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A TAKEOVER CASE FROM TURKEY'S PRIVATIZATION AFFORDS OF THE STATE OWNED ENTERPRISES: TWO-STEP LEVERAGED BUYOUT TRANSACTION

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ABSTRACT

This study aims to develop a real business life case on the two-step leveraged buyout transaction. Also, it is to share the case with the audience that might be globally related since the financial system has been global. And, consequently the language of financial reporting has been becoming uniquely global, too. In emerging economies, leveraged buyout transactions might be interesting for some stakeholders. In Turkey, one of the big corporate restructuring projects was to sell the majority shares of the Petrol Ofisi (The PO) that has been the leading oil distribution company. The PO privatization project and its consequences were gathered to develop the case. Since the PO was not only state-owned company during the privatization process, 7 % of the shares of the PO were publicly held in the Istanbul Stock Exchange (ISE). In the first step, a shell company acquired the PO, in the second step; the shell company and the PO (subsidiary company) were merged in the shell company. After the merging process, the name of the company stated as the PO again since it has had a good reputation in the local market. The company's story which is discussed in this study certainly does not resemble a typical privatization or a common merging transaction.

Takeover, leveraged buyout, privatization, financial reporting

JEL code: M41, G34, G38

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INTRODUCTION

In an LBO transaction, a company is acquired by a specialized investor company using a relatively small portion of equity and a relatively large portion of outside debt financing. The leveraged buyout investor companies today refer to themselves (and are generally referred to) as private equity firms. In a typical leveraged buyout transaction, the private equity firm buys majority control of an existing or mature firm (Kaplan, 2008). LBOs are typically characterized by debt to total capital ratios 85 %, significant equity ownership by management, and (in the case of public company LBOs) premiums to public shareholders exceeding 40 % (Kaplan, 1991).

LBOs come in many different forms, ranging from management buyouts of small and privately held companies to hostile takeovers of large and publicly held companies by buyout firms and corporate raiders. Such LBOs are typically accomplished as two-step transactions consisting of a front-end tender offer and a back-end merger between the target company and the raider's acquisition subsidiary, a special purpose vehicle founded for the purpose of purchasing the target shares and issuing the debt. The back-end merger is commonly called "freezeout," "squeezeout," or "cashout" merger. The fact that the acquisition subsidiary is highly indebted dampens the increase in net worth that would otherwise result from the implementation of the raider's business plan, and thus–in a fashion similar to the Grossman-Hart dilution mechanism–the incentives for target shareholders to become minority shareholders in the raider-controlled firm. A typical LBO transaction may look as follows: To provide a vehicle with limited liability, the raider organizes a new, assetless company–often called "shell company" or "acquisition subsidiary". The acquisition subsidiary obtains a loan commitment from one or more lenders by pledging the assets and cash flows of the target firm as security for its debt. To provide the lender(s) with a legal recourse to the pledged assets, the loan agreement stipulates that the acquisition subsidiary be subsequently merged with the target firm (Müller & Panunzi, 2004).

In the market for corporate control, leveraged buyouts have become increasingly popular in the world. Many observers, speculating about the causes of this recent trend, have expressed concern about the potential problems arising from such activity. Implicit in many casual discussions is the assumption that leveraged buyouts are merely some type of cosmetic surgery (Garfinkel, 1989).

When a public company is subject to an LBO, it is said to be going private in a public-to-private transaction, because the equity of the firm has been purchased by a small group of investors and is no longer publicly traded. Academic research generally suggests that recent private equity sponsored LBOs have had a positive impact on the financial performance of the acquired firms. However, it is difficult to determine whether this association resulted from actions taken by the private equity firms or other factors. Moreover, only time will tell how well the highly leveraged transactions of recent years will perform during the turbulence of the global slowdown that began in 2008 (DePamphilis, 2008).

The purpose of this study is that the leveraged buyout (LBO) issue is brought to light by a real business life case. In emerging economies, this study may also be drawing attention for the stakeholders who deal with corporate restructuring. This LBO case was the first one realized as one of Turkey's privatization affords of the state owned enterprises even it was a publicly listed entity in the Istanbul Stock Exchange. In this study, rather than economic or market aspects, only importance of financial reporting regarding the LBO transaction is emphasized for financial statement users.

The remainder of this study has been organized as follows: In section 2, research methodology of the study is described. In section 3, the literature review of subjects covered in the study is provided. In sections 4 and 5, privatization and privatization process in Turkey are described. Section 6 presents the case Petrol Ofisi A.Ş. (Inc), and section 7 concludes.

