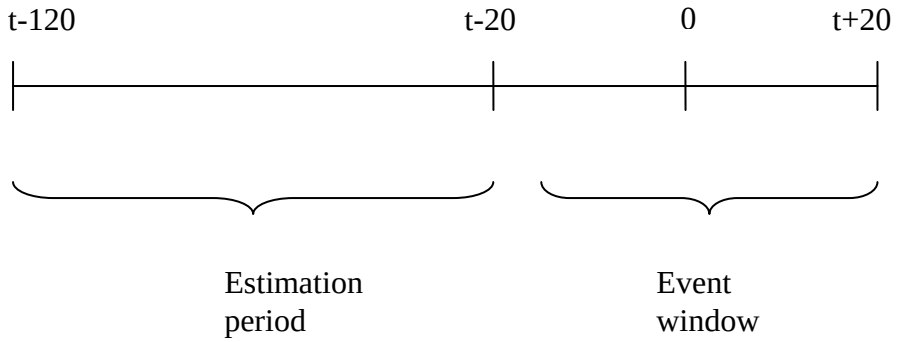
Contrary to UK research, Free Cash Flow consist a source of wealth gains for shareholders. The result of the debt-induced mechanisms is very efficient. It is more significant for Asia and the USA than for the others.

The control hypothesis is very important: the corporation blockholder is considered as a good monitor. Family blockholder is not significant except for Europe. It can be explained by the fact that in Europe there are a lot of firms with family members in the composition of shareholders. Institutional and corporation blockholder are very significant for the USA, Asia and UK.

Prior takeover is not significant; we can't have a significant relation.

We can deduce from this study that Asia, which is the first study of it, has got the same behavior as the USA. We have said it at the beginning of our study when we had got the statistics. These results are confirmed with premiums, CAAR. Furthermore, empirical tests confirm our expectation. Tax Saving, Free Cash Flow and economy of cost transaction are the three main sources of Asia.

Appendix 1: Calculation for CAAR



1 Time 0 = the date of the announcement of the proposed takeover (going private transaction)

t-20 to t+20 the period over which the abnormal returns are to be calculated (it can be more than 20 days but not likely to be less although in the results CAARs are often presented for a range of event windows).

Estimation period

For our example the estimation period is 100 days (again it can be longer but the longer it is, the more likely some newsworthy event will occur).

We use the methodology to get the 'normal' relationship and using the market model (all in percentages)

Equation 1

$$R_{it} = \alpha_i + \beta_i R_{Mt} + \varepsilon_{it}$$

Where R_{it} is the % return on firm i at time t and R_{Mt} is the % return on the market. Thus:

$$R_{it} = \frac{P_{it} + d_{it} - P_{it-1}}{P_{it-1}}$$

P_{it} is the firm's share price at time t and P_{t-1} is the previous day's share price.
d_{it} is any dividend that may have been paid (usually not included)
Therefore R_{it} is the percentage daily return on the firm's shares.

R_{Mt} is the market return over the same daily period – same formula without the dividend.

Equation 2

$$R_{Mt} = \frac{I_{Mt} - I_{Mt-1}}{I_{Mt-1}}$$

Where I is a market index

This gives, 100 daily returns for each firm and 100 daily returns for the market. The regression is done on these two columns of figures.

The abnormal return is calculated as the difference between the firm and market return

Equation 3:

$$AR_{it} = R_{it} - \alpha_i + \beta_i R_{Mt} = \varepsilon_{it}$$

$$AAR = \frac{\sum_{T-20}^{T\ 20} AR}{N}$$

All the results are obtained with our calculation.

Appendix 2: Tests for CAAR

To test for the significance of average abnormal returns (AAR) and CAARs, Kothari and Warner (1997) describe the followings test statistics.
The one-day test statistic:

$$t_{AR_t} = \frac{AAR_t}{\sigma_{AR}} \text{ where} \quad \text{(A1)}$$

$$\sigma_{AR} = \sqrt{\frac{1}{T-1}\sum_{t=-E_1}^{t=E_2}(AAR_t - \overline{AAR})^2},$$

$$AAR_t = \frac{1}{N}\sum_{j=1}^{N} AR_{jt}, \quad \text{for } j = 1,\ldots, N \quad \text{(A2)}$$

$$\text{and } \overline{AAR} = \frac{1}{T}\sum_{t=E_1}^{E_2} AARt \quad \text{(A3)}$$

E1 and E2 refer to beginning and the end of the estimation window. T is the number of working days in the estimation window, namely 195. This one-day statistic follows a t-distribution. The CAR for security j is computed as follows, for j=1,…,N:

$$CAR_{j,t1,t2} = \sum_{t=t2}^{t1} AR_{jt} \quad \text{(A4)}$$

Where t1 and t2 are the first and last day of the event window. The CAR over events 1 and 2, CAR^{1+2}, is computed as follows, for j=1,…,N:

$$CAR^{1+2}_{j,w} = \begin{cases} CAR^{1}_{j,w,t_1^1,t_2^1} + CAR^{2}_{j,w,t_1^2,t_2^2} \text{ if } t_1^2 > t_2^1 \\ CAR^{1}_{j,w,t_1^1,t_2^1} \text{ if otherwise} \end{cases} \quad \text{(A5)}$$

