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CHANGING TIMES? GOING FROM PUBLIC TO PRIVATE: EVIDENCE FROM THE US RESTAURANT INDUSTRY

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ABSTRACT

In recent years there has been a dissent among executives of publicly-traded restaurant companies because of regulations imposed by the Sarbanes-Oxley Act of 2002. Executives believe that capital markets seem to undervalue restaurant firms. Mergerstat reports on 'going-private transactions' have risen steadily. The motivation of this paper is to report the effect of "going private" announcements on the shareholders' wealth of the target restaurant firms. A total of 19 publicly traded restaurant firms which made "going private announcement" in the 1995-2004 period were included in this study. Event study analysis was used to determine whether there is an "abnormal" stock price effect associated with "going private" announcements within the restaurant industry. Event study guidelines suggested by MacKinlay (1997) were used. Research findings indicate that on the day of the announcement (t,0) shareholders of restaurant firms that were to be taken private enjoyed a highly positive abnormal return of 16.80%. Overall, the restaurant portfolio average abnormal return (22.06%) was higher than the figures reported in the previous studies of Lehn and Poulsen (1989) and Aharony and Barniv (2004). Results also showed that the bid premium offered to target firms by their private acquirers remained steady.

References

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