1. RESEARCH METHODOLOGY

This is a descriptive study that includes a case developed about two-step LBO transaction from Turkey. The case study can be used as a qualitative research since it is based upon a business transaction. The PO privatization project and its consequences were gathered to develop this paper. Only part of the financial reporting aspects was taken out. For the case study, the financial statements and their disclosures of the PO published both before and after privatization process were gathered. Also other information such as published news and announcements of the authorities on the subject was scanned where possible. Then all the information was examined.

2. LITERATURE REVIEW

Many of the benefits in going-private and leveraged buyout transactions seem to be due to the control function of debt. These transactions are creating a new organizational form that competes successfully with the open corporate form because of advantages in controlling the agency costs of free cash flow. Desirable leveraged buyout candidates are frequently firms or divisions of larger firms that have stable business histories, low growth prospects and high potential for generating cash flows are likely to be high (Jensen, 1988).

An understanding of LBO firms is important both because of the scale of their operations and in light of their role as a disciplinary force in public markets (Ivashina & Kovner, 2010). The realization that LBOs can generate such enormous wealth for corporate insiders has made them a major part of the current business climate. In addition to the increased productivity and efficiency that is said to result when owners run their own businesses, advocates advance a number of other macroeconomic reasons to justify insider buyouts.

There are substantial tax benefits available to the restructured company. The large interest payments made on the debt are, of course, tax deductible and the tax laws may also allow more generous write-offs for depreciation. Despite these asserted benefits, critics both scholarly and popular continue to assail the LBO as an abuse of management's inside position and a gross violation of their fiduciary duty to shareholders (Morrissey, 1988).

The growing incidence of LBO activity in the market for corporate control has sparked many to question the social value of this activity. Many expressed concerns are predicated implicitly on the notion that the changes in the firm's financial structure associated with the LBO transaction have no positive real effects on that firm's output. Finance theory, however, suggests that LBOs can be productive. The gains derive from two key features of LBOs in recent years-namely, going private and highly leveraged financing. These related features permit a reorganization of the firm to alter its incentive structure and produce an increase in its earnings potential (Garfinkel, 1989).

According to one theory LBOs create real wealth gains and improvements in operating performance, perhaps because of a more efficient ownership structure and allocation of residual claims under private ownership. In contrast, some have argued that leveraged buyouts mainly effect wealth transfers (e.g., transfers from bondholders or tax authorities to shareholders, or transfers from selling stockholders to manager-insiders) rather than create wealth (Muscarella & Vetsuypens, 1990).

There are advantages of highly leveraged financing. One widely mentioned source of gain from extensive leveraging is based on the incentive structure of the tax system. Because interest payments on debt are tax deductible, debt financing is relatively more attractive than other methods of finance (Garfinkel, 1989).

LBOs are ways to redistribute wealth from target shareholders to the raider. In doing so, however, they also create wealth as the appropriation of takeover gains is a necessary condition for the raider to undertake the acquisition in the first place. Other arguments for LBOs, by contrast, such as taxes or managerial incentives, are primarily concerned with the creation of wealth. Besides, to improve managerial incentives, it is not crucial that the takeover itself is leveraged; increasing leverage shortly after the deal has closed would be sufficient. For our argument, by contrast, it is crucial that the transaction itself is leveraged (Müller & Panunzi, 2004).

Many of the benefits in going private and leveraged buyout transactions seem to be due to the control function of debt. These transactions are creating a new organizational form that competes successfully with the open corporate form because of advantages in controlling the agency costs of free cash flow. Desirable LBO candidates are frequently firms or divisions of larger firms that have stable business histories and substantial free cash flow situations where agency costs of free cash flow are likely to be high. The LBO transactions are frequently financed with high debt; 10 to 1 ratios of debt to equity are not uncommon. Moreover, the use of strip financing and the allocation of equity in the deals reveal sensitivity to incentives, conflicts of interest, and bankruptcy costs. Strip financing, the practice in which risky nonequity securities are held in apprpximately equal proportions, limits the conflict of interest among such securities' holders and therefore limits bankruptcy costs (Jensen, 1986).

Opler and Titman (1993) interpret the free cash flow theory (Jensen's theory, 1986) to imply that only those high cash flow firms with poor management quality are good LBO candidates. The fact that financial distress costs deter LBOs suggests that debt financing is crucial for realizing the gains from going private. If this were not the case, firms with high potential financial distress costs could still go private, using less debt and more equity than the typical LBO firm. A large percentage of LBO firms use more debt than is needed to eliminate taxes so that this crucial role for debt is unlikely to be taxes. The role for debt relates to the incentive problems associated with free cash flow (Opler & Titman, 1993).