CAR^1_{j,W,t_1^1,t_2^1} and CAR^2_{j,W,t_1^2,t_2^2} are the CARs for event 1 and event 2, respectively, with equal event windows W. t_1^1, t_2^1 and t_1^2, t_2^2 are the beginning and end dates of each event's window W. The cross-sectional average of the individual CARs (whether based on event 1, 2 or 1+2), is computed as follows for j=1,…,N:

$$CAAR_{t1,t2} = \frac{1}{N}\sum_{j=1}^{N} CAR_{j,t1,t2}$$

The test statistic for CAAR is:

$$t_{CAAR} = \frac{CAAR_{t1,t2}}{\sigma_{AR}\sqrt{T_2}} \quad \text{(A6)}$$

where σ_{AR} is given by equation (A1) and T_2 is the amount of days in the event window.

The second parametric test is a sample t-test for the significance of the sample means. While the tests statistics in Kothari and Warner (1997) compute the AR's variance from the estimation window, this simple t-test uses the variance of event-induced abnormal returns, calculated for each day in the event window individually:

$$t^S_{AR_t} = \frac{AAR_t}{\sigma^S_{AR_t}/\sqrt{N}} \text{ where} \quad \text{(16)}$$

$$\sigma^S_{AR_t} = \sqrt{\frac{1}{N-1}\sum_{j=1}^{N}(AR_{jt} - AAR_t)^2} \quad \text{for } j = 1,.., N, \quad \text{(17)}$$

where AAR_t is defined as in equation (A3).

The test statistic for CAAR is then computed as follows:

$$t^{s}_{CAAR} = \frac{CAAR_{t1,t2}}{\sigma^{s}_{CAAR} / \sqrt{N}}, \text{ where} \qquad (18)$$

$$\sigma^{s}_{CAAR} = \sqrt{\frac{1}{N-1}\sum_{j=1}^{N}(CAR_{j,t1,t2} - CAAR_{t1,t2})^2} \qquad \text{for } j = 1,\ldots, N \qquad (19)$$

where $CAAR_{t1,t2}$ is defined as in (A6), $CAR_{j,t1,t2}$ is defined as in equation (A4) for event 1 and 2, and as in (A5) for event 1+2.

We also estimate a non-parametric test: the generalized sign test which compares the proportion of positive abnormal returns around an event to the proportion from a period unaffected by the event (Cowan, 1992).

Cowan (1992) shows that in ideal econometric conditions, Corrado's (1989) rank test is more powerful than the generalized sign test. However Cowan also demonstrates that the rank test is misspecified under thin trading, while the generalized sign test remains correctly specified. As the securities in our sample are likely to suffer from thin trading, we opt for the generalized sign test:

$$\hat{p} = \frac{1}{N}\sum_{j=1}^{N}\frac{1}{T}\sum_{t=E_1}^{E_2} S_{jt} \qquad \text{for } j = 1,\ldots, N \qquad (20)$$

where :

$$S_{jt} = \begin{cases} 1 \text{ if } AR_{jt} > 0 \\ 0 \text{ otherwise} \end{cases} \qquad (21)$$

E_1, E_2, and T are defined as in equation (A2). The test statistic uses the normal approximation to the binomial distribution of parameter $\hat{p}$. If we define w as the number of positive $CAR_{j,t1,t2}$ in the event window. The test statistic then becomes:

$$Z_G = \frac{w - N\hat{p}}{[N\hat{p}\,(1-\hat{p})]^{\frac{1}{2}}} \qquad (22)$$

We test the null hypothesis that premiums are equal to zero as follows, where $P_{j,AW}$ is the premium, calculated with anticipation window AW, for firm j:

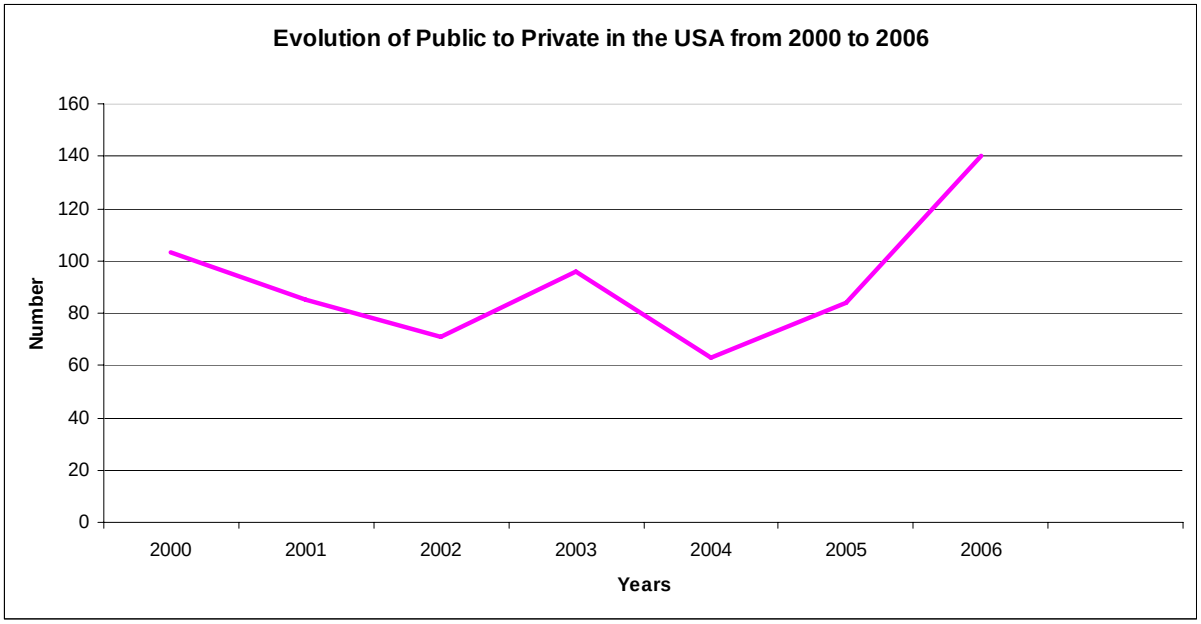
$$t_{AW}{}^{P} = \frac{\overline{P}_{AW}}{\sigma_{AW} / \sqrt{N}}, \text{ where}$$

