

Voluntary Delisting in Italy

Are Italian Listed Firms Moved by Different Incentives?

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Abstract

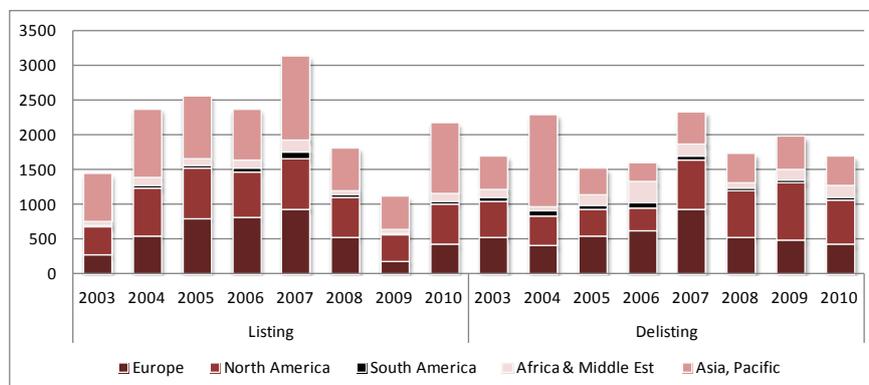
The purpose of the paper is to examine the incentives and motives of Italian voluntary delisting between 2001 and 2011. Focusing on a sample of 53 industrial companies, we empirically tested if incentives acknowledged by academic literature on the topic can be considered also for Italian listed companies. In particular, we tested for hypotheses related to Free Cash Flow, Leverage Potential, Decreasing Benefits of Being Listed, Limited Capital Market Efficiency and Dividend Payments. Results show that Italian firms are moved substantially by different incentives.

Keywords: Going Private, Delisting, Public to private, Buyout Offer Squeeze Out (BOSO), Governance

Introduction

Due to the financial crisis that started in 2008 and is still in progress, the delisting process has gained new interest from academicians and professionals. The number of firms going private is increasing in the current decade at a significant rate worldwide (Figure 1). This is one reason for a new wave of attention in corporate finance literature to this phenomenon, which has not been explored as often as going public.

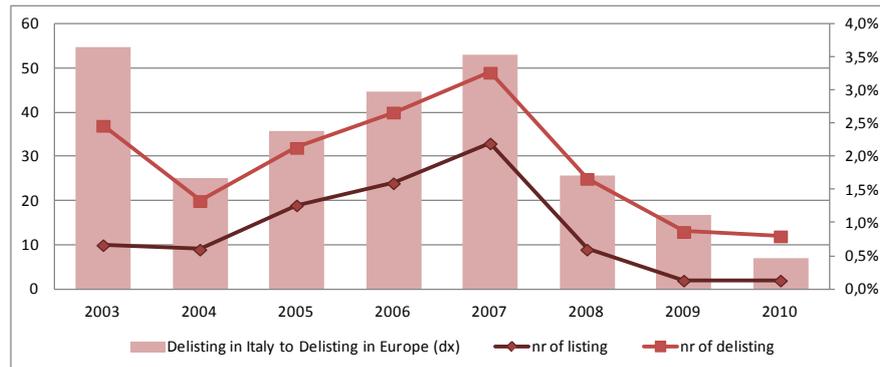
Figure 1: Worldwide phenomenon outlook - Listing and delisting, 2003-2010 (Total)



Source: World Exchange Federation Database (available at www.world-exchanges.org/statistics), our elaboration

The phenomenon of delisting, also known as a Public to Private transaction (hereafter PtP), assumes a particular relevance in Italy compared to other major European countries in terms of both the total number of delistings (Figure 2) and the smaller number of listed companies. The Italian stock market is quite different from other comparable markets for two main reasons related to the corporate governance characteristics of the listed company, such as the ownership structure of companies and the very high presence of listed financial institutions, such as banks and other financial intermediaries, in the stock market.

Figure 2: Italian market outlook - Listing and delisting, 2003-2010 (Total and %)



Source: World Exchange Federation Database (available at www.world-exchanges.org/statistics), our elaboration

PtP operation can be realized through different types of transactions. According to Macey, O'Hara and Pompilio (2008) it is possible to distinguish between:

- *Involuntary* delisting, when a firm has been merged/acquired by another firm or experiences financial distress;
- *Voluntary* delisting, (also known as *Regular delisting*, or *Going Private transactions*), when a listed firm voluntary revokes their listed status, also referred to below as BOSO operation.

Causes for *Involuntary* delisting are generally linked to corporate restructuring such as financial distress of the firm, operation of merger or acquisition by another firm, change of corporate form, integration into parent company, reverse stock split, share repurchases where the resulting company no longer meets the listing requirements, or prerequisites of the exchange (Copeland and Weston, 1988; Jansen and Klezmer, 2004). These cases are also known as *Cold delistings*.

In contrast, a *Voluntary* delisting is experienced by a listed company asking for complete revocation of its listing admission, or when the revocation of the listing admission is caused *ex officio* for non-compliance of issuing requirements.

When existing investors or controlling investors (such as private equity funds, family owners or historical owners) decide to go private through a buyout, voluntary delisting has been defined with the acronym BOSO (Buyout Offer with Squeeze Out) (Ventoruzzo, 2010). Two types of BOSO can be distinguished (Martinez and Serve, 2011): first, the squeeze out follows an acquisition by new owners; second, the historic shareholder, such as the family owner or the corporate owner, increases its control in order to have more power over squeeze out, minority investors. Therefore, only the voluntary delisting can properly be considered a PtP transaction.

The rationale, framework regulation, and form of all the mentioned practices of going private differs substantially, requiring isolating each type of transaction from another. In this study we focus on *regular delisting*.

This paper is organized as follows. In the first section we provide a review of the growing research on PtP transactions. We then define the hypotheses which will form the basis of our empirical analysis, the research design, and the main characteristics of the sample observed. Finally, we provide our main findings, the limits of the analysis, and suggestions for further research.