Going-private transactions, or LBOs, are important methods of corporate restructuring. In a typical going-private transaction, incumbent management acquires all outstanding publicly-traded shares of a corporation and merges the assets of the firm with a newly organized, privately shell corporation that it controls. Outside equity participants or buyout specialists often share equity ownership in the new private entity with management and help arrange financing for the buyout with lending institutions (Muscarella & Vetsuypens, 1990). Guo *et al.* (2011) stated that returns to either pre- or post-buyout capital are positive and significant for all outcome groups except deals ending in a distressed restructuring.

3. PRIVATIZATION REVISITED

Privatization is the transfer of ownership of property or businesses from a government to a privately owned entity or the process of transferring ownership of a business, enterprise, agency, public service or property from the public sector (the state or government) to the private sector (businesses that operate for a private profit) organizations. The privatization as a term is also used in a quite different sense, to mean government out-sourcing of services to private firms, e.g. functions like revenue collection, law enforcement, etc. The term "privatization" also has been used to describe two unrelated transactions. The first is a buyout, by the majority owner, of all shares of a public corporation or holding company's stock, privatizing a publicly traded stock, and often described as private equity. The second is a demutualization of a mutual organization to form a joint stock company.

Privatization is the strategy or the process which transfers totally or partially, an asset or enterprise which is owned or controlled, either directly or indirectly, by the state to private organizations. Also, privatization is a process of "environment" that makes people economic and political participants by creating opportunities for ownership and a sense of involvement in the society at large. Privatization programs are complex and all the key aspects (social, economic, political, etc) should be taken into account in the design of the program and components (Selvi & Yilmaz, 2009). Private companies are subject to less stringent rules and reporting requirements (Cheng, 2013).

Managers are expected to act on behalf of the shareholders and work to maximize shareholder wealth. Management has the fiduciary obligation to obtain the highest price for shareholders in a going private transaction (Cheng, 2013).

4. PRIVATIZATION IN TURKEY

The privatization program in Turkey was initiated in 1983. In 1984, the first related regulation *(Law No: 2983)* and in 1986 *(Law No: 3291)* was enacted. Within the perspective of the provisions of Law No : 3291, the Council of Ministers was authorized to give decision on the transfer of *SOE*'s (State Owned Enterprises) to the *PPA* (Public Participation Administration) and the High Planning Council was authorized to decide the transfer of partially state owned companies and subsidiaries to the PPA for privatization. In 1992, with the *Statutory Decree No: 473*, *PPHC* (Public Participation High Council) was authorized to approve privatization transactions (Republic of Turkey Prime Ministry Private Administration, Legal Framework, 4 June 2012).

Upon formation of a political and social consensus on the needs for privatization, the new privatization law has been enacted on 27 November 1994 with the new Law No: 4046. This new Law contains the provisions related to (Republic of Turkey Prime Ministry Private Administration, Legal Framework, 4 June 2012):

- The establishment of the "*PHC (Privatization High Council)*" and the "*PA Privatization Administration*" and the determination of their duties, responsibilities, and rights,

- The establishment of the "*Privatization Fund*" and the determination of the resources and utilization fields of such fund,
- The supply of financial and social rights to the personnel contracted at organizations included under the scope of privatization that might become unemployed as a result of privatization,
- The personal and social rights of the public employees working for the organizations included within the scope of privatization,
- Paying "Redundancy Compensation" in addition to other indemnities foreseen in the collective bargaining agreements and/or in the existing laws in relation with potential employment reductions that may occur,
- Not using the proceeds of privatization for general budget expenditures and/or investments,
- Preventing the negative effects resulting from a monopolistic structure that may occur,
- Procuring of a shareholders' group capable of undertaking the responsibility and authority of management, as well as the expansion of the ownership,
- Creating privileged State shares for strategic fields,
- Not allowing for transfers to public institutions, organizations and to the local administrations during privatization, unless the necessitated by the sake of national security and/or the best interest of the public.

The main philosophy of privatization in Turkey is to confine the role of the state in the economy in the areas like health, basic education, social security, national defense, large scale infrastructure investments; provide legal and structural environment for free enterprise to operate and thus to increase the productivity and the value added to the economy by ensuring more efficient organization and management in the enterprises that should be commercialized to be competitive in the market.

