

The Decision to Go Private

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Discussion by

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Theories discussed

- Risk sharing benefits vs agency costs
- Cheap debt vs equity (may include institutions)

Empirical results

- Smaller firms, firms with low volatility and low asset growth, firms with high B/M and profitability are more likely to go private.
- Conglomerates not more likely to go private
- Junk bond wave coincides with a high propensity of large firms to go private
- Effect of low interest rates? No evidence
- Exogenous private equity supply shifts affect decision to go public

Literatures on IPOs, share repurchases

- Why not take these literatures into account?
- Big Motives to go public: Funding needs and advertising (Roell, 2000)
- Share repurchases: Cash with poor investment opportunities and undervalued shares (everywhere!)

Perhaps

1. Having cash and poor investment opportunities
2. Needing less advertising

are major motives to go private!

Literature on Private Equity

- PE/VC waves (Bettignies Chemla, 2008)
- Do waves differ (2000 in PE/VC)?
- What are the similarities and differences with PE activity?
- How to compare PE/VC intensive industries with industries with lots of going private observations?
- Role of PE funds?
- Abundance of good projects vs transition from public to private?

Going Private or Leveraging?

- Convincing analysis to distinguish going private transactions from other « leveraged recaps ».
- High B/M may mean that the firm has poor prospects and less need for outside funds, has a low market valuation, lots of tangible assets (link with debt overhang more tenuous?)
- Chemla, Pop and Pop (2008) examine widely unleveraged going private decisions in Romania. Different environment as well... Differences?
- We find that evolution of investor protection plays a role and that corporate governance matters. Perhaps investor protection makes it less relevant in the US?

Other questions

- Market timing?
- In Chemla et al (2008), evolution of legislations. Here, effect of changes such as the Tax Reform Act?
- Profitability or cash?