Literature review on incentives of going private

A wide range of topics on delisting practice has been investigated, focusing on different incentives for going private, predominantly focused on three main streams:

1. Traditional incentives
2. Agency theory
3. Financial structure

Some authors investigated the probability to go private, searching for *traditional incentives* such as an increase in listing costs and/or a decrease in listing benefits. For example, DeAngelo, DeAngelo and Rice (1984) demonstrated that, as larger firms are potentially more efficient at amortizing fixed listing costs, small firms would be more motivated to leave the public market when the direct costs of being listed tend to increase. Moreover, the authors provide a test for the *undervaluation* hypothesis, considered as an example of an opportunity cost that is generated by asymmetric information between managers/owners and stock market investors. Unlike investors, management has superior inside information on the expected distribution of future earnings. Therefore, undervaluation occurs when the market price of the share does not fully reflect the true value of the firm (DeAngelo, DeAngelo and Rice, 1984). Following this path, when the management knows that the share price is undervalued, they may decide to go private for strategic reasons, to extract private benefits and to avoid the opportunity costs of staying listed (Kim and Lyn, 1991). Considering *reduction in listing benefits*, Shah and Thakor (1988) tested for a reduction of ability to share risk with public investors. Observing deteriorating of ability to share risk with public investors, they found that, when a controlling shareholder has more complete information about the expected return of a firm's assets, public status is attractive because risk can be more efficiently shared with public investors, those eliminating idiosyncratic risk by maintaining well-diversified portfolios. On the contrary, a firm prefers to go private when specific risk (idiosyncratic risk) is low and being listed does not provide risk-sharing advantage.

Moreover, Mehran and Peristiani (2009) tested for a decrease in listing benefits in terms of *reduction of financial visibility*. Since market analysts can affect a firm in a number of ways, a negative relationship is assumed between the degree of financial visibility and the decision to go private. So that, firms with decreases in analyst coverage, institutional ownership and turnover (i.e. volume of transactions) were more likely to go private. In line with this issue, different authors investigated a possible relation between *reduction of liquidity* of stock and probability to go private. Major findings show that, since liquidity of share trading is a primary benefit of going public, if the stocks' liquidity benefit deteriorates, the firm will be more likely to go private (Amihud and Mendelson, 1998; Bolton and Von Thadden, 1998; Boot, Gopalan and Thakor, 2006).

A second stream of authors focused on *agency theory* motivations to explain PtP transactions. In particular, in Anglo Saxon countries, characterized by a central dilemma on "how to get the manager to act in the best interest of the shareholders" (Jensen, 1986), two main hypotheses have been tested to provide possible explanations for a PtP transaction via an operation of Leveraged Buy Out (LBO, a primary way of delisting in US and UK): *incentive realignment hypothesis* and *free cash flow hypothesis*. The rationale of *incentive*

realignment hypothesis is that delisting operation, leading to higher concentration in share capital as a consequence of share buy-back, boosts shareholder's wealth providing rewards for the managers, inducing them to act consistently with the interests of investors (Kaplan, 1989b). So that, the need to realign the incentives of the managers with those of the shareholders acts as an important factor in the delisting decision.

The second hypothesis (*free cash flow hypothesis*) originally postulated by Jensen (1986) states that management of a public company has incentive to keep any free cash flow in order to remain flexible and to avoid monitoring of bond holders and equity investors. Since the excess of "retained" free cash flow is a suboptimal allocation of capital, PtP transactions may realign incentives between management and shareholders through an increasing participation of both to equity. Furthermore, since a relevant free cash flow is attractive for LBO operation, it can represent a signal for expected PtP transaction. In this case in fact, excess cash-flow is used to reduce leverage and this helps to make managers more efficient in the use of resources.

Another issue under the agency theory stream followed by literature is related to the *ownership structure*. In Continental Europe, where ownership is more concentrated, showing a situation where the largest shareholder's stake is approximately twice as large as that in Anglo-Saxon LBO targets (Faccio and Lang, 2002), motivation of delisting is closely related to two other main issues:

- (i) Monitoring role
- (ii) Conflicts of interest between large and minority shareholders

Achleitner, Betzer, Goergen and Hinterramskogler (2013), observing firm's attractiveness for private equity investors, stated that it depends on the quality of the monitoring by the large shareholder: a better monitored firm is likely to be less attractive to private equity investors because the potential for value creation will be lower. Conversely, in a moderately monitored firm, the large shareholder will be more tempted to sell the firm via an LBO (Achleitner et al., 2013).

Observing a sample of PtP in UK, Weir, Laing and Wright (2005) and Renneboog, Simons and Wright (2007) stated that the presence of a stronger concentration of ownership implies closer monitoring by outside shareholders prior to the delisting. Thus, the firm is less likely to suffer from high agency costs stemming from conflicts of interest between shareholders and managers. So that, if the realignment hypothesis is considered as an explanation for European PtPs, realignment is not as strong a driving factor as it is in the Anglo-Saxon markets (Weir et al., 2005; Renneboog et al., 2007).

If high concentration smooth the probability to suffer from weak monitoring, large shareholders are likely to extract private benefits for control. Croci and Del Giudice (2012) observed that large shareholders, particularly in the case of ownership concentration in a single family, might be tempted to extract private benefits of control where minority investors are not in a strong bargaining position.

Martinez and Serve (2011) stated that the incentives of the controlling shareholder for delisting the firm can differ according to shareholder's identity. In particular, family owners aim to maximize their benefits, often including private benefits not available to minority investors. Moreover, families are often risk-averse (Bianco, Golinelli and Parigi., 2009). They will choose to exit the public market when facing threats to their control, as can be the case for smaller and undervalued firms, which are ideal acquisition targets. In this situation, family controlling shareholders may decide to close the capital of their firm to avoid a contest with minority shareholders who could sell their shares to a new owner, such as an institutional investor (Martinez and Serve, 2011). In synthesis, the control hypothesis is proposed as an alternative hypothesis for European PtP transactions via an LBO. This

hypothesis posits an inverse relationship between the shareholder's wealth gains from PtP transactions and the ownership concentration (Achleitner et al., 2013).

The third main issue investigated by authors is related to motivations to go private and *financial structure*. Because of a different use of leverage, with implications linked to tax benefits of debt financing in going private, hypotheses related to the financial structure of the delisted firm will differ strongly according to the type of PtP transaction. The tax benefit linked to high leverage is presented in many studies as a key driving factor in the decision to go private via an LBO.

Using a sample of American PtP transactions, Lehn and Poulsen (1989) observed that the tax benefit is a significant source of wealth gains because of tax deductibility of interest payments on corporate debt. The substantial increase in cash-flows creates a major tax shield and, after the transaction, firms pay almost no tax for a long period, which increases the shareholders' gains. This result has been confirmed for LBO operation, underlining that the magnitude of the tax benefit depends on the fiscal regime and the marginal tax rate the firm is subjected to (Renneboog et al., 2007).

