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LEAVING THE PUBLIC CAPITAL MARKET: A LITERATURE SURVEY ABOUT THE GOING PRIVATE DECISION

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Abstract

The going private decision is less examined in the corporate finance literature compared to the IPO topic, although it is of similar importance in a company's life. This paper surveys previous theoretical and empirical studies discussing the going private decision. Deeper insights are provided about reasons which motivate companies to leave the public capital market. The role of regulatory changes like the passage of Sarbanes-Oxley Act in 2002 and their implications for the decision making process of US listed companies concerning staying public or going private are addressed. A literature synopsis is provided about different aspects within the delisting topic. Literature about abnormal returns during the announcement of a going private transaction, bid premiums paid to investors as well as characteristics of companies which typically decide for privacy is reviewed. The current stage of research is analyzed in order to develop further relevant exploration areas within the going private topic. This paper also explains investors' incentives. A precise recognition of potential going private companies on the public capital market allows shareholders to collect not only abnormal returns, but also bid premiums and enable them to increase their earnings within a short period of time. Additionally, also companies profit from knowledge about going privates. Being aware of the large costs, they can avoid unnecessary expenses of their public-to-private-and-back cycles.

Keywords: Going private, delisting, public and private lifecycle

Introduction

A public company might decide to leave the public capital market during its lifecycle. Since the 1960s corporate lifecycle models have been applied in the literature (Owen and Yawson, 2010). Models of Greiner (1972), Adizes (1979) or Miller and Friesen (1984) have been widely used. Miller and Friesen (1984) e.g. divide a firm's life into five stages and distinguish between the birth, growth, maturity, revival and decline stage.

Based on their empirical research the firms in different stages vary in structure, strategy and decision making. According to Jain and Kini (1999), who focused their research on initial public offerings (IPO) within the lifecycle context, IPO represents the first significant stage in the evolution of company's public life. The going public step occurs during the growth phase of a company and allows private firms with growth prospects to finance their investments.

Maug (2001) explains the IPO decision within the lifecycle context as a decision of the optimal ownership structure. According to him, as the ownership structure changes over the lifecycle of a firm, insiders decide for a going public step when they lost their comparative advantage in gathering information about firm's growth prospects over firm's outsiders. Other reasons for a going public step have been analyzed by Shah and Thakor (1988) or Pagano (1993) who see advantages in diversification of risk, when companies decide for a public life. Pagano et al. (1998) argue with reduced overmonitoring and e.g. Zingales (1995) argues with a higher valuation of a company after the public step. Overall, a lot of research has been conducted about the going public step of companies.

According to Gompers (1995), after becoming public, firms have to choose for each stage of their lifecycle if they remain public or go private. Gill and Walz (2012) found out that firms which decide to go private were younger at the time of their IPO[16]. The query of Luetolf and Neumann (2004) about the reasons which account for the going private decision enclosed the high regulation and transparency standards as the main motive for such a step.

Despite its importance in the lifecycle of a firm, the decision to leave the public capital market is less studied in the literature in contrary to the research about the going public decision. According to Djama et al. (2012) conditions under which a public firm exits the public market as well as its rationales for this move need to be examined. They call voluntary delistings "going private transactions" and focus their analysis on incentives and financial characteristics of these firms. But the step into privacy is not always a voluntary one. Due to poor performance or violation of listing requirements, firms are often forced to leave the public capital market[17].

Being public means having access to capital. Consequently, a company which is publicly traded should be liquid and fairly valued. If a company is able to finance its further growth with own cash flows[18] or a

[16] Going private firms with a mean of 11.63 years (median: 7 years) compared to the control group with a mean of 18.89 years (median: 9 years).
[17] Nasdaq boot 85 companies and NYSE 54 companies for failing to meet stock exchange requirements in 2008 (Plourd, 2009).
[18] Free Cash Flow Hypothesis by Jensen (1986).

large shareholder is willing to provide funds, then public capital sourcing might become too expensive. Combined with e.g. undervaluation[19] through the market or low share liquidity[20], incentives for a step into privacy might increase.

When observing all public to private transactions on the US market without distinguishing their specific incentives, a first era during 1980s and a second one during the 2000s can be recognized. In the first era mostly depressed companies were taken private in order to increase their profitability. In the new era companies rather tried to avoid the short term pressure of pubic capital markets as well as the costs of being public. (Schneider and Valenti, 2010)

The passage of Sarbanes-Oxley Act (SOA) in 2002 in the US increased additionally cost of being public and is seen as an additional driving factor for the going private decision[21]. The increased disclosure and corporate governance requirements made firms questioning their value of remaining public. The study by Marosi and Massoud (2007) showed increasing number of firms deregistering from the public capital market in the post-SOA era. The firms were mostly characterized by undervaluation and low growth opportunities. The costs and burdens after the adoption of SOA affected particularly firms of smaller size measured by market capitalization. Leuz et al. (2007) as well as Becker and Pollet (2008) could empirically prove their size hypothesis.

