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The sources of shareholder wealth gains from going private transactions: The role of controlling shareholders*

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Abstract

The present study investigates the sources of shareholder wealth gains –as measured by cumulative abnormal returns and premiums– from going private transactions (GPTs). Using data for 314 GPTs from 18 Western European countries, we find that the announcements of GPTs generate a cumulative average abnormal return of about 22% and that pre-transaction shareholders on average receive a raw premium of about 36%. We further find that these shareholder wealth gains increase with the degree of separation of cash-flow and control rights of the pre-transaction ultimate owner and decrease with its ownership interests and with the presence of a second large shareholder. Taken together, these findings support the view that GPTs are expected to mitigate the inefficiencies induced by pre-transaction agency problems between controlling and minority shareholders. Thus, shareholder wealth gains from GPTs reflect the potential additional value that will be created under private ownership.

Keywords: Going private; Wealth gains; Corporate governance; Private benefits of control

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