The major targets of the privatization program in Turkey are primarily (Republic of Turkey Prime Ministry Private Administration, Targets, 4 June 2012):

- to minimize state involvement in the industrial and commercial activities in the economy,
- to provide legal and structural environment for free enterprise to operate,
- to decrease the financial burden of State Economic Enterprises on the national budget,
- to transfer privatization revenues to the major infrastructure projects,
- to expand and deepen the existing capital market by promoting wider share ownership,
- to provide efficient allocation of resources.

5. THE CASE: PETROL OFISI A.Ş. (INC.)

Petrol Ofisi (PO) was established on February 18, 1941 as a state owned company to import, stock, refine and distribute petroleum products.

As of March 17, 1998, the state owned 93, 3 % of the shares of the PO, and rest of those were publicly held in the Istanbul Stock Exchange. The Privatization High Council had decided to privatize 51 % of the shares of the PO and to realize the block sale. For this purpose the situation was declared to the public at the same date.

Until May 18, 1998, ten possible investors composed by either local or international joint venture ones such as:

1. Akmaya-Orteks Joint Venture
2. Ceylan İnşaat Taah. İthalat ve İhracat Ltd. Şti.-Milgaz Tic. ve San. A.Ş. Joint Venture
3. Cıngıllı Holding A.Ş.
4. Çukurova Holding A.Ş.-Anadolu Uluslararası Tic. ve Taşımacılık A.Ş. Joint Venture
5. Doğuş Holding A.Ş.-Garanti Bankası A.Ş. Joint Venture
6. EGS Holding A.Ş.
7. Koç Holding A.Ş.
8. Selahattin Beyazıt
9. Süzer Holding A.Ş.
10. T. İş Bankası A.Ş.-Bayındır İnş. Tur. Tic. ve San. A.Ş.-Park Holding A.Ş.-Petrol Ürünleri Tur. ve Nak. A.Ş. Joint Venture

The auction was realized on the TV live broadcast on June 29, 1998 and three investors and their offers for 51 % of the shares were rated as follows:

- Akmaya/Orteks Joint Venture 1.160 Million USD,
- Doğuş Holding/Garanti Bankası Joint Venture 1.150 Million USD,
- İş Bankası/Park Holding A.Ş./Bayındır Holding/PÜAŞ Joint Venture 1.110 Million USD

Payment conditions were that 50 % of the price was to be paid for cash, 25 % of that and 10 % interest per year were to be paid in one year, and as last part 25 % of that and 10 % interest per year were to be paid in two years.

One of the stakeholders applied to the court in order to cancel this privatization transaction of the PO. Therefore the process was frozen temporarily until the courts finalize the file.

The court decided to cancel this privatization process of the PO for some reasons on April 9, 1999. Therefore the process should be started again at the beginning.

Privatization High Council had re-decided to privatize 51 % of the shares of the PO and to realize the block sale. For this purpose the situation was declared to the public November 17, 1999.

At this time, until January 20, four possible investors composed by joint venture ones such as:

1. Doğuş Holding A.Ş. ve Koç Holding A.Ş. joint venture
2. T.İş Bankası A.Ş. ve Doğan Şirketler Grubu Holding A.Ş. joint venture
3. T.Vakıflar Bankası T.A.O. ve Alarko Holding A.Ş. joint venture
4. Nurol Holding A.Ş. - Cıngıllı Holding A.Ş. - Anadolu Uluslararası Ticaret ve Taşımacılık A.Ş. - Medya Holding A.Ş. joint venture

Aftermath the first one as Doğuş Holding A.Ş. ve Koç Holding A.Ş. joint venture was disqualified or withdrawn from the process. Ultimately the prices offered by the potential investors were as follows:

1. T.İş Bankası A.Ş. ve Doğan Şirketler Grubu Holding A.Ş. joint venture 1,260 Million USD (Shortly Dogan Holding or Dogan Group)
2. T.Vakıflar Bankası T.A.O. ve Alarko Holding A.Ş. joint venture 1,250 Million USD
3. Nurol Holding A.Ş. - Cıngıllı Holding A.Ş. - Anadolu Uluslararası Ticaret ve Taşımacılık A.Ş. - Medya Holding A.Ş. joint venture 1,110 Million USD

The selling process of the 51 % of the shares of the PO as block sale was realized on April 21, 2000 to the T.İş Bankası A.Ş. ve Doğan Şirketler Grubu Holding A.Ş. joint venture.
The payment conditions were as follows:

- 40 % of the price to be paid for cash at the signing the contract date.
- 20 % of the price + 15 % interest per year to be paid in one year.
- 20 % of the price + 15 % interest per year to be paid in two years.
- 20 % of the price + 15 % interest per year to be paid in three years.