The aim of this paper is to provide insights about the going private phenomenon. A survey of both, theoretical and empirical literature is given in order to highlight different reasons and motives of firms for their step into privacy. A further objective is to review studies which examined the characteristics of firms which decide to leave the public capital market and to provide a synthesis of the current stage of research. Lastly, impact on investors by going private transactions is highlighted.

This literature survey is organized as follows. Firstly, an extensive analysis of previous studies is provided. It focuses foremost on motives of going private decisions. Then, a large amount of empirical findings from previous going private transactions is presented. Besides findings about characteristics of going private companies, findings about premiums paid to investors at going private transactions are summarized. Secondly, insights and implications from the examined previous studies are given. The paper results in a synthesis of the literature with respect to information needed by investors.

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[19] Kim and Lyn (1991).

20 Boot et al. (2008).

21 E.g. Marosi and Massoud (2007) or Leuz at al. (2007).

Literature survey

Analysis of previous studies

DeAngelo et al. (1984) provide one of the first definitions of going private. But due to their research focusing on MBOs, their definition is not widely applicable as it describes going privates as a replacing of all public shareholders by the management group.

There are diverse recent definitions of going private which can be found in the literature. So do Ernst and Haecker (2007) define a going private as a decision of a company not to participate at the public capital market any more. When it comes to acquisitions, they subsume into their definition just those transactions as a going private, where a public company was acquired by a private company. A very similar definition is presented by Burghof and Schilling (2003), who require that the acquirer must strictly be a private company.

A broader definition of going private is used by Richard and Weinheimer (2002) who define going privates as all transactions which transfer a publicly traded company into a private company, and which still can be traded on non-public markets[22]. Their going private definition includes also a transfer of company divisions, which are taken out of the concern.

Beck and Stinn (2002) define a going private as a transaction in which a publicly traded company is transferred into a private one and not traded on any capital market any more. The equity capital is transferred to one or to a limited number of shareholders. Further, an acquisition or a merger with a public company is not seen as a going private. The delisting has to be voluntary and not enforced by failure or liquidation. This definition of going private is also used in the studies of Eisele et al. (2003) or Moehrle (2006).

Motives of going private decisions

A decision between going private or staying public is a complex one, because mostly not one but a combination of factors leads to the final step.

Traditional considerations

Agency considerations

Based on the Agency Theory (Jensen and Meckling (1976)), Jensen (1986) developed the FCF hypothesis, which he sees as a possible explanation for the going private decision of companies. Free cash flow is defined as the cash flow, which remains, after having financed all investment projects with a positive net present value and for which there is no current

[22] OTC.

use in the company and therefore managers further control it. This made the free cash flow problem to an agency problem as the principals and the agents have mostly different ideas for the usage of it. Jensen (1986) explains that the management may e.g. want to keep the control about the free cash flow, seeing it as a resource and lead therefore to an inefficient usage of it. In contrary, principals would wish to profit from the free cash flow paid out as dividends.

Principals see in a going private step the possibility to decrease the agency costs, which have occurred due to different interests of principals and agents.

Liquidity considerations

Being public is according to Zingales (1995) only beneficial for companies, if their market price and therefore their value, established at the IPO, holds. As trading on stock exchanges is cheaper than bilateral trades, it is the increasing trading volume, which is providing liquidity. Amihud and Mendelson (1988) showed in their research the importance of liquidity for public firms. Lower liquidity might increase the cost of capital on the public market for such companies, following the theory of Modigliani and Miller (1963), who showed that the lower cost of capital the market is offering, the greater the incentive of companies to be publicly traded. When appropriate liquidity is not given any more, companies may decide for a step into privacy.

Ownership considerations

Companies with a low free float are considered to be a special case when the reasons for a going private are discussed. According to Schwichtenberg (2003), companies with a major shareholder are very often affected by low share liquidity and undervaluation. Often, the major shareholder wishes higher freedom when taking decisions or wishes to profit more. With his large stake, a going private step is easier as not many shares are in the free float.

Undervaluation considerations

Due to e.g. less lucrative industry, public companies might have a poor stock price performance and be therefore undervalued. Suffering under a low market valuation, forces companies into privacy, even if the performance of the company is good, often even better than the one of the competitors (Mehran and Peristiani, 2010). The development of the market-to-book ratio is a possible factor, which might be observed in order to recognize undervaluation on the public capital market.