$$\overline{P}_{AW} = \frac{1}{N}\sum_{j=1}^{N} P_{j,AW} \qquad \text{for } j = 1,\ldots, N$$

$$\text{and } \sigma_{AW} = \sqrt{\frac{1}{N-1}\sum_{j=1}^{N}(P_{j,AW} - \overline{P}_{AW})^2}$$

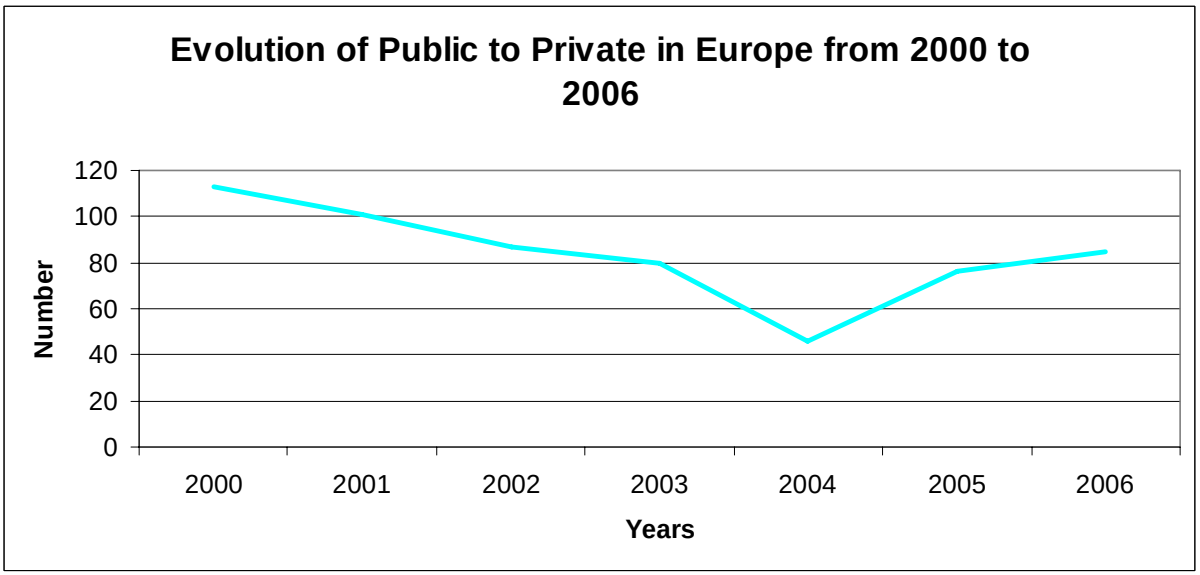
Appendix 3: Evolution of Public to Private Operations