Literature on PtP observed delisting via Buyout Squeeze Out operation (BOSO), another way to go private. A BOSO transaction does not require financial leverage as in LBOs that follow the acquisition of the firm by private equity investors. In the case of a voluntary BOSO, the first player for delisting is usually the historic controlling shareholder, a corporation or a family owner. As a consequence, the driving factors behind the delisting decision via a BOSO are likely to be different than for a delisting due to LBOs, M&As or financial distress (Martinez and Serve, 2011).

Using the financial distress model of Opler and Titman (1993) that considers hypotheses related to size, age, portfolio diversification, and growth opportunities to analyze a paired sample of UK companies, Weir et al. (2005) stated that the decision to go private is a trade-off between the potential gains from incentive realignment and the possible costs of financial distress, showing that delisted firms are smaller, younger, more diversified and with lower growth opportunities, as measured by the Tobin-Q ratio (the company's market value in relation to its total asset value).

Focusing on the *leverage and growth opportunities* hypothesis, recent contributions (Bharath and Dittmar, 2010; Martinez and Serve, 2011) underline that, if the firm no longer needs access to the equity market and is not financially constrained, the decision to go private could reveal its preference for alternative sources of financing such as debt, given that there are fewer benefits – and many costs – associated with being listed. Furthermore, if the firm no longer needs access to the equity market, another motivation for a PtP could be a lack of growth opportunities and investment projects.

In synthesis, a growing literature has been focused on the delisting phenomenon in the last decade, in particular considering Anglosaxon markets. Following a more recent stream of literature that considers the continental markets, our research tries to put light on the relationship between a set of driving factors and the probability to go private in Italian markets, empirically testing if incentives acknowledged by academic literature on the topic can be considered also for Italian listed companies.

Research Design

Developing Hypotheses

At this stage of research we focused on a limited number of hypotheses derived from literature that can better fit Italian PtP transactions of industrial listed firms.

In accordance with previous investigations of Michelsen and Klein (2011), Lehn and Poulsen (1989), Opler and Titman (1993), Rao, Waters and Payne (1995), and Renneboog et

al. (2007), we assume that the amount of *free cash flow* in a company should *positively* influence the probability of a PtP transaction. As mentioned above, a great amount of free cash flow has to be considered a form of suboptimal allocation of capital, and therefore it can be assumed an agency costs proxy since any excess cash should be disbursed to shareholders. Furthermore, this creates an incentive especially for BOSO and LBO operation. So that, considering previous investigations, for the *Free Cash Flow hypothesis* (H1), the probability to go private can be investigated considering a set of parameters, such as:

- *Cash Flow* (CF) as calculated by Michelsen and Klein (2011) represents the available cash holdings figure standardized by equity book value
- *Liquidity* (LIQUI) in the form expressed by Michelsen and Klein (2011) is defined as Net Working Capital on Total Assets and represents a proxy for firm's liquidity position
- *Tobin Q* as reported in Michelsen and Klein (2011) represents a proxy for growth potential in terms of present value of future cash flows as valued by external investors (Tobin, 1969)
- *Free Cash Flow* as defined in Lehn and Poulsen (1989), whose value has been standardized with firm book value, as suggested by Michelsen and Klein (2011)

In the light of the above theory and the indecisive findings of prior research, we assume that, relative to companies not going private, going-private firms have substantially greater free cash flow in the financial year prior to the PtP transaction (H1).

The second hypothesis is focused on *Capital Structure* (H2) and the possibility to increase *leverage*. In particular, we assume that a higher level of leverage is *negatively* related with PtP transactions. As stated by the literature, companies with a low level of leverage can be considered as targets in LBO operations, since there is an additional value creation potential for new shareholders by means of their capital structure. Furthermore, according to agency theory, a higher leverage, which can be considered as a proxy for control on performance by the management, puts the management under pressure in the use of cash, limiting their scope for discretionary spending, so that a higher level of leverage may reduce the incentive of delisting (Kim and Lyn, 1991; Rao et al., 1995; Zillmer, 2003). In order to measure the potential for further debt, over the leverage ratio, we adopted a proxy variable of firm risk profile. The variable used is the variance of the EBIT in the three financial years prior to the PtP transaction (Michelsen & Klein, 2011). Moreover, as suggested by Lehn and Poulsen (1989), we consider in H2 the level of *tax payment* in order to capture the incentive to going private related to a tax shield effect. In fact, firms with a higher level of tax shield can have the incentive to reduce tax payments increasing their level of financial debt.

Hypotheses on *Decreasing Benefits of Being Listed* (H3) are based on the corporate *Life Cycle Stage Theory* (Burghof & Schilling, 2003). It is assumed that mature companies marked by slow growth can be easily financed by internal capital generation or low cost debt sourced outside. Furthermore, they may benefit from an easier assets assessment which can be used as security for debt financing, thus reducing funding costs, so that we assume a *negative* relation between the probability of a PtP and a wide range of key variables grouped as follows:

- *Growth variables* such as Sales Growth Rate and Employment Growth Rate, whose lower level can be supposed in the years prior to PtP transaction
- *Size variables* such as Equity and Total Assets which take into account the different incidence of listing costs and the cost of signaling to external investors (DeAngelo et al., 1984; Rao et al., 1995; Michelsen and Klein, 2011)
- *Company's profitability variables*, such as EBITDA margin and ROE, which determine whether a low efficiency level and profitability could explain the need for restructuring and a delisting process (Kim and Lyn, 1991; Denis, 1992; Rawashdeh, 1994; Rao et al., 1995; Halpern, Kieschnick and Rotenberg, 1999; Michelsen and Klein, 2011).

All variables selected under hypothesis 3 are supposed to be negatively related with PtP transaction.

Hypothesis 4 (H4), referring to the *Limited Market Capital Efficiency*, is strictly related to hypothesis 3. The rationale is that secondary market pricing should reflect the value of the firm itself. Depending on the magnitude of information asymmetries between insiders and outsiders regarding the company's future profitability and productivity, insiders could benefit in set up share buy-back programs (Lehn and Poulsen, 1989; Kim and Lyn, 1991). In the case of *undervaluation*, a limited market capitalization - which has an adverse effect on secondary market liquidity - increases the internal (owners and management) and external investors' incentives to take the firm private to get the potential value. This effect can be particularly relevant for the Italian market since the majority of listed companies are basically highly concentrated in ownership, often owned by the founder's family (Kemper and Schiereck, 2002). Therefore, the set of key variables selected in order to test for hypothesis 4 (H4) includes Market Capitalization, Market to Book Ratio and Price to Sale multiple, all of them are assumed *negatively* related with the probability to go private.