Modern considerations

Visibility considerations

Ernst and Haecker (2007) advance a view that small companies are not getting enough attention from the investors on the public market and therefore being public has no sense for them. They also add that bigger companies with a low free float are affected by a scant attention as well. The visibility hypothesis of Mehran and Peristiani (2010) which also corresponds with the opinion of Bharath and Dittmar (2010) states that low analyst coverage and low institutional ownership lead to low share liquidity and make a company invisible. According to Modigliani and Miller (1963), low cost of capital increases the wish to become public. As the reverse must be also truth, low liquidity, which occurred due to low visibility makes a staying public too expensive.

Growth considerations

It is the growth stage of a company's lifecycle when it might decide for a step into the public capital market. Companies in this stage have according to Kim and Weisbach (2005) large opportunities for investments and only a limited access to other financing alternatives due to high leverage, so they decide to go public. Based on this finding, it can be concluded that firms in a later lifecycle stage (maturity) with less growth and less investment opportunities may decide for a going private step with a higher probability.

Takeover considerations

Grupp (1995) states another important reason for a going private decision. Being a public company with a high free float makes it possible to become a victim of an unfriendly takeover. If it is such a case, companies, in order to protect themselves, decide often for a going private step with the aim to preserve their independence.

Considerations related to SOA

Cost of being public considerations

Raffel (2003) discusses a further reason for a going private decision. For him, investor and public relations costs as well as other costs connected with the being public are mostly so high, that it makes no sense for a company to stay public. Schwichtenberg (2003) adds that mainly small size companies are affected by these high costs. Additionally, the passage of SOA increased those costs on the US market significantly (Leuz, 2007).

Findings in empirical studies

Findings about abnormal returns and premiums paid

It were DeAngelo et al. (1984) and Denis (1992) who conducted the most important studies analyzing the returns after a going private announcement on the US capital market. DeAngelo et al. (1984) were analyzing 72 going private transaction between 1973 and 1980 and observed an abnormal return of 22.27%. In their study they also examined the contrary step, when a company announced that a going private decision was taken back. In such a case, DeAngelo et al. (1984) could observe a negative abnormal return of -8.88%. Denis (1992) was observing 192 transactions between the years 1980 and 1987. He found an abnormal return of 12.01%.

Lehn and Poulsen (1989) could observe an abnormal return of 16.30% between the years 1983 and 1986. Easterwood et al. (1994) conducted a study with 184 going private companies during ten years and observed an abnormal return of 16.10%. They calculated also the cumulated abnormal returns and differed between going private announcements with just one or multiple bidders. In the first case they could observe a CAR of 26.1% and in the second case one of 43.7%. Another large study is from Carow and Roden (1997) who examined 88 companies and showed an abnormal return of 17%. The following tables present the most important studies about observed abnormal returns after the announcement of a going private transaction at different public capital markets.

Table 3: Literature synopsis on AAR

Publication year	Author(s)	Observation period	Transactions	AAR	Country
1984	DeAngelo et al.	1973-1980	72	22.3%	US
1987	Maupin	1972-1984	97	21.8%	US
1987	Torabzadeh & Bertin	1982-1985	48	18.6%	US
1988	Lehn & Poulsen	1980-1984	92	13.9%	US
1989	Amihud	1983-1986	15	19.6%	US
1989	Lehn & Poulsen	1980-1987	244	16.3%	US
1989	Marais et al.	1974-1985	80	13.0%	US
1991	Solvin et al.	1980-1988	128	17.4%	US
1992	Denis	1980-1987	192	12.0%	US
1992	Frankfurter & Gunay	1979-1984	110	17.2%	US
1992	Lee	1973-1989	118	14.9%	US
1992	Lee et al.	1983-19898	58	10.4%	US
1993	Torabzadeh & Bertin	1982-1987	43	18.1%	US
1993	Travlos & Bertin	1975-1983	56	16.2%	US
1997	Carow & Roden	1981-1990	88	17.0%	US
1997	MacKinlay	1991-1995	37	18.6%	US
2006	Eisele & Walter	1995-2002	37	13.7%	DE
2007	Andres et al.	1997-2005	115	12.8%	EU
2007	Renneboog et al.	1997-2003	177	22.7%	UK
2009	Altintig et al.	1989-1998	29	1.2%	TR
2011	Geranio & Zanotti	2005-2006	106	6.1%	EU