1. Evolution of Public to Private in the USA



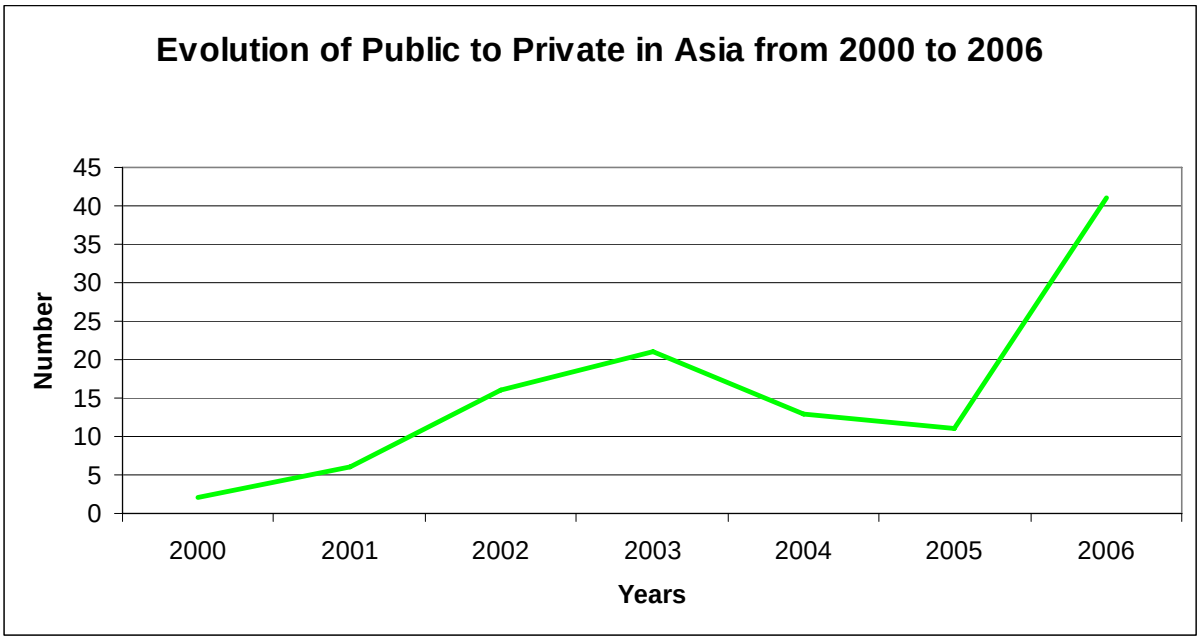
Source : Thomson Deals

2. Evolution of Public to Private in Europe



Source : Thomson Deals

3. Evolution of Public to Private in Asia



Source : Thomson Deals

Table 1: Descriptive statistics on Accounting, Cash Flow and Performance.

		Mean	Median	Std.Dev.	Min	Max
UK						
Firm Size	Total Sales ($ million)	204	54,7	567,8	21	5151,6
	Total Assets ($ million)	325,8	77	936,7	8	6754
Performance	Return On Assets (% of Sales)	3,5	5,4	18,4	-250	37
Leverage and Taxes	Taxes (% of Sales)	3,7	1,9	2,9	-3,5	19,6
	Gearing	1,3	0,3	1,03	-1,7	3,1
Cash Flow	Free Cash Flow	4,4	5,6	17,1	-74	52,3
EUROPE						
Firm Size	Total Sales ($ million)	714	238	170	11,3	11371
	Total Assets ($ million)	797	196	219	8694	15978
Performance	Return On Assets (% of Sales)	3,8	5,9	20,2	-200	50
Leverage and Taxes	Taxes (% of Sales)	1,2	2,5	16,4	-160	25
	Gearing	1,4	1,7	1,02	-2,3	1,5
Cash Flow	Free Cash Flow	6,4	1,9	18,9	-2,4	18,7
USA						
Firm Size	Total Sales ($ million)	740	107	36155	150	40358
	Total Assets ($ million)	765	110	2933	75	24417
Performance	Return On Assets (% of Sales)	4,3	6,2	22,5	-210	70
Leverage and Taxes	Taxes (% of Sales)	1,5	8,09	9,4	9,5	0,08
	Gearing	2,4	2,1	2,3	-1,9	4,5
Cash Flow	Free Cash Flow	7,5	0,84	19,3	-6,04	36
ASIE						
Firm Size	Total Sales ($ million)	950	427	357	52	5592
	Total Assets ($ million)	262	940	383	1474	16442
Performance	Return On Assets (% of Sales)	3,3	5,1	19,2	-180	50
Leverage and Taxes	Taxes (% of Sales)	9,1	3,3	17,5	-60,4	0
	Gearing	2	1,7	1,9	-1,3	3,7
Cash Flow	Free Cash Flow	52,1	20,2	13,1	-141,1	20

Table 2: Descriptive statistics on the composition of shareholders

This table shows the composotion of shareholders, it refers the hypothesis 3 where we decided to establish a threshold to 3% by category of owner. We have elaborated the proportion of each category of shareholders. We identified 12 categories: Banks, Financial Company, Insurance Company, Industrial Companies, Mutual & Pension Fund, Fondation/Research Institute, Public Authorities/States Governements, One or more know individuals or families, Employees/Managers/Directors, Private Equity Firms, Other unamed shareholders, Unamed Private Shareholders.

Categories	Proportion of the sample (=399 firms)			
	ASIA	EUROPE	UK	USA
Banks	3,13%	23,08%	6,46%	0,00%
Financial Company	0,00%	11,47%	6,42%	4,12%
Insurance Company	0,00%	0,00%	2,54%	0,97%
Industrial Companies	52,94%	45,35%	57,41%	66,08%
Mutual & Pension Fund	6,25%	0,00%	9,32%	5,02%
Fondation/Research Institute	0,00%	0,00%	0,85%	0,00%
Public authorities/States Governments	3,13%	0,00%	0,00%	0,00%
One or more know individuals or families	2,94%	16,67%	11,06%	9,94%
Employees/Managers/Directors	0,00%	1,53%	1,70%	1,45%
Private Equity Firms	28,13%	1,90%	4,24%	10,49%
Other unnamed shareholders	3,48%	0,00%	0,00%	1,45%
Unamed Private shareholders	0,00%	0,00%	0,00%	0,48%
	100,00%	100,00%	100,00%	100,00%

Table 3: Premiums by anticipation window for Europe, UK, Asia and the USA:

The premiums (%) are calculated with this formula: Premium = Ln (Final Price offered / pre-takeovere share price). The anticipation window as we employ, is the number of days prior to the announcement date of the public to private transaction. Obs. is the number of firms per sample and ***, ** and * stand for statistical significance at the 1%, 5% and 10% level.
Source: my calculations.