The selling process was completed until July 21, 2000, and then the management was taken over to the investor as Iş-Dogan Joint Venture. So, the state shares over the PO had become 42,3 % since July 21, 2000.

Until July 17, 2002 the state had sold some more shares of the PO in the stock exchange, and as of July 17, 2002 the share holders of the PO were as follows in Table 1.

Table 1. **The shareholders of the PO**

Investors	Share Capital	%
Is-Dogan	25,500 Billion TL	51
The State	12,900 Billion TL	25,8
Publicly Held	11,600 Billion TL	23,20
Total	50,000 Billion TL	100,00

(**Source**: www.poas.com.tr)

Privatization High Council had wanted to sell 25, 8 % of the shares of the PO to the controlling group as Is-Dogan on July 17, 2002. The price was determined as market fair value as price to book value of 30 TL for each share of 1 TL nominal. The process had completed as of August 08, 2002.

As of September 30, 2002 the investor the Is-Dogan and the investee the PO decided to merge, and the name of the new company became the PO again. The merging process was completed as of December 27, 2002.

For the merging process the PO management put this information to the public: The public announcement of the Petrol Ofisi A.Ş. dated September 30, 2002 is below:

> *Subject: This public announcement is realized due to the communiqué of the Capital Market Board of Turkey Serial: VIII, No: 20.*
> *General directorate of the Petrol Ofisi A.Ş has been authorized to pursue to merge with the company of Iş Doğan Petrol Yatirimlari A.Ş. (Is-Dogan that is the parent company of the Petrol Ofisi A.Ş.) that has been doing investing and trading the LPG for the automotive industry, distributing the LPG, and trading the crude petroleum. Is-Dogan also applied to the General Directorate of Petroleum Affairs of Ministry of Energy of Turkey to be a petroleum distributing entity. The board of directors of the PO believes that this merge will create synergy and some savings in the operations of the two entities.*

The merging initiative was speculated by certain interest groups and some news was on the subject.

> *AKSAM (Daily News Paper, October 23, 2002): After this merge completes, the Petrol Ofisi A.Ş. (The PO) will pay 930 Million USD of the financial loan of the Iş Doğan Petrol Yatırımları A.Ş. (Is-Dogan) that financial loan was taken during the purchasing of the 51 % shares of the PO.*

After the news appeared on the AKSAM News Paper, a public announcement was immediately asked from the PO in order to make the public be informed.

This public announcement was asked by the Management of Istanbul Stock Exchange from the Management of the Petrol Ofisi A.Ş. on October 23, 2002.

> *Subject: This public announcement is realized due to the communiqué of the Capital Market Board of Turkey Serial: VIII, No: 20.*
> *On the news of the AKSAM NEWS PAPER dated October 23, 2002, it is raised that the Petrol Ofisi A.Ş. will pay 930 Million USD of the financial loan of the Iş Doğan Petrol Yatırımları.*
> *As publicly announced previously, the official procedures for the merge of Petrol Ofisi A.Ş. and Iş Doğan Petrol Yatırımları A.Ş. have not completed yet. Therefore it is impossible to determine the amount of the financial loan of the merged new company. The total of that will be recognized after the court judgment sentences and the procedures of the Capital Market Board of Turkey are to be completed*
> *In the unaudited balance sheet of Iş Doğan Petrol Yatırımları A.Ş. as of September 30, 2002, total liabilities are 1,213 Million USD and cash and cash equivalents are 27 Million USD. Those liabilities include the financial loan needed during the purchasing of the shares of the Petrol Ofisi A.Ş. from the Privatization Management in August 2002, other liabilities, and accrued interests as of September 30, 2002.*

Aftermath, the merge had completed, and the PO had controlled by Dogan Group for about four years.

On March 13, 2006, the Austrian petroleum company OMV bought 34% of the stake of the PO for US$1.054 billion from Dogan Group. After this stock exchange, the share of Doğan Group on the PO decreased from 86.7% to 52.7%. On October 22, 2010 OMV announced that it will buy 54.17 % shares of the PO from the Doğan Holding for the sum of EUR 1 Billion, setting its total stake in the company to 95.75 %. The transaction completed on December 22, 2010.