Table 4: Literature synopsis on CAR

Publication year	Author(s)	Observation period	Transactions	CAR	Window
1984	DeAngelo et al.	1973-1980	72	28.5%	[-40/+40]
1987	Torabzadeh & Bertin	1982-1985	48	23.3%	[-330/+120]
1988	Lehn & Poulsen	1980-1984	92	20.1%	[-20/+20]
1989	Kaplan	1980-1986	25	42.3%	[-60/*]
1989	Lehn & Poulsen	1980-1987	244	20.5%	[-20/+20]
1992	Denis	1980-1987	192	22.3%	[-40/+40]
1993	Torabzadeh & Bertin	1982-1987	43	22.6%	[-360/+60]
1993	Travlos & Cornett	1975-1983	56	17.6%	[-15/+15]
1993	Warga & Welch	1985-1989	16	36.3%	[-30/+60]
1994	Easterwood et al.	1978-1988	184	26.1%	[-20/0]
1997	Carow & Roden	1981-1990	88	23.2%	[-20/*]
2006	Eisele & Walter	1995-2002	37	24.8%	[-20/+20]
2007	Andres et al.	1997-2005	115	24.2%	[-30/+30]
2007	Renneboog et al.	1997-2003	177	27.4%	[-40/+40]
2010	Baran & King	1981-2006	182	21.5%	[-30/+30]
2010	Billett et al.	1980-1990	195	28.7%	[-60/+3]
2011	Geranio & Zanotti	2000-2005	106	18.8%	[-30/+30]

Some researchers were analyzing the premiums mostly on the US market. Often the higher the stake of a shareholder, the higher the premium paid. This fact is often impossible to proof empirically, because the exact premium is almost ever confidential. In contrary, the average premium paid to shareholders can be calculated.

The first study examining premiums was conducted by DeAngelo et al. (1984). Their observation of 57 completed transactions showed a premium of 56.3%. The findings of Amihud (1989) comparing to the results of DeAngelo et al. (1984) are lower, with a calculated premium of 31.1%. A synopsis of studies about the bid premiums is provided in table below.

Table 3: Literature synopsis on bid premiums

Publication year	Author(s)	Observation period	Transactions	Market	Bid premium	Window
1984	DeAngelo et al.	1973-1980	57	US	56.3%	40
1985	Lowenstein	1979-1984	28	US	56.0%	30
1988	Lehn & Poulsen	1980-1984	72	US	41.0%	20
1989	Amihud	1983-1986	15	US	31.1%	20
1989	Kaplan	1980-1986	76	US	42.3%	60
1989	Lehn & Poulsen	1980-1987	257	US	36.1%	20
1993	Harlow & Howe	1980-1989	121	US	44.9%	20
1993	Kaplan & Stein	1980-1989	124	US	43.0%	40
1993	Travlos & Cornett	1975-1983	56	US	41.9%	30
1997	Carow & Roden	1981-1990	88	US	46.4%	20
2005	Weir et al.	1998-2000	95	UK	44.9%	30
2007	Renneboog et al.	1997-2003	177	UK	41.0%	20
2011	Geranio & Zanotti	2000-2005	106	EU	21.2%	30

Findings about firm characteristics

The gain of abnormal returns and bid premiums on going private transactions is lucrative for investors. Having recognized this fact, it became relevant for investors to identify potential going private companies on the public capital market and to purchase their shares in order to take advantage of those possible gains. Researchers started to focus on studies which would characterize typical going private companies and distinguishing them from those, which are staying public. A more accurate characterization increases the probability of a correct prediction and is therefore worthwhile for investors.

The first study with the aim to characterize going private companies was conducted by Maupin et al. (1984) for the US market. The authors were examining cash flow ratios, P/B ratio, the dividend yield as well as the concentration of ownership. All tested factors in their study had a significant influence on the going private decision. The relationship was proved to be positive between all factors tested with the only exception of the P/B ratio. The results showed that this relationship is negative; the lower the P/B ratio the higher the probability of a going private. This study was repeated by Maupin (1987) and extended by two factors, P/E ratio and the book to initial cost of assets ratio. The results showed that the retested factors of the previous study as well as the two new factors had all a significant influence on the going private decision.

A large and relevant study was conducted by Lehn and Poulsen (1989). Their study was based on the free cash flow (FCF) hypothesis of Jensen (1986), which expects companies with large FCF compared to equity to go private. Also included in their study were the factors equity, tax payments and sales growth. The FCF hypothesis of Jensen (1986) could be proven by Lehn and Poulsen (1989). At the same time another large study about going privates was conducted by Kieschnick (1989). Also his study was focused on the US market and the factors he examined were e.g. interest expense, growth, FCF or management ownership. His findings were contrary to those of Lehn and Poulsen (1989) as Kieschnick (1989) could not find any evidence for the FCF hypothesis of Jensen (1986).

A study focusing on the ownership structure was conducted by Lowenstein (1986). In his paper, Lowenstein (1986) examined only MBOs, as his hypothesis was that companies leaving the public capital market as an MBO are having larger stakes in manager hands. He found evidence for this hypothesis and also showed that companies leaving the public capital market and significantly smaller than those which do not decide for such a step.

Loh (1992) focused his study on financial characteristics as possible factors to distinguish from staying public companies. Among others he tested the profitability of the company, its capital structure, the turnover and FCF.