Anticipation Window	Obs	Mean	t-value	Min.	Max.
20 days	86	21.57	5.65***	-68.20	93
20 days	108	30.43	9.32***	-86.42	108.86
20 days	34	28.76	11.87***	-37.30	108.80
20 days	171	35.98	5.92***	-66.10	177.77
40 days	86	20.68	4.07***	-68.40	93
40 days	108	29.42	8.63***	-87.95	108.86
40 days	34	27.09	10.62***	-37.50	108.80
40 days	171	34.30	4.37***	-66.66	177.77

Table 4: Summary of some studies for Premiums paid above market price to take a firm private

This table shows some studies which estimate the impact of the shareholder wealth of going private through premiums analysis.

Study	Sample Period/Country	Anticipation Window	Number of Obs.	**Mean Premium Offered**
DeAngelo, DeAngelo and Rice (1984)	1973-1980 (USA)	40 days	72	**56.3%**
Lowenstein (1985)	1979-1984 (USA)	30 days	28	**56.0%**
Lehn and Poulsen (1989)	1980-1987 (USA)	20 days	257	**36.1%**
Kaplan (1989a, 1989b)	1980-1985 (USA)	2 months	76	**42.3%**
Weir, Laing and Wright (2005a)	1998-2000 (UK)	1 month	95	**44.9%**
Easterwood, Singer, Seth and Lang (1994)	1978-1988 (USA)	20 days	184	**32.9%**
Renneboog, Simons and Wright (2006)	**1997-2003 (UK)**	**20 days**	**177**	**41.00%**

Table 5: CAARs for public to private transactions

This table deals with the CAARs for public to private transactions for each area, Europe, UK, the USA and Asia from 2000 to 2007. As the methodology in the paper, we use different event windows: event 1 is the first date if any takeover interest that eventually leads to the PtoP. Event 1+2 combines the CAARs of both events provided there is no overlap in event windows. Expected returns were calculated with the CAPM corrected for thin trading and mean reversion. All details are mentionned in Appendix 1. The details for all the calculation for the three tests are in Appendix 2. ***, **, * stand for statistical significance at the 1%, 5% and 10% level. *Source*: my calculations.

EVENT 1

Europe: CAARs by event window (Observations = 86)

Window	CAAR (%)	Simple t-stat	K&W t-stat	Gen.sign test
[-1,+1]	5.51	4.58***	11.68***	4.52***
[-5,+5]	7.82	4.47***	9.08***	4.55***
[-10,+10]	9.59	3.90***	7.88***	4.55***
[-20,+20]	11.33	3.90***	6.58***	4.56***

United Kingdom: CAARs by event window (Observations = 108)

Window test	CAAR (%)	Simple t-stat	K&W t-stat	Gen.sign
[-1,+1]	9.90	6.52***	15.57***	6.47***
[-5,+5]	10.24	6.44***	8.81***	6.49***
[-10,+10]	10.87	5.45***	6.61***	6.49***
[-20,+20]	11.93	4.69***	5.13***	6.51***

USA: CAARs by event window (Observations = 171)

Window test	CAAR (%)	Simple t-stat	K&W t-stat	Gen.sign
[-1,+1]	24.89	19.71***	29.00***	15.10***
[-5,+5]	25.87	9.42***	16.50***	12.43***

[-10,+10]	27.33	9.33***	12.33***	12.43***
[-20,+20]	29.41	9.32***	9.38***	12.54***

Asia: CAARs by event window (Observations = 34)

Window test	CAAR (%)	Simple t-stat	K&W t-stat	Gen.sign
[-1,+1]	6.14	4.41***	4.88***	4.37***
[-5,+5]	11.16	4.34***	4.85***	4.40***
[-10,+10]	18.57	3.09***	4.71***	4.40***
[-20,+20]	19.43	2.27***	4.22***	4.42***

EVENT 1+2

Europe: CAARs by event window (Observations = 86)

Window	CAAR (%)	Simple t-stat	K&W t-stat	Gen.sign test
[-1,+1]	8.15	3.78***	16.98***	4.97***
[-5,+5]	10.50	3.17***	12.34***	4.65***
[-10,+10]	11.35	2.90***	9.56***	4.53***
[-20,+20]	12.53	2.20***	7.88***	4.52***

United Kingdom: CAARs by event window (Observations = 108)

Window test	CAAR (%)	Simple t-stat	K&W t-stat	Gen.sign
[-1,+1]	12.10	5.38***	23.78***	6.97***
[-5,+5]	13.74	5.04***	16.36***	6.68***
[-10,+10]	14.07	4.65***	10.32***	6.45***
[-20,+20]	14.93	3.28***	8.01***	6.42***

USA: CAARs by event window (Observations = 171)