The last hypothesis (H5) on *Dividend Payments* is strictly related with the perception of PtP transactions as rather stable companies that tend to operate in mature industries. According to Carroll, Zumpano and Elder (1989), eligible firms for PtP transaction are expected to pay relatively higher dividends because of a low need of investments. This argument is also consistent with hypothesis 2 (Leverage potential) since it is assumed that PtP firms are less engaged in debt repayment; less commitment in the repayment of debts can be translated into higher dividends to be paid. Moreover, the dividend policy can be considered a signal of conflicting interest between shareholders and management; while shareholders have a strong interest in dividend payments, the management wants to keep financial resources within the company to boost the investment plan (Rao et al., 1995). In this context, delisting operation reduces conflict between ownership and control, reducing pressure on short term profits and dividends in favor of long term strategies.

Table 1 - Summary of the hypotheses

Hypotesis	Key variables	Formulas	Assumed relationship to PtP probability
H1 Free Cash Flow	Cash Flow	$EBITDA_{t-1} / \text{Book Value of Equity}_{t-1}$	Positive
	Liquidity	$\text{Net Working Capital}_{t-1} / \text{Total Asset}_{t-1}$	
	Tobin Q	$(\text{Market Capitalization} + \text{Debt})_{t-1} / \text{Total Asset}_{t-1}$	
	Free Cash Flow	$(EBITDA - \text{Net Tax Expense} - \text{Total Dividend Paid})_{t-1} / \text{Equity}_{t-1}$	
H2 Leverage Potential	Leverage	$\text{Net Debt}_{t-1} / \text{Total Asset}_{t-1}$	Negative
	Variance in EBIT	$\text{Standard Deviation of EBIT}_{t-1 \text{ to } t-3} / \text{Mean of EBIT}_{t-1 \text{ to } t-3}$	
	Tax Paid	$\text{Net Tax Expense}_{t-1} / \text{Book Value of Equity}_{t-1}$	Positive
H3 Decreasing Benefits of Being Listed	Sales Growth Rate	$(\text{Sales}_{t-3} / \text{Sales}_{t-1}) - 1$	Negative
	Employment Growth Rate	$(\text{Number of Employees}_{t-3} / \text{Number of Employees}_{t-1}) - 1$	
	Market to Book Ratio	$\text{Market Capitalisation}_{t-1} / \text{Equity per share}_{t-1}$	
H4 Limited Capital Market Efficiency	Sale Multiple	$\text{Share Market Price at Fiscal Year End} / \text{Sales}_{t-1}$	
	Shareholder Profitability	$\text{Net Income}_{t-1} / \text{Book Value of Equity}_{t-1}$	
	Market Capitalisation	$\text{Number of Outstanding Shares} * \text{Share Price at Fiscal Year End}$	Negative
	EBITDA Margin	$EBITDA_{t-1} / \text{Sales}_{t-1}$	
	Equity	$\text{Book Value of Equity}_{t-1}$	
	Total Asset	$\text{Book Value of Asset}_{t-1}$	
H5 Dividend Payments	Dividend per Share	$\text{Total Dividend Paid}_{t-1} * \text{Number of Outstanding Share}_{t-1}$	
	Dividend Yield	$(\text{Dividend per Share}_{t-1} * 100) / \text{Share Price at Fiscal Year End}$	Positive
	Pay Out Ratio	$\text{Total Dividend Paid}_{t-1} / \text{Net Income}_{t-1}$	

t = fiscal year of delisting

EBITDA = Earnings Before Interest, Taxes, Depreciation and Amortization

EBIT = Earnings Before Interest and Taxes

The table shows the different hypothesis derived from the literature, the operationalization hypothesis through a set of variables and the assumed relationship between the value of the variables and the PTP probability

Table 1 shows the different hypotheses derived from the literature, the definition of each hypothesis through a set of variables and related formulas, the assumed relationship between the value of the variables and the PtP probability.

Data Collection

In order to test the set of hypotheses selected, we adopt a sample made up of 53 firms that have become private, which constitutes 55% of the industrial companies delisted in the period 2001-2011, and 87% of the total *voluntary* delisting - experienced by a listed company when it voluntarily moves to *go private* - in the same period considering the whole industrial sector.

For data collection for the period observed (2001-2011) we had to turn to different data sources. We mainly used the Bloomberg and Centro Studi Mediobanca databases. In addition, we used public information provided by the Borsa Italiana Stock Exchange Group and Consob, the main regulatory institution in Italian financial markets.

In order to analyze the characteristics of the PtP sample with the support of univariate and multivariate analysis, we select a Control sample of listed companies using the paired sample design methodology, following the Michelsen and Klein (2011) approach. In particular, the criteria for selection of the Control group are *industry* background and *size* (Lawrence, 1986; North, 2001), minimizing any sector or size effect in our analysis.

Table 2 – Industry distribution and breakdown of sample

Industry	PtP Sample		Control Sample		Total Sample	
	N	Share (%)	N	Share (%)	N	Share (%)
Industrial Goods & Services	16	30%	31	29%	47	30%
Personal & Household Goods	8	15%	24	23%	32	20%
Construction & Materials	4	8%	10	9%	14	9%
Technology	4	8%	6	6%	10	6%
Utilities	3	6%	6	6%	9	6%
Travel & Leisure	3	6%	5	5%	8	5%
Chemicals	3	6%	4	4%	7	4%
Real Estate	2	4%	4	4%	6	4%
Automobiles & Parts	2	4%	4	4%	6	4%
Health Care	2	4%	3	3%	5	3%
Retail	2	4%	2	2%	4	3%
Telecommunications	1	2%	2	2%	3	2%
Media	0	0%	3	3%	3	2%
Basic Resources	1	2%	1	1%	2	1%
Oil & Gas	0	0%	1	1%	1	1%
Food & Beverage	1	2%	0	0%	1	1%
Financial Services	1	2%	0	0%	1	1%
Samples	53	100%	106	100%	159	100%

Table 2 contains an aggregated overview of the industry distribution of PtP sample, Control sample and the whole sample considered in the analysis. The companies were classified adopting the Bloomberg classification system, according to their core business. The industry breakdown of PtP sample shows a broad spectrum of industries with relevant concentration in the *Industrial Goods and Services* sector.