He could confirm the findings of Lehn and Poulsen (1989) and found evidence for the FCF hypothesis. Other factors were not significant for the going private decision. Another study which was examining the FCF hypothesis focused only on LBOs and was conducted by Opler and Titman (1993). The authors could proof that the hypothesis holds by testing Tobin's Q and the FCF level. Companies with a low Tobin's Q and relatively high cash flow, characterized by authors as those with unfavorable investment opportunities, are more likely to leave the public capital market.

The FCF hypothesis formulated by Jensen (1986) remained the base for almost all studies also in the nineties. Carow and Roden (1997) found also support for this hypothesis in their paper, testing the high level of FCF, the low Tobin's Q[23], but the focus of their study was on stock price reactions as already presented in the previous subchapter. Not only the FCF topic, but also some of the researchers remained stable and examined the going private phenomenon in various studies. Such an example is Kieschnick (1998) who conducted his second own study nine years after the first one. In his second study, he is using the data sample of Lehn and Poulsen (1989), but changing their sampling scheme. His new study supports the findings of his first study and rejects the findings of Lehn and Poulsen (1989). Kieschnick (1998) couldn't find any evidence for neither the growth rate nor the level of FCF as significant factors influencing the going private decision. No evidence was found also for the size of the company and the tax payments.

Kieschnick was also a co-author in a study examining another large sample of companies going from public to private. It was the study of Halpern et al. (1999), in which a large amount of possible characteristics of going private companies was again tested. Consistent with previous findings of Kieschnick (1989 & 1998), no evidence was found for the level of FCF. Significant evidence however was showed for investment expenditures, stock performance and managerial stock ownership. The statistical evidence for the last factor is consistent with findings of Lowenstein (1986).

The following table presents a synopsis of studies examining characteristics of companies which went private.

[23] Tobin (1969).

Table 4: Literature synopsis on characteristics

Year	Author(s)	Observation p	Transactions	Market	Tested factors	Main findings
1984	**Maupin et al.**	1972-1983	63	US	- Ownership - CF ratios - P/B ratio - Dividend yield	- All factors have a positive significant influence on the going private decision apart of P/B ratio, which has a negative one.
1986	**Lowenstein**	1979-1984	28	US	- Size - Ownership of management	- Evidence for both factors was proven.
1987	**Maupin**	1972-1984	54	US	- Ownership - CF ratios - P/E ratio - P/B ratio - Book value of assets to original costs - Dividend yield	- Same findings like in Maupin et al. (1984) were shown by Maupin (1987). - P/E ratio and the book values of assets to original costs had also a significant influence.
1989	**Kieschnick**	1981-1986	102	US	- FCF (Jensen, 1986) - Ownership of management - Growth expectations - Interest expense - Depreciation expense	- Kieschnick was the first researcher who rejected the FCF hypothesis of Jensen (1986).
1989	**Lehn & Poulsen**	1980-1987	244	US	- FCF (Jensen, 1986) - Size (equity) - CF/equity - Sales growth - Tax expense	- Evidence for the FCF hypothesis was found. - Also CF/equity is a significant factor, for all others no evidence was found.
1992	**Loh**	1986-1988	45	US	- FCF (Jensen, 1986) - Liquidity ratio - Profitability ratio - Turnover - Capital structure	- Loh confirmed findings of Lehn & Poulsen (1989).
1993	**Opler & Titman**	1980-1990	180	US	- FCF (Jensen, 1986) - R&D expenses - Diversification - Tobin's Q - Liquidity - Operating income / assets	- Evidence for Jensen's hypothesis was found. - No evidence was found for R&D costs, representing financial distress costs.
1994	**Servaes**	1987-1992	99	US	- Capital expenditures	- No evidence for higher capital expenditures.
1998	**Kieschnick**	1980-1987	244	US	- FCF (Jensen, 1986) - Size (equity) - CF/equity - Sales growth - Tax expense	- Also in his second study, where Kieschnick used the database of Lehn & Poulsen (1989), the FCF hypothesis had to be rejected.
1999	**Halpern et al.**	1981-1986	126	US	- FCF (Jensen, 1986) - Tax expense - Ownership of management - Stock performance - Investment expenditures	- FCF hypothesis had to be rejected. - Investment expenditures, stock performance and managerial ownership had singnificant incfluence on the decision.
2002	**Beck & Stinn**	1995-2000	22	DE	- FCF (Jensen, 1986) - Stock performance - Free float - Size - Growth expectations - P/E ratio - P/B ratio - Ownership structure	- Growth expectations, percentage of free float, P/E ratio and the ownership structure measured in number of shareholders have negatively correlated with the going private decision.
2002	**Kosedag & Lane**	1980-1996	21	US	- FCF (Jensen, 1986) - Tax expense - Sales growth	- No evidence for FCF hypothesis was found. - Tax expense measured as tax savings was significant.
2005	**Evans et al.**	1990-1999	80	AUS	- FCF (Jensen, 1986) - Growth - Leverage - Liquidity - R&D expense - Ownership of management	- In Australia the FCF hypothesis of Jensen had to be rejected. - Further, the companies have high liquidity, low growth rates and low R&D expenses.