Window test	CAAR (%)	Simple t-stat	K&W t-stat	Gen.sign
[-1,+1]	30.30	17.24***	38.76***	15.57***
[-5,+5]	32.96	7.46***	22.47***	12.89***
[-10,+10]	33.66	7.21***	16.90***	12.40***
[-20,+20]	34.08	6.95***	12.50***	12.51***

Asia: CAARs by event window (Observations = 34)

Window test	CAAR (%)	Simple t-stat	K&W t-stat	Gen.sign
[-1,+1]	11.65	3.25***	12.25***	4.90***
[-5,+5]	16.39	3.10***	10.55***	4.72***
[-10,+10]	25.29	3.02***	8.24***	4.38***
[-20,+20]	24.67	2.79***	6.46***	4.35***

Table 6: Summary of some previous studies of Cumulative Average Abnormal Returns in event studies of public to private

This table shows some studies which estimate the impact of the shareholder wealth of going private through event study analysis.

Study	Sample Period/Country	Event Window	Number of Obs.	**CAAR**
DeAngelo, DeAngelo and Rice (1984)	1973-1980 (USA)	-1,0 days -10,+10 days	72 72	**22.27%** **28.05%**
Lehn and Poulsen (1989)	1980-1985 (USA)	-1,+1days -10,+10days	244 244	**16.30%** **19.90%**
Kaplan (1989a)	1980-1985 (USA)	-40,+60 days	76	**26.00%**
Marais, Schipper and Smith (1989)	1974-1985 (USA)	0,+1 days -69,+1 days	80 80	**13.00%** **22.00%**
Andres, Betzer and Hoffmann (2003)	1996-2002 (EU)	-1,+1 days -15,+15 days	99 99	**15.78%** **21.89%**
Renneboog, Simons and Wright (2006)	**1997-2003 (UK)**	**-1,0 days** **-5, +5 days** **-40, +40 days**	**177** **177** **177**	**22.68%** **25.53%** **29.28%**

Table 7: Tests of mean comparison. We employ six pairs between Europe, UK, US and Asia. We use an econometric software. *Source*: SPSS

Pair	CAAR -20 +20	
	Par.Estimate	t-value
Pair 1: Europe-UK	0,0000	-5,103
Pair 2: Europe-USA	0,0000	-7,311
Pair 3: Europe-Asia	0,0000	-10,981
Pair 4: UK-USA	0,0000	-7,256
Pair 5:UK-Asia	0,0000	-9,724
Pair 6: USA-Asia	0,0000	4,245

Pair	CAAR -10 +10	
	Par.Estimate	t-value
Pair 1: Europe-UK	0,0030	-3,364
Pair 2: Europe-USA	0,0000	-5,163
Pair 3: Europe-Asia	0,0000	-10,642
Pair 4: UK-USA	0,0000	-5,457
Pair 5:UK-Asia	0,0000	-9,112
Pair 6: USA-Asia	0,0380	2,223

Pair	CAAR -5 +5	
	Par.Estimate	t-value
Pair 1: Europe-UK	0,0075	-1,988
Pair 2: Europe-USA	0,0030	-3,844
Pair 3: Europe-Asia	0,0000	-10,766
Pair 4: UK-USA	0,0020	-4,251
Pair 5:UK-Asia	0,0000	-5,973
Pair 6: USA-Asia	0,0158	1,525

Table 8: Test de Wilcoxon. We employ six pairs between Europe, UK, US and Asia. We use an econometric software. *Source*: SPSS

CAAR [-20; +20]

	CAAR uk - CAAR EUROPE	CAAR usa - CAAR EUROPE	CAAR ASIE - CAAR EUROPE	CAAR usa - CAAR uk	CAAR ASIE - CAAR uk	CAAR ASIE - CAAR usa
Z	-4,024[a]	-5,436[a]	-5,566[a]	-5,125[a]	-5,319[a]	-3,129[b]
Signification asymptotique (bilatérale)	,000	,000	,000	,000	,000	,002

a. Basée sur les rangs négatifs.

b. Basée sur les rangs positifs.

c. Test de Wilcoxon

CAAR [-10; +10]

	CAAR UK - CAAR EUROPE	CAAR USA - CAAR EUROPE	CAAR ASIE - CAAR EUROPE	CAAR USA - CAAR UK
Z	-2,450[a]	-4,015[a]	-4,015[a]	-4,015[a]
Signification asymptotique (bilatérale)	,014	,000	,000	,000

	CAAR ASIE - CAAR UK	CAAR ASIE - CAAR USA
Z	-3,910[a]	-2,103[b]
Signification asymptotique (bilatérale)	,000	,035

a. Basée sur les rangs négatifs.

b. Basée sur les rangs positifs.

c. Test de Wilcoxon

CAAR [-5; +5]

	CAAR UK - CAAR EUROPE	CAAR USA - CAAR EUROPE	CAAR ASIE - CAAR EUROPE	CAAR USA - CAAR UK
Z	-1,600[a]	-2,934[a]	-2,934[a]	-2,934[a]
Signification asymptotique (bilatérale)	,110	,003	,003	,003