Having become a joint stock company in 1983 and privatized in 2000, the PO today continues its activities with its 2,500 fuel stations, 10 fuel terminals, 2 LPG terminals, 31 air-supply units, 1 lubricant oil plant, 1,200 employees and widespread marketing network. Its product range covers unleaded gasoline, Diesel fuel, kerosene, fuel oil, jet fuel, liquefied petroleum gas (LPG), lubricants and various industrial oils.

The name of the company was Hür Pazarlama ve İthalat A.Ş. On July 12, 2000, its name was changed as Iş Doğan Petrol Yatırımları A.Ş. just a few days before to purchase date July 21, 2000, and became a joint venture of Dogan Group and Is

Bankasi, Inc. Is-Dogan had financial loan from different financial institutions to fund purchasing first 51 % shares of the PO, and also second purchasing transaction. As of September 30, 2002, according to the unaudited balance sheet, Is-Dogan has financial loan of 1,213 Million USD. Contrary it had only 25, 000 USD cash at the same date. It meant this financial loan was to be paid back by the PO that was even investee. Because of that, from September 30 to December 31, the speculations had existed in the press and other media.

SUMMARY AND CONCLUSION

The case investigated in this paper is a typical LBO transaction providing a vehicle with limited liability, the investor organized a new, assetless company–often called "shell company" or "acquisition subsidiary". The acquisition subsidiary obtained a huge loan commitment from one or more lenders by pledging the assets and cash flows of the target firm as security for its debt as Müller and Panunzi (2004) stated.

Unlike the leveraged buyout investor companies today refer to themselves (and are generally referred to) as private equity firms (Kaplan, 2008), the investor group or company in the case covered in this paper was not a private equity firm. The LBO transaction can be characterized by debt to total capital ratio more than 85 %.

The case of PO developed in this paper is examined to demonstrate how global trends in corporate restructuring can be applied to Turkish companies. The PO case is an interesting experience of two-step LBO transaction. In Turkey, this is the first case about this subject.

There was no disclosure done by the listed companies of the Istanbul Stock Exchange before January 1, 2003. Nor were inflationary adjustments even the inflation rates were about 100 % during some years in Turkey. Nor were consolidated financial statements. Also interim reports during the year of 2003 were so complicated. Some of these were provided in different formats. Therefore for the investors' perspectives, one can argue that financial statements during that period were unfairly presented.

As an investor company, financial statements of the Is-Dogan were not accessible. Investor and other stakeholders could only access the PO's as the investee company's financial statements in quarterly basis. For the information users' perspectives, it was not easy to understand the impacts of merging the companies even this merge was very interesting that the merge was realized in the investee company. In addition it was not easy to understand how the goodwill was recognized.

In this merging transaction, the parent company disappeared and the subsidiary company took all the assets and liabilities of the parent company. The shareholders of the parent company became the shareholders of the subsidiary company.

For investors' perspectives, one can raise the question that how the financial information provided useful was in the processes? The answer for the question mentioned will be negative it is because:

- the formats of the financial statements varied that meant inconsistency
- impacts of inflationary adjustments also did cause for inconsistency
- impacts of consolidation for merging transaction and for subsequent financial reporting were other causes for inconsistency
- lack of disclosures existed until March 31, 2003
- other reasons might be identified.

The users of financial information can learn certain lessons from this LBO transaction.

The importance of this case is on the requirements of financial reporting in regarding whether complied with.

In this study, we intended to raise issues of the financial reporting aspect of an LBO transaction. According to IASB's Conceptual Framework, the objective of financial reporting is to provide financial information about the reporting entity that is useful to the users of financial reporting information in making investment or credit decisions. However, in this case, there is a lack of information and an information asymmetry for users' perspective. The management and the investors are supposed to have an equal and satisfactory level of information about firm's specific transactions. So, there was an uncertain environment for both the management side and the investors' side.

Further studies can be followed up in different aspects of the LBO transaction covered in this study. There might be an opportunity for a further study to examine how financial reporting and disclosures adapt to changes in different business transactions.

The theory on the LBOs that "*create real wealth gains and improvements in operating performance, perhaps because of a more efficient ownership structure and allocation of residual claims under private ownership*" can be tested by a further study on the LBO covered in this paper. As Muscarella and Vetsuypens (1990) stated, also another further study can test whether this LBO did effect wealth transfers (e.g., transfers from bondholders or tax authorities to shareholders, or transfers from selling stockholders to manager-insiders) rather than create wealth.

Furthermore, comparative studies can be realized where possible and available LBO transactions in similar and emerging economies.

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