Year	Author(s)	Observation p	Transactions	Market	Tested factors	Main findings
2007	**Gleason et al.**	1998-2003	221	US	- Size - Growth expectations - Profitability - Leverage - Earnings predictability - Liquidity - Financial distress costs	- Firms going private are smaller, with higher liquidity, more leverage, lower profitability and high growth expectations. The last finding was surprising.
2008	**Boot et al.**	1999-2004	154	US	- Stock performance - Stock liquidity - Public market investor participation	- Lower stock price performance and its high volatility is more likely to go private.

Other relevant findings

The passage of Sarbanes-Oxley Act (SOA) in 2002 increased accounting standards for US publicly listed companies. As staying public became even more expensive, some companies decided to leave the market. Engel et al. (2007) connected in their study the two topics SOA and the going private decision. They were analyzing US companies between the years 1998 and 2005. Their focus was on the frequency of such transactions after the passage of SOA. Their empirical analysis showed that the frequency of going private transactions clearly increased after SOA. Gleason et al. (2007) were analyzing different reasons which might motivate companies to go private. To analyze the higher cost of being public as a possible motivation, they divided their sample of firms into two groups which went private prior and following to SOA. They results show, that the major motivation for companies which went private after the passage of SOA were clearly the higher cost of being public in contrary to other reasons which were dominant prior to SOA.

Only few studies focused on the entire public lifecycle when they were explaining the going private decision. The study of Mehran and Peristiani (2010) focuses on the visibility aspect of companies which decide to go private despite being solid competitors to their peers. They adapt the entire public life view and examine with an extended, dynamic hazard model three visibility aspects, analyst coverage, institutional ownership and stock turnover as possible factors explaining the going private decision over the company's public life. Their results show, that firms with declining analyst coverage, falling institutional ownership as well as low stock turnover go more likely private and decide for such a step sooner. A study focusing on costs and benefits of being public as reasons for delisting was conducted by Bharath and Dittmar (2010). Similarly to Mehran and Peristiani (2010), they observe a company during its whole public life and identify e.g. low analyst coverage and low institutional ownership as reasons influencing the going private decision.

Insights and implications from previous research

Various factors play a role when it comes to the decision whether to leave the public capital market or not. The current state of research offers stakeholders a large amount of explanations of this phenomenon, but still a lot concerning this step stays unexplored.

Synthesis and future trend

Companies which are leaving the public capital market can be divided into two main groups, those which are going private voluntary and those which are forced to leave the public capital market, because they are not fulfilling the listing requirements. Empirical research presented above mostly focused on companies which left voluntarily. When a company is not in a financial distress and its expectations about the own condition after the going private step are optimistic (e.g. reduction of agency costs[24]), then an increase in value of the company can be expected.

Burnett (2012) point out that companies which decide for a voluntary step into privacy mostly focus on long-term goals. The going private decision is so, among others, explained through avoidance of the short-term orientation of public capital markets. So may even companies with a strong stock price performance decide to leave voluntary. Additionally, reporting requirements as well as arising registration and compliance fees at the stock exchange increase the motivation to leave the market. Empirical studies focusing on the influence of SOA[25] have proven a post-SOA boom of going private transactions.

A solid amount of studies exists about the characteristics of going private companies shortly before they announce their decision to leave the public capital market. Further studies exist about abnormal returns which can be observed during the announcement of a going private. Researchers were also examining premiums paid to investors. In many cases, largest shareholders receive even a higher premium which is not made public and therefore no empirical evidence exists.

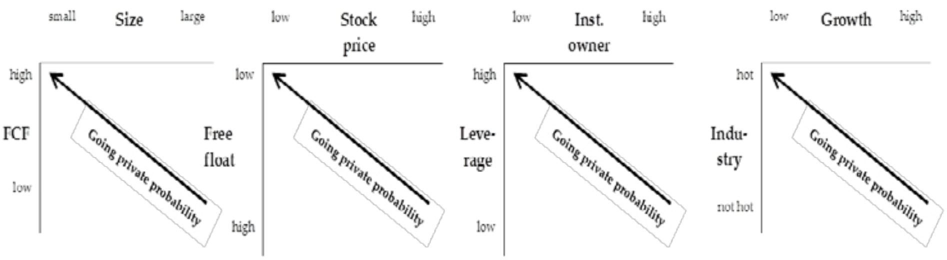
Characteristics of going private companies which have often been proven having a significant influence on the decision to leave the public capital market are summarized in the below table:

[24] Jensen (1986).
25 See subchapter A.2.3.

