

# Liquidity externalities and buyout delisting activity

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## Abstract

We study the impact on industry liquidity of delistings resulting from leveraged buyout activity. Using data on U.S. LBOs during the 1985-2008 period, we uncover evidence of negative liquidity externalities. We find that the liquidity of firms in the same industry as the LBO target drops during the month of the LBO delisting. This temporary decrease is especially strong for industry firms highly correlated with the LBO firm. It is also stronger in industries characterized by higher information asymmetry and higher information heterogeneity, and in cases in which the information disclosed by the LBO firm before it goes private is more precise. Overall, our findings are consistent with the hypothesis that financial market participants use cross-asset information arising from correlated order flow and prices in their trading decisions. Delistings induced by LBO activity bring about temporary greater information asymmetry, which results in a negative transitory impact on liquidity at the industry level.

*JEL classification: G14, G34*

*Keywords: leveraged buyouts; liquidity externalities; delisting; asymmetric information*

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