Table 3 – Descriptive statistics

Variables	PtP Sample				Control Sample			
	Mean	Median	SD	N	Mean	Median	SD	N
CF	0,51	0,26	1,48	53	0,19	0,21	0,39	106
LIQUI	0,17	0,15	0,20	52	0,15	0,13	0,21	106
PROXYQ	0,82	0,76	0,45	53	1,53	0,85	3,49	106
FCF	0,45	0,21	1,44	53	0,52	0,15	7,31	106
LEVERAGE	162,77	45,39	438,94	53	119,71	56,31	339,44	106
VARIA	1,85	0,17	14,66	53	0,68	0,21	4,08	106
TAX	0,04	0,05	0,12	53	0,16	0,05	0,60	106
SALEGR	0,58	0,14	1,90	53	0,15	0,08	0,57	105
EMPLOYGR	0,03	0,02	0,36	53	0,24	0,10	0,64	106
PxBV	2,02	1,60	1,51	53	2,08	1,59	1,85	106
PxSALES	11,57	0,84	74,93	53	1,48	0,78	2,02	106
ROE	0,36	6,67	34,73	53	0,87	8,01	33,80	106
MKTCAP ⁽¹⁾	402.883	194.433	531.187	53	928.508	211.044	2.522.516	106
MARGIN	0,37	0,12	1,37	53	0,29	0,13	1,09	106
EQUITY ⁽¹⁾	262.485	135.140	304.047	53	670.352	162.981	3.193.607	106
ASSETS ⁽¹⁾	926.324	448.400	1.607.773	53	1.868.503	427.115	8.506.092	106
DIVY	0,84	-	1,38	52	1,84	1,29	2,20	106
DPS	0,05	-	0,10	53	0,14	0,05	0,24	106
PAY OUT	0,09	-	0,70	53	0,38	0,22	1,33	106

Looking at the main statistics of selected variables (Table 3) for the two samples, we can state that the PtP sample is made up of smaller firms showing, on average, Total Assets of €926 million (ASSETS) and a lower level of capitalization (MKTCAP), compared to the Control sample. Furthermore, the PtP sample denotes lower performances expressed by annual ROE and variability in operating profitability as shown by EBIT variance (VARIA). This could confirm our assumption that the PtP transaction is undertaken by firms with low or negative profitability; nevertheless, the mean value of VARIA of the PtP sample underlines a non-stability of operating profit, increasing the risk of any additional debt financing, thereby reducing incentives for LBO operations.

A potential systematic undervaluation of the PtP transactions can be explained by looking at the price to sale multiple (PxSALES) and market capitalization (MKTCAP), even if we observe a generalized low performance on the capital market of the full sample considered. Since the value of the price to book value multiple (PxBV), which measures the external investors valuation of the firm, for the two samples is quite similar, the multiple is not able to signal any PtP potential systematic undervaluation. However, considering descriptive statistics, it seems that we would not expect strong evidence in testing the hypothesis of limited capital market efficiency.

In order to test hypotheses we ran univariate analysis and multivariate analysis using a logit model by maximum-likelihood approach (Lehn and Poulsen, 1989; Michelsen and Klein, 2011) aimed at outlining explanatory variables of PtP transactions.

Empirical results

The observed sample's characteristics and differences were analyzed by means of univariate test statistics. Table 4 shows the results of the Wilcoxon Rank-Sum Test on the differences between the PtP sample and the Control sample. This test allows for better control of potential outliers since it relies on the sample median instead of the mean. Furthermore, a non-parametric test statistics is better suited for our study, as the assumption of the variables' normal distribution has to be rejected.

Table 4 – Univariate Analysis, Wilcoxon Rank Sum Test

Hypothesis	Variables	H ₀ , H ₁	W	P-value	Difference in location		Significance level	
					Wilcoxon Test	Relationship		
					Assumed	Found		
H1 Free Cash Flow	CF	H ₀ : CF _{PtPS} = CF _{CS} H ₁ : CF _{PtPS} > CF _{CS}	3131	0.12	-	0.0400	No	
	LIQUI	H ₀ : LIQUY _{PtPS} = LIQUY _{CS} H ₁ : LIQUY _{PtPS} > LIQUY _{CS}	2878	0.40	-	0.0100	No	
	PROXYQ	H ₀ : PROXYQ _{PtPS} = PROXYQ _{CS} H ₁ : PROXYQ _{PtPS} > PROXYQ _{CS}	2437	0.91	-	0.0900	Negative	90%
	FCF	H ₀ : FCF _{PtPS} = FCF _{CS} H ₁ : FCF _{PtPS} > FCF _{CS}	3251	0.05	-	0.0400	Positive	95%
H2 Leverage Potential	LEVERAGE	H ₀ : LEVERAGE _{PtPS} = LEVERAGE _{CS} H ₁ : LEVERAGE _{PtPS} < LEVERAGE _{CS}	2887	0.61	-	3.5058	Negative	No
	VARIA	H ₀ : VARIA _{PtPS} = VARIA _{CS} H ₁ : VARIA _{PtPS} < VARIA _{CS}	2605	0.23	-	0.0300	No	
	TAX	H ₀ : TAX _{PtPS} = TAX _{CS} H ₁ : TAX _{PtPS} > TAX _{CS}	2548	0.83	-	0.0100	Positive	No
H3 Decreasing Benefits of Being Listed	SALEGR	H ₀ : SALEGR _{PtPS} = SALEGR _{CS} H ₁ : SALEGR _{PtPS} < SALEGR _{CS}	3302	0.96	-	0.1101	Positive	95%
	EMPLOYGR	H ₀ : EMPLOYGR _{PtPS} = EMPLOYGR _{CS} H ₁ : EMPLOYGR _{PtPS} < EMPLOYGR _{CS}	2320	0.04	-	0.0900	Negative	95%
	ROE	H ₀ : ROE _{PtPS} = ROE _{CS} H ₁ : ROE _{PtPS} < ROE _{CS}	2604	0.23	-	1.5500	Negative	No
	EQUITY	H ₀ : EQUITY _{PtPS} = EQUITY _{CS} H ₁ : EQUITY _{PtPS} < EQUITY _{CS}	2699	0.34	-	8,628.9490	No	
	ASSETS	H ₀ : ASSETS _{PtPS} = ASSETS _{CS} H ₁ : ASSETS _{PtPS} < ASSETS _{CS}	2850	0.56	-	8,208.9130	No	
	MARGIN	H ₀ : MARGIN _{PtPS} = MARGIN _{CS} H ₁ : MARGIN _{PtPS} < MARGIN _{CS}	2794.5	0.48	-	0.0001	No	
H4 Limited Capital Market Efficiency	PxBV	H ₀ : PxBV _{PtPS} = PxBV _{CS} H ₁ : PxBV _{PtPS} < PxBV _{CS}	2941	0.69	-	0.0900	No	
	PxSALES	H ₀ : PxSALES _{PtPS} = PxSALES _{CS} H ₁ : PxSALES _{PtPS} < PxSALES _{CS}	2934	0.68	-	0.0400	Negative	No
	MKTCAP	H ₀ : MKTCAP _{PtPS} = MKTCAP _{CS} H ₁ : MKTCAP _{PtPS} < MKTCAP _{CS}	2655	0.29	-	15,678.7700	No	
H5 Dividend Payments	DIVY	H ₀ : DIVY _{PtPS} = DIVY _{CS} H ₁ : DIVY _{PtPS} > DIVY _{CS}	1549	0.15	-	0.0000	Negative	99%
	DPS	H ₀ : DPS _{PtPS} = DPS _{CS} H ₁ : DPS _{PtPS} > DPS _{CS}	2002	1.00	-	0.0200	Positive	No
	PAY OUT	H ₀ : PAY OUT _{PtPS} = PAY OUT _{CS} H ₁ : PAY OUT _{PtPS} > PAY OUT _{CS}	2354	0.96	-	0.0001	Negative	95%