Table 5: Typical characteristics of going private companies

Company	**Share**	**Ownership**	**Industry**
Small size e.g. Gleason et al. (2007)	Low stock price (undervaluation) e.g. Boot et al. (2008)	Major shareholder e.g. Schwichtenberg (2003)	Low industry hotness e.g. Mehran and Peristiani (2010)
High FCF e.g. Lehn and Poulsen (1989)	Low free float e.g. Beck and Stinn (2002)	Low institutional ownership e.g. Bharath and Dittmar (2010)	Low growth opportunities e.g. Gleason et al. (2007)
Low Tobin's Q e.g. Carow and Roden (1997)	Low share liquidity e.g. Amihud and Mendelson (1988)	High leverage e.g. Gleason et al. (2007)	
	High stock price volatility e.g. Boot et al. (2008)		
	Low analyst coverage e.g. Bharath and Dittmar (2010)		

The probability of a going private transaction arises when the significant factors increase. The following four diagrams show exemplary how the going private probability can be understood:



Following key findings could be derived from previous going private literature:

Table 6: Key findings on going privates

Going private and market behavior	
Findings: Comments:	After the announcement abnormal returns rise and bid premiums are offered to shareholders. Empirical research could partly explain the magnitude of abnormal returns and bid premiums. They are both positive in the majority of cases and can be earned by shareholders.
Going private and motives	
Findings: Comments:	Traditional motives like high free cash flow, modern motives like low analyst coverage as well as regulatory ones (SOA) might lead to a going private decision.

	It is not only one reason, but a combination of different motives which increases the probability of a step into privacy.
Going private and company	
Findings:	Financial characteristics of a firm are possible explanatory variables of its going private decision.
Comments:	Small size measured by market capitalization, high free cash flow and low Tobin's Q have often been successfully tested as factors significantly explaining the going private decision.
Going private and shares	
Findings:	The value and the trading volume of firms' shares have an influence of the going private decision.
Comments:	Low free flow, low share liquidity, high price volatility and low stock performance (undervaluation) increase the probability of a going private.
Going private and ownership	
Findings:	Ownership structure might accelerate and simplify a going private decision.
Comments:	Low institutional ownership and thus a large amount of noise traders might increase the wish for privacy. An existence of a major shareholder might ease the step.
Going private and industry	
Findings:	The industry in which a company is operating might influence the going private probability.
Comments:	Unattractive industry might be less appreciated by investors and lead to undervaluation. Additionally, some industries may offer low growth opportunities for companies (e.g. due to technological limits).

Some recent studies about going privates adapted their focus compared to the traditional ones which have been conducted mostly in the 80s and 90s. So have e.g. Mehran and Peristiani (2010) explained the going private step in a new aspect, seeing the main reason in the visibility of companies. They were not only arguing with the small market capitalization of the company, but also with low interest of investors, who just simply do not see the company, because it is e.g. insufficiently covered by analysts. Future research should therefore focus on visibility from diverse perspectives as it might lead to a better explanation of the going private phenomenon.

As there is not one main specific reason why a company decides to voluntarily leave the public capital market, measures are necessary in order to expand these decisions. As far as a statistical analysis allows, reasons for such a decision might be examined using moderating factors. Moderator variables affect and alter the effect of an independent variable on a dependent variable. Including moderator variables would hence increase the chance to explain the combination of reasons which lead to a going private decision.

Further research is also needed within the lifecycle context. Just a few studies[26] examine the characteristics of going private companies during their whole public lifecycle and not only at the time of the announcement of the going private decision. Characterization of companies only shortly before the time of the announcement of the going private intention decreases the chance to find explanations for such a step and therefore decreases the chance for investors to recognize such companies the earliest possible. Including the whole public lifecycle[27] into the analysis would allow a more precise definition of companies which typically go private. Then, not only could the time shortly before the announcement, but also company's situation already at the time of the IPO as well as financial results and other information from the whole public life become part of the analysis.

SOA and other regulations have impact on the decision to leave the public capital market. The research concerning their impact might be also extended within the lifecycle context. This research focus would e.g. allow seeing characteristics of companies which are mostly affected through such regulations.

There is also a lack of satisfactory explanations about the impact of private equity on the going private decision. This might be firstly due to the fact that only few data is available about private equity investments and secondly because this form of financing occurred mostly during the very last years.

Extensions of going private research could also include aspects of behavioral finance. It might be especially the investor sentiment[28], driven by small investors, which could lead to new findings about the going private phenomenon. Public companies with no or few institutional investors are exposed to noise traders who don't act rationally and their buy or sell decisions are not based on fundamental or technical data. This uncertainty component might become too exhausting for some companies and consequently they might decide to delist.

