

Financial visibility and the decision to go private

Hamid Mehran and Steve Peristiani



Discussion

by

Paul André

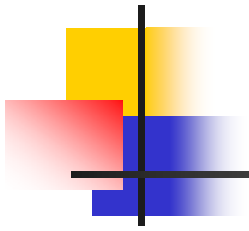
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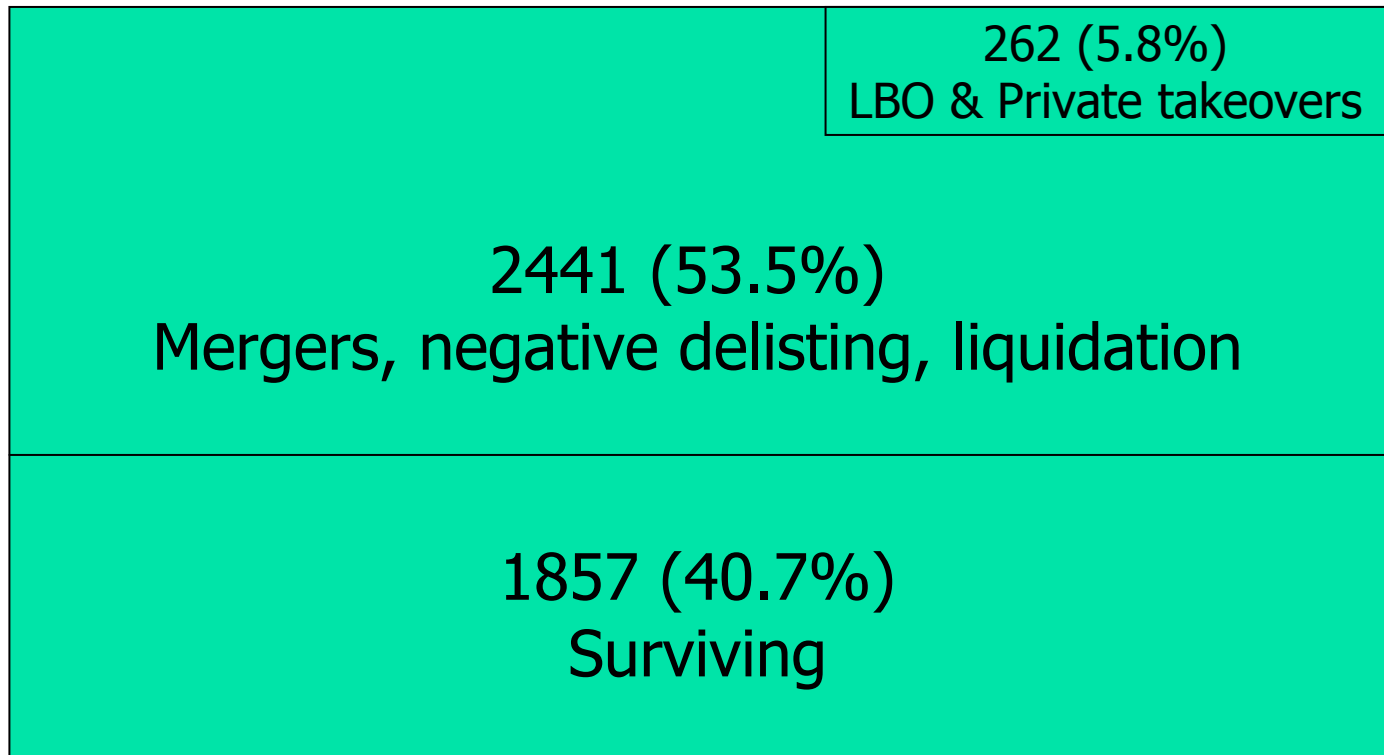


Research question and findings

- Why did a certain number of IPO firms (262/4560) from 1988-2007 revert back to private ownership between 1990-2007?
 - To mitigate agency conflicts and information asymmetry
 - Because of a lack of financial visibility



4560 IPOs between 1988-2007





The sample (cont'd)

- Sub-sample of LBO and going private takeovers
- What's the difference between private vs public takeovers?
- Breakdown between LBO, MBO, MBI, Ibo? Role of PE?
- Table 1 does not match with the sample analyzed so we lack important descriptive data, i.e., year of ipo mapped with year of going private
- Table 1 reports 10-15 years before returning to private – 20% of IPOs are in the 2004-2007 window
- No graph of hazard rate for total sample
 - Figure 4???
 - Negative duration dependence?

Motives

Should better set-up hypotheses
e.g., RSW 2007

- Corporate undervaluation ✓ n.s.
 - MAR vs M/B (-)?
 - Asymmetric information (same CEO, MBOs) ✓ ?
- Reduction in agency costs
 - Incentive realignment } ✓ +?
 - Control concentration } ✓ +?
 - FCF reduction ✓ +
 - M/B ✓ - ?
 - CAPEX ✓ - ?
 - R&D ??? ✓ n.s.
 - Improve corporate governance ?
 - Hostility ?
 - Focus (Diversification) ?
- Tax savings
 - Unused debt capacity ✓
 - Tax burden ✓ -?
- Financial distress (volatility) ✓ - ?
- Wealth transfer from bondholders to shareholders ✓
- Transaction cost reduction ✓ +
- Takeover threat ?

**Is lower financial
visibility a cause
of a symptom?**



The model

- Most complex
 - Time-varying starting times (1988-2006)
 - Time-varying right censoring (from 19 years to less than a year), don't track each firms for the same lenght
 - Time-varying covariates
- Endogeneity issues
 - Omitted variables; Missing interaction effects
- Variables in levels or changes (e.g., analyst following)
- No control for industry?
- Multicollinearity among variables?
- Outliers ? (Trimmed average ROA still low)



So what?

- Why are they losing financial visibility and is it a problem?
- Public policy implications?
- What are the wealth effects?
 - Premium 35%, how different from public deals?
 - RSW (JCF 2007): 40% premiums & 30% CAR(-5,+5)
- How is the time (survival analysis) to going public important? No a failure or death!
- Are we really examining the reemergence of going private transactions (p. 30)?
- What happens after privatization? (WJW 2008)
- Does PE involvement have an impact? (WJW 2008)