We found some evidence for the postulated *Free Cash Flow hypothesis* (H1); in particular, free cash flow (FCF) is significantly greater for the PtP sample. Results show less evidence for the other variables related to H1 (CF and LIQUI), whose relevance is not statistically confirmed by the Wilcoxon test. Considering the variable PROXYQ, we tested for a positive relationship but we found evidence of a statistically significant, but negative, relationship with the FCF hypothesis. Therefore, hypothesis H1 cannot be fully rejected and/or accepted at this stage of the analysis.

The test statistics show that the PtP sample is marked by slow growth in the number of employees (EMPLOYGR), partially confirming hypothesis H3 (*Decreasing Benefits of Being Listed*). The development of the “work force” clearly shows that these companies were no longer growing. This also can be explained by considering industry analysis, as shown in Table 3. The sample shows a high heterogeneity in sales growth (SALEGR) compared with the Control sample, as confirmed by standard deviation; nevertheless, we found no statistical evidence on sales assumption. The other variables selected to test for hypothesis H4 reveal no differences between the PtP and Control samples.

Contrary to our assumptions, we did not find evidence in favor of the *Leverage Potential* (H2) and the *Limited Capital Market Efficiency* (H4) hypotheses. In particular,

results show that no difference in capital structure can be observed between the PtP sample and the Control sample, so that, companies going private are not supposed to take advantage of boosting leverage to create value for the post-transaction shareholders. Similar considerations can be stated for assumed undervaluation of PtP companies.

Regarding the *Dividend Payments Hypothesis* (H5), no evidence was found from univariate analysis to confirm that the Control sample shows a significantly lower dividend per share and payout level; the PtP sample often reveals no payment in dividend in the year before going private.

Since all other variables do not show any systematic differences as stated by the Wilcoxon rank-sum test (Table 4), the overall PtP sample is representative of our subsequent multivariate analysis. We decided to estimate a logit model by maximum-likelihood comparable to the one employed in previous studies (Lehn & Poulsen, 1989; Weir et al., 2005; Michelsen & Klein, 2011).

The dependent variable is equal to “zero” if the company remains public over the sampling period and “one” if the company goes private. We have estimated different model specifications. The first model allows us to test all sets of postulated hypotheses. The other models vary in respect to the inclusion of the variables in order to look for models with the highest overall significance. Table 5 shows the logit maximum-likelihood estimation of the determinants of a going private decision performed using the stepwise method.

Table 5 – Multivariate analysis: results and diagnostics for alternative specifications of the Logit model

Variables	Model 1		Model 2		Model 3		Model 4		Model 5	
	β	t	β	t	β	t	β	t	β	t
CF	1.766	1.105	1.548	0.874 *	1.3050	0.8480	1.1360	0.7490	1.1670	0.7110 *
LIQUI	0.613	1.045								
PROXYQ	-0.381	0.417	-0.383	0.302	-0.3690	0.2830	-0.2930	0.2630		
FCF	-0.181	0.207								
LEVERAGE	0.002	0.002	0.001	0.002						
VARIA	-0.053	0.065	-0.051	0.063						
TAX	-3.687	2.869	-3.096	2.520	-3.6940	2.5420	-3.6060	2.4290	-4.2140	2.3610 *
SALEGR	0.849	0.456 *	0.880	0.449 **	0.9800	0.4450 **	0.9610	0.4330 **	0.9310	0.4300 **
EMPLOYGR	-1.272	0.558 **	-1.276	0.540 **	-1.3260	0.5360 **	-1.2620	0.5230 **	-1.2610	0.5250 **
P_BV	0.063	0.194								
P_SALE	0.007	0.016	0.007	0.016	0.0070	0.0150				
ROE	0.003	0.011								
MKTCAP	0.000	0.000								
MARGIN	0.013	0.199								
EQUITY	0.000	0.000	0.000	0.000	0.0000	0.0000				
ASSET	0.000	0.000	0.000	0.000	0.0000	0.0000				
DIVY	-0.270	0.176	-0.245	0.171	-0.3550	0.1400 **	-0.3550	0.1360 *	-0.3650	0.1370 ***
DPS	-1.232	1.727	-1.249	1.747						
PAY_OUT	-0.164	0.241	-0.184	0.244						
Constant	-0.299	0.494	-0.085	0.403	0.0510	0.3640	-0.0950	0.3310	-0.3340	0.2660
Pseudo R2	0.333		0.322		0.3040		0.2810		0.2690	
Chi ²	42.576		41.006		38.8620		35.1000		33.3840	
Prob	0.001		0.000		0.0000		0.0000		0.0000	
-2 Log Likelihood	154.601		156.171		158.8160		162.0780		163.7930	

* Significance at 10%; ** Significance at 5%; *** Significance at 1%

The table shows the Logit Maximum-Likelihood Estimation of the determinants of a delisting decision. The dependent variable equals “1” for delisted companies and “0” for the matched Control sample. The *Pseudo R*² reported is the Cox and Snell *R*² based on likelihood indicating the variation in the dependent variable explained by the logistic model. The asymptotic *Chi* 2 tests the hypothesis that all parameters in the model are simultaneously equal to 0 while Prob denotes the significance level of the *Chi* 2 statistic.