	CAAR ASIE - CAAR UK	CAAR ASIE - CAAR USA
Z	-2,845[a]	-1,600[b]
Signification asymptotique (bilatérale)	,004	,110

a. Basée sur les rangs négatifs.

b. Basée sur les rangs positifs.

c. Test de Wilcoxon

Table 9: Sign Test. We employ six pairs between Europe, UK, US and Asia. We use an econometric software. *Source*: SPSS

CAAR [-20 ; +20]

	CAAR uk - CAAR EUROPE	CAAR usa - CAAR EUROPE	CAAR ASIE - CAAR EUROPE	CAAR usa - CAAR uk	CAAR ASIE - CAAR uk	CAAR ASIE - CAAR usa
Z	-4,061	-5,310	-5,935	-4,685	-5,310	-,625
Signification asymptotique (bilatérale)	,000	,000	,000	,000	,000	,532

a. Test des signes

CAAR [-10 ; +10]

	CAAR UK - CAAR EUROPE	CAAR USA - CAAR EUROPE	CAAR ASIE - CAAR EUROPE	CAAR USA - CAAR UK	CAAR ASIE - CAAR UK	CAAR ASIE - CAAR USA
Signification exacte (bilatérale)	,189[a]	,000[a]	,000[a]	,000[a]	,000[a]	1,000[a]

a. Distribution binomiale utilisée.

b. Test des signes

CAAR [-5 ; +5]

	CAAR UK - CAAR EUROPE	CAAR USA - CAAR EUROPE	CAAR ASIE - CAAR EUROPE	CAAR USA - CAAR UK	CAAR ASIE - CAAR UK	CAAR ASIE - CAAR USA
Signification exacte (bilatérale)	1,000[a]	,001[a]	,001[a]	,001[a]	,012[a]	1,000[a]

a. Distribution binomiale utilisée.

b. Test des signes

Table 10: Summary of Hypothesis, Variables, Expected Signs and Results

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 : Transaction Cost	Size (Ln (sales))	-	**+**
H6 : Takeover Defense	Prior Takeover Interest (1= yes)	+	**+**
H7 : Undervaluation	**PER (Price Earning Ratio)**	**-**	**-**

Table 11: Summary of some previous empirical results for the seven hypothesis

Study	Sample Period Country	Number of Obs.	Tests	Tax	Incentive Realign-ment	Control	Free Cash Flow	Wealth Transfer	Transac-tion Costs	Takeover Defense	Underva-luation
Maupin, Bidwell and Ortegen (1984)	1972-1983 (USA)	63	Discriminant Analysis	-	No	-	No	-	-	-	Yes
Lehn and Poulsen (1989)	1981-1985 (USA)	102	Logistic Regressions	No	-	-	Yes	-	-	-	No
Opler and Titman (1993)	1980-1990 (USA)	180	Logistic Regressions	No	-	-	Yes	-	-	-	-
Halpern ,Kieschnick and Rotenberg (1999)	1981-1985 (USA)	126	Multinomial Logistic Regressions	Yes	No	-	No	-	-	Yes	-
Weir, Laing, Wright and Burrows (2004)	**1998-2001 (UK)**	**117**	**Logistic Regressions**	**-**	**-**	**No**	**No**	**-**	**-**	**-**	**-**

Table 12: Cross sectional regressions for premiums/CAARs in PtoP transactions for Europe

This table shows the cross-sectional regressions estimating the determinants of the premiums/CAARs in PtoP transactions. The anticipation window for the premiums is 20 days. The event date is the first announcement of takeover interest that eventually led to the firm going private. The number of observations is 86. ***, ** and * stand for statistical significance at the 1%, 5% and 10% level, respectively.
Source: own calculations

	Model 1 Dep. Var= premium		Model 2 Dep. Var= CAAR	
	Par.Estimate	t-value	Par.Estimate	t-value
Variables				
Constant	0,456	8,963***	0,385	7,512***
Taxes				
Taxation (% of sales)	0,2398	1,452	0,408	1,112
Gearing	0,0277	1,203	0,384	1,006
Incentive realignment				
Managerial ownership>25% (1=yes)	-0,0193	-2,725***	-0,025	-2,423**
Ownership and Control				
Institutional Blockholder>3% (yes=1)	-0,0337	-2,785***	-0,0415	-2,658***
Corporation Blockholder>3% (yes=1)	-0,0264	-2,421**	-0,0291	-2,406**
Family Blockholder >3% (yes=1)	-0,0468	-2,345**	-0,0355	-2,331**
Free Cash Flow				
Free Cash Flow	0,0569	2,036**	0,0572	2,002**
Transactions costs				
Size	0,0318	2,456**	0,0436	2,401**
Takeover Defense				
Prior Takeover Interest (yes=1)	0,1662	0,098	0,1754	0,087
Undervaluation				
PER	-0,0231	-2,145**	-0,0216	-2,250**
F-Value	6,1802***		6,878***	
R-Squared	0,2318		0,1875	
Adjusted R-Squared	0,1255		0,1014	

Table 13: Cross sectional regressions for premiums/CAARs in PtoP transactions for UK