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[26] E.g. Mehran and Peristiani (2010).

27 Due to data availability only the public lifecycle can be examined. Even more precise results might be expected if the whole company lifecycle, private and public, could be examined.

28 Introduced by Lee et al. (1992).

Next to delisting reasons and to companies' characteristics, other fields within the going private topic might also expand the scope of research. Especially legal issues and different techniques how to take a company private in different countries is of high relevance for practitioners.

Future going private transactions will bring more evidence and clarity and allow investors to understand them better. This because with an increasing number of going private cases in the future, a more precise statistical differentiation of companies will be possible. Thus, a quantitative analysis of transactions within one industry will allow drawing additional conclusions about the going private phenomenon.

Incentives for investors

For investors, going private transactions are interesting due to mainly two reasons. The first reason lies in abnormal returns, which are observed around the announcement of the transaction and can be earned by investors. The second reason is the bid premium paid to investors when one shareholder is purchasing the stakes to be able to accomplish the going private transaction.

Due to these two opportunities of earning large premiums in a short term compared to other investments, going private transactions are of special interest for investors. Following the assumption markets are semi-efficient, it is the incentive of every investor to recognize potential going private companies the earliest and the most precise possible.

Companies which might decide for a step into privacy are of interest for both small and large investors, because also the small ones are able to earn abnormal returns as well as bid premiums. Therefore, an investor tries to gain as much information as possible in order to recognize such companies with the highest certainty at the earliest possible point in time and overtake other investors. The earlier an investor can buy before rumors about a possible announcement of a going private transaction occur on the market, the better for him.

The incentive for large investors might be even bigger. Owning a larger stake of the company provides with a superior negotiating position, when selling block holdings. In addition to the regular bid premium paid to all investors, large shareholders might bargain a surplus.

Burnett (2012) is addressing the question about the sources of value in going private transactions. He finds a possible explanation in the transfer of wealth from other stakeholders to shareholders. According to him are ex-ante bondholders adversely affected by a companies' decision to delist from public capital market and they might lose out. After the going private step, a company might decide for riskier projects or e.g. to pay out higher dividends. This would change the situation of bondholders for the worse.

Masulis et al. (2009) share a contrary opinion about the influence on bondholders after a going private transaction. They follow Jensen (1986) who observed reductions in agency costs after the step into privacy. According to them, this reduction can offset the worse situation of bondholders after a going private and then improve their position. The situation of shareholders is improved as well; they also profit from an agency costs reduction.

Consequently, companies which might decide for a step into privacy should receive a high attention from investors. If potential investors become shareholders before the announcement of such a transaction, they are not only able to earn abnormal returns, but also a bid premium. The larger their stake, the stronger is their negotiating power and accordingly, their possibility to increase their bid premium. Based on these facts, the major goal of research about going privates should focus on a precise characterization and subsequent recognition of such companies on the public capital market and so ease the decision making process of investors.

Conclusion

The aim of this survey was to provide deeper insights about the going private decision of public companies. First, the question about the reasons and motives for the privacy phenomenon was addressed. A variety of different kind of incitements was presented and explained. Second, this paper was exploring chances for investors which occur on the capital market when the company they are invested in decides for a going private. Empirical papers were summarized which showed investors are not only able to profit from abnormal returns, but also may earn bid premiums when a company is buying its shares back. Third, this survey showed how to recognize potential going private companies on the public capital market. A large amount of previous empirical findings was analyzed and merged in a synopsis. Last, possible future research fields within the going private topic were presented and the need for further research was justified by presenting the specific investors’ incentives.

Companies’ considerations whether to go private or not were divided into three categories. Traditional considerations include high agency costs due to a large amount of free cash flow and different opinions of its use. Also liquidity, ownership and undervaluation considerations have postponed the going private decision. Recent motives include low visibility on the capital market, low growth opportunities as well as takeover considerations. Since the passage of SOA, regulatory considerations play also a significant role in the going private decision.

This survey is presenting results of all important empirical studies which were exploring the going private phenomenon from different point of views. Also summarized is empirical evidence about abnormal returns occurring at the transaction announcement and about bid premiums which are offered to shareholders in order to make them sell their stakes. Further discussed are studies which allow potential investors to recognize potential going private companies. Companies characterized by e.g. small size, high free cash flow, with a major shareholder, low growth opportunities, low share liquidity or low analyst coverage are more likely to go private.

Only a few studies include the whole public lifecycle and not only the time shortly before the announcement of the going private transaction into their empirical analysis. In order to be able to identify potential going private companies even more precise, future research areas are seen within the lifecycle context as well as in identifying further attributes which might characterize these companies. An early recognition allows investors to earn high returns within a short period of time and on the opposite side it forces companies to always reconsider the value of their costly public-to-private-and-back cycles.

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