In a multivariate context, the statistical significance of the variables in our univariate analysis changes partially. In Model 1 we tested all variables at once allowing us to test all

our postulated hypotheses. It shows that a greater sales growth and a lower employment growth have a positive effect on the PtP probability. Excluding progressively explanatory variables which proved not significant in the univariate analysis and those revealing multicollinearity, we tried to improve the overall goodness-of-fit of the logit model. Nevertheless, it shows just a few differences between model specifications and results achieved in the previously reported Wilcoxon test analysis.

In the Model 2, we excluded all H4 variables except the P_SALES variable, since they do not provide any incremental information to the model specification. Moreover, the same variables were not significant also in the univariate analysis. We also excluded variables related to H3, MARGIN and ROE, and variables related to H1, LIQUI and FCF, because of a lack of significance in multivariate analysis. In Model 3 only the TAX variable of H2 and DIVY from H5 have been retained. In Model 4 we exclude the last variable under the H4 hypothesis (P_SALE) and the EQUITY and ASSET variables related to H3.

Considering Model 5, that maximizes the level of likelihood, only cash flow variable (CF) under H1 is significant and in line with the assumed relationship. On the contrary, the other selected key variables under H1 are not statistically significant; furthermore, the free cash flow variable and the Tobin's Q measure show the opposite sign in the model estimation. We therefore have to partially dismiss the free cash flow hypothesis (H1), as found in previous research conducted by Zillmer (2003) and Michelsen and Klein (2011).

Considering our assumptions, and in line with univariate analysis, the leverage ratio (LEVERAGE) shows the opposite sign and no significance in explanatory models. This underlines that delisted firms have not been considered attractive for external take over (namely in the form of LBO). Similar considerations can be made for the variance in operating profit, expressed by variable VARIA. Under H2, only the tax payment level (TAX) seems to be significant to explain a PtP transaction (Model 5); nevertheless, this evidence is not in line with previous studies in the US - where the tax level paid (TAX) by the firms is higher prior to the PTP transactions - since the results reveal a negative relationship. Although the leverage potential hypothesis is consistent with free cash flow variables, we have to reject H2 as assumed in main literature.

Regarding the hypothesis of *Decreasing Benefits of Being Listed* (H3), only SALEGR and EMPLOYGR can be considered as explanatory variables of the probability of going private; as recorded in the univariate analysis, the SALESGR variable shows significance and a positive relation to PtP transactions. Therefore, we have to refuse H3 as formulated in the life cycle theory.

We also have to dismiss the hypothesis on *Limited Capital Market Efficiency* (H4) since the results of multivariate analysis do not show a systematic undervaluation of firms going private.

Finally, the assumptions of H5 regarding PtP transactions generating a higher payout in the form of dividends cannot be confirmed. In fact, the set of variables selected for the *Dividend Payments* hypothesis have a negative relation with the probability of PtP and only the dividend yield is significant (Model 5).

Conclusions and suggestions for future research

The aim of this study was to examine the characteristics of a sample of firms involved in PtP transactions in Italy and the rationale behind such operation. For this purpose, we analyzed a sample of 53 companies for the period 2001-2011 with the help of univariate and multivariate test statistics.

The following table provides an overview of the main findings of our studies.

Table 6 – Overview of findings

Hypotheses	Key variables	Assumed relationship	Observed relationship univariate	Observed relationship multivariate
<i>H1 Free Cash Flow</i>	Cash Flow		N.S.	Positive
	Liquidity	Positive	N.S.	N.S.
	Tobin Q		Negative	N.S.
	Free Cash Flow		Positive	N.S.
<i>H2 Leverage Potential</i>	Leverage	Negative	N.S.	N.S.
	Variance in EBIT		N.S.	N.S.
	Tax Paid	Positive	N.S.	Negative
	Sales Growth Rate		Positive	Positive
<i>H3 Decreasing Benefits of Being Listed</i>	Employment Growth Rate		Negative	Negative
	Shareholder Profitability	Negative	N.S.	N.S.
	Equity		N.S.	N.S.
	Total Asset		N.S.	N.S.
<i>H4 Limited Capital Market</i>	EBITDA Margin		N.S.	N.S.
	Market to Book Ratio		N.S.	N.S.
	Sale Multiple	Negative	N.S.	N.S.
	Market Capitalisation		N.S.	N.S.
<i>H5 Dividend Payments</i>	Dividend Yield		N.S.	Negative
	Dividend per Share	Positive	Negative	N.S.
	Pay Out Ratio		Negative	N.S.

N.S. = Not Significant

Our findings show that Italian going private firms are relatively small in size and mainly operating in mature sectors (see Table 2) with a slow growth expressed in terms of employment growth rate. (See Table 3) Furthermore, PtP firms are marked by high capital needs since they show higher leverage compared to the Control sample.

Our results differ significantly from previous investigations conducted mainly in Anglo-Saxon markets (US, UK) and secondly in Continental Europe markets. We did not find any significance in major hypotheses tested by main literature on the topic, thus allowing us to affirm that Italian firms have been driven by different incentives to go private.

In particular, considering the free cash flow hypothesis linked to Agency Theory (Jensen, 1989), even if our results show some evidence of a positive relation between excess annual cash flow and going private operation, it seems to be less strong than in Anglo-Saxon markets and presents some similarities to previous studies conducted in Continental markets such as Germany (Michelsen and Klein, 2011). Moreover, hypotheses on leverage potential are less consistent for the Italian experience. This can be linked to the generalized high level of debt of firms in Italy. The Italian sample is also marked by a low profitability and a policy of retaining earnings.

We can conclude that initiators of public to private transactions are not driven by taking advantage of using unused liquidity post PtP or in boosting leverage through LBO. On the contrary, since we don't prove the undervaluation hypothesis - that affirms that a "going dark" decision can be assumed to avoid a hostile takeover by competitors – our evidence supports that a PtP transaction has to be interpreted as a need for public companies to refine their capital structures and business portfolios. In addition, this study underlines the deficiency of traditional theory to generalize the rationale to go private. This is mainly due to two considerations. First, theories have been basically developed taking into account the peculiarities of the Anglo-Saxon stock exchange markets. Second, stock markets changed greatly in the last decade in terms of a large range of aspects such as mechanism of functioning, cost of listing, rules for listing, going private, and so on. Thus, results obtained for the Italian market, in line with similar conclusion of Michelsen and Klein (2011) on the

German market, underline that a deeper analysis on structural factors and peculiarities has to be taken into account to analyze the motives and rationale of PtP transactions in Continental Europe. This evidence can be considered a proof for further research on going private in the specific geographical area. In particular, focusing on the Italian markets, a deeper analysis can be addressed to investigate on potential relationships between PtP operations, type of investors and ownership structures.