This table shows the cross-sectional regressions estimating the determinants of the premiums/CAARs in PtoP transactions. The anticipation window for the premiums is 20 days. The event date is the first announcement of takeover interest that eventually led to the firm going private. The number of observations is 108. ***, ** and * stand for statistical significance at the 1%, 5% and 10% level, respectively.
Source: own calculations

	Model 1 Dep. Var= premium		Model 2 Dep. Var= CAAR	
	Par.Estimate	t-value	Par.Estimate	t-value
Variables				
Constant	0,37	3,652***	0,34	3,554***
Taxes				
Taxation (% of sales)	0,3698	0,458	0,3652	0,524
Gearing	0,0345	0,24	0,0338	0,44
Incentive realignment				
Managerial ownership>25% (1=yes)	-0,0369	-2,423**	-0,0357	-2,319**
Ownership and Control				
Institutional Blockholder>3% (yes=1)	-0,0364	-2,382**	-0,0402	-2,369**
Corporation Blockholder>3% (yes=1)	-0,0251	-2,225**	-0,0213	-2,198**
Family Blockholder >3% (yes=1)	-0,1069	-1,003	-0,1054	-0,987
Free Cash Flow				
Free Cash Flow	0,0789	2,112**	0,0965	2,221**
Transactions costs				
Size	0,0102	2,459**	0,011	2,520**
Takeover Defense				
Prior Takeover Interest (yes=1)	0,1745	0,128	0,1803	0,121
Undervaluation				
PER	-0,0412	-1,906*	-0,0438	-1,914*
F-Value	6,2971***		6,4279***	
R-Squared	0,2867		0,2622	
Adjusted R-Squared	0,1619		0,1542	

Table 14: Cross sectional regressions for premiums/CAARs in PtoP transactions for the USA

This table shows the cross-sectional regressions estimating the determinants of the premiums/CAARs in PtoP transactions. The anticipation window for the premiums is 20 days. The event date is the first announcement of takeover interest that eventually led to the firm going private. The number of observations is 171. ***, ** and * stand for statistical significance at the 1%, 5% and 10% level, respectively.
Source: own calculations

	Model 1 Dep. Var= premium		Model 2 Dep. Var= CAAR	
	Par.Estimate	t-value	Par.Estimate	t-value
Variables				
Constant	0,52	4,256***	0,48	4,159***
Taxes				
Taxation (% of sales)	0,5263	1,102	0,5387	1,009
Gearing	0,0254	0,585	0,0301	0,564
Incentive realignment				
Managerial ownership>25% (1=yes)	-0,0487	-2,562**	-0,0478	-2,458**
Ownership and Control				
Institutional Blockholder>3% (yes=1)	-0,0215	-2,987***	-0,0205	-2,954***
Corporation Blockholder>3% (yes=1)	-0,0324	-2,548**	-0,033	-2,521**
Family Blockholder >3% (yes=1)	-0,2634	-1,178	-0,2548	-1,169
Free Cash Flow				
Free Cash Flow	0,0654	2,769***	0,0687	2,847***
Transactions costs				
Size	0,0014	3,254***	0,0018	3,354***
Takeover Defense				
Prior Takeover Interest (yes=1)	0,2896	0,389	0,2902	0,254
Undervaluation				
PER	-0,0265	-2,102**	-0,0254	-2,148**
F-Value	8,3695***		8,2789***	
R-Squared	0,4155		0,4256	
Adjusted R-Squared	0,3882		0,3952	

Table 15: Cross sectional regressions for premiums/CAARs in PtoP transactions for Asia

This table shows the cross-sectional regressions estimating the determinants of the premiums/CAARs in PtoP transactions. The anticipation window for the premiums is 20 days. The event date is the first announcement of takeover interest that eventually led to the firm going private. The number of observations is 34. ***, ** and * stand for statistical significance at the 1%, 5% and 10% level, respectively.
Source: own calculations

	Model 1 Dep. Var= premium		Model 2 Dep. Var= CAAR	
	Par.Estimate	t-value	Par.Estimate	t-value
Variables				
Constant	0,54	6,741***	0,56	6,873***
Taxes				
Taxation (% of sales)	0,4593	3,658***	0,4963	3,789***
Gearing	0,0396	3,004***	0,0312	2,897***
Incentive realignment				
Managerial ownership>25% (1=yes)	-0,0476	-2,529**	-0,0422	-2,356**
Ownership and Control				
Institutional Blockholder>3% (yes=1)	-0,0113	-2,893***	-0,0119	-2,901***
Corporation Blockholder>3% (yes=1)	-0,0202	-2,056**	-0,0234	-2,046**
Family Blockholder >3% (yes=1)	-0,3156	-1,142	-0,2843	-1,155
Free Cash Flow				
Free Cash Flow	0,0654	3,452***	0,0569	3,459***
Transactions costs				
Size	0,0156	2,558**	0,0179	2,509**
Takeover Defense				
Prior Takeover Interest (yes=1)	0,1993	0,741	0,1975	0,732
Undervaluation				
PER	-0,0417	-1,756*	-0,0481	-1,796*
F-Value	7,3695***		7,1887***	
R-Squared	0,4155		0,3963	
Adjusted R-Squared	0,2401		0,2153	

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