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English Abstract

Voluntary Delisting in Italy

Are Italian Listed Firms Moved by Different Incentives?

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Abstract

The purpose of the paper is to examine the incentives and motives of Italian voluntary delisting between 2001 and 2011. Focusing on a sample of 53 industrial companies, we empirically tested if incentives acknowledged by academic literature on the topic can be considered also for Italian listed companies. In particular, we tested for hypotheses related to Free Cash Flow, Leverage Potential, Decreasing Benefits of Being Listed, Limited Capital Market Efficiency and Dividend Payments. Results show that Italian firms are moved substantially by different incentives.

Keywords: Going Private, Delisting, Public to private, Buyout Offer Squeeze Out (BOSO), Governance

French Abstract*
Voluntary Delisting in Italy
Are Italian Listed Firms Moved by Different Incentives?

La dé-cotation volontaire en Italie

Sont les entreprises italiennes dé-cotées pour des incitation différentes ?

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Résumé

Le but de cette étude est d'examiner les incitations et les motifs de la dé-cotation volontaire en Italie, entre 2001 et 2011. Partant d'un échantillon de 53 entreprises industrielles, nous avons testé empiriquement si les incitations, reconnues par la littérature académique, peuvent être prises en compte pour les entreprises italiennes dé-cotées. En particulier, nous avons testé des hypothèses, liées aux flux de trésorerie, aux leviers potentiels, aux avantages décroissants d'être cotés, à l'efficience limitée du marché des capitaux et aux paiements des dividendes. Les résultats montrent que les entreprises italiennes sont dé-cotées pour des motivations sensiblement différentes.

Mots-clés: Privatisation, radiation, dé-cotation, public- privé, la gouvernance

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German Abstract*
Voluntary Delisting in Italy:
Are Italian Listed Firms Moved by Different Incentives?

Freiwilliges Delisting in Italien:

Werden italienische Unternehmen von unterschiedlichen Anreizen bewegt?

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Abstarct

Das Ziel dieser Arbeit ist es, die Anreize und Motive der freiwilligen Börsenabgänge in Italien zwischen 2001 und 2011 zu untersuchen. Der Fokus liegt dabei auf einer Stichprobe von 53 Industrieunternehmen, wobei wir empirisch getestet haben, ob die von der wissenschaftlichen Literatur anerkannten Anreize zu diesem Thema auch bei italienischen, börsennotierten Unternehmen in Betracht kommen. Insbesondere haben wir die Hypothesen bezüglich des Free Cash Flows, des Leverage Potenzials, der abnehmenden Vorteile bei börsennotierten Unternehmen, der begrenzten Kapitalmarkteffizienz und der Dividendenzahlungen analysiert. Die Ergebnisse zeigen, dass die italienischen Unternehmen im Wesentlichen von unterschiedlichen Anreizen bewegt werden.

Keywords: Going Public, Börsenabgang, öffentlich zu privat, Buyout Offer Squeeze Out (BOSO), Governance

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Spanish Abstract*
Voluntary Delisting in Italy:
Are Italian Listed Firms Moved by Different Incentives?

Retirada voluntaria en Italia

¿Se Mueven por Incentivos Diferentes las Empresas Italianas que
Cotizan en Bolsa?

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Resumen

El propósito del trabajo es examinar los incentivos y motivos de exclusión voluntaria de cotización de algunas empresas italianas entre 2001 y 2011. Centrándose en una muestra de 53 empresas industriales, testamos empíricamente si los incentivos reconocidos por la literatura académica sobre el tema pueden ser considerados también para las empresas italianas que cotizan en bolsa. En particular, testamos hipótesis relacionadas con el Flujo de Caja Libre, el Apalancamiento Potencial, la Disminución de Beneficios por Cotizar, Eficiencia Limitada del Mercado de Capital y Pago de Dividendos. Los resultados muestran que las empresas italianas se mueven sustancialmente por incentivos diferentes.

Palabras Clave: Privatizar, Salir de Cotización, de Público a Privado, Oferta de Compra Forzada (BOSO), Gobernanza

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Arabic Abstract*
Voluntary Delisting in Italy:
Are Italian Listed Firms Moved by Different Incentives?

انخفاض التطوعية في ايطاليا:
هل الشركات الايطالية المدرجة تعمل على اساس حوافز
مختلفة؟

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الملخص

[تهدف هذه الدراسة الى اختبار حوافز و دوافع انخفاض التطوعية الايطالية بين عامين 2001 و 2011. من خلال التركيز على عينة مكونة من 53 شركة صناعية، تم القيام باختبار تجريبي لمعرفة فيما اذا يمكن اعتبار و استخدام الحوافز المعترف بها في الآداب الأكاديمية على الشركات المدرجة الايطالية. على وجه الخصوص، نحن اختبرنا الفرضيات المتعلقة بالتدفق النقدي، الرافعة المالية المحتملة، انخفاض فوائد الانضمام الى المجموعة المدرجة، كفاءة سوق المال المحدودة و أرباح المدفوعات. بينت النتائج أن الشركات الايطالية تعمل حسب حوافز مختلفة.]

الكلمات الرئيسية: الخصخصة، شطب، العام الى الخاص، استحواذ العرض (BOSO)، الحاكمة

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Italian Abstract*
Voluntary Delisting in Italy:
Are Italian Listed Firms Moved by Different Incentives?

Delisting volontario in Italia: le aziende italiane sono mosse da incentivi diversi?

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Abstract

Lo scopo di questa ricerca è quello di esaminare gli incentivi e le ragioni sottostanti la decisione del delisting volontario. Attraverso l'analisi di un campione di 53 aziende industriali delistate fra il 2001 e il 2011, si è inteso verificare se gli incentivi individuati nella letteratura tradizionale trovano conferma nella realtà delle aziende italiane quotate. In particolare, abbiamo testato le ipotesi riguardanti il Free Cash Flow, la struttura finanziaria dell'impresa, il decremento dei benefici legati alla quotazione, la limitata efficienza del mercato dei capitali e le politiche dei dividendi. I risultati mostrano che le aziende italiane sono spinte al delisting da incentivi tendenzialmente difformi rispetto ad altre realtà internazionali.

Keywords: privatizzare, delisting, ranslated, dal pubblico al privato, Buyout Offer Squeeze Out (BOSO), governace

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