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Welcome Address

It is a great honour and pleasure to welcome you to the international research conference on Business, Economics and Social Sciences, IRC-2015. This conference is a great opportunity for researchers, academicians and corporate experts to come and share their valuable experience and new development in different areas of Business, Economics and Social Sciences. The conference will provide an avenue for discussion and exchange of views on issues and challenges in business, economic and social science’s global readiness. The idea is to facilitate discussion on business strategies that will expedite global growth and economic recovery.

Moreover, as a matter of our institutional policy, we expect to bring together an outstanding and diverse group of researchers, academicians, practitioners and thought leaders at the forefront of this event. The IRC-2015 will make every attempt to include younger scientists and students along-with expert academician and practitioners to bridge the gap of research and practice.

We would like to thank everyone who helped us to organize IRC-2015. A very special thanks to our honorable scientific and review committee for spending much of their time in reviewing the papers of this event and helping the participants in publishing their research in affiliated journals. Also special thanks to all the session chairs from industry, academia and policy institutions who volunteered their time and support to make this event a success. A very special thanks to the great scholars for being here with us as key note speakers, their valuable thoughts will surely open the horizon of new research and practice for the conference participants throughout the world.

Wish you a very successful conference and a pleasant stay in Singapore.

Dr. Farooq Anwar bajwa
Conference Convener.

COMPANIESVALUE IMPROVEMENT
BY LEVERAGE BUY OUT

Maya Indriastuti
Dept. of Accounting, Faculty of Economics
Sultan Agung Islamic University (UNISSULA), Semarang, Indonesia
email: maya@unissula.ac.id. Tel: +6281575372844

Luluk Muhimatul Ifada
Dept. of Accounting, Faculty of Economics
Sultan Agung Islamic University (UNISSULA), Semarang, Indonesia
email: luluk@unissula.ac.idTel: +628122802600

Abstract

Leveraged buy out (LBO) is the acquisition of companies in which the acquiring company to borrow some or all of the funds needed to finance the purchase. In a typical LBO, the buyer intends to pay off debt from the sale of assets owned by the company being acquired or from the profits earned by the company being acquired. Funds needed for LBO can also be obtained by issuing junk bonds. One situation that led to the LBO is when there is a conflict between shareholders and management, and the management is trying to take over ownership of the company by cooperating with a third party to participate LBO fund. LBO is also often used as atactic to avoid the acquisition of the target company.This study uses the banking companies that have gone publicon the stock exchange Indonesia (BEI) were then analyzed using a simple linear regression. The results showed that through leverage buyouts, will occur efficiency of companies which change the structure of ownership of public company into a private company. In addition, factors that determine the success of the LBO is acompany's ability to borrow money and managed to return with out affecting liquidity and the ability of the company to have a strong management team, so it will indirectly increase the value of the company itself.

Keywords: leverage buy out, companies value, obligation junk, go public companies, and simple linear regression

INTRODUCTION

Establishment of a company has a goal to achieve maximum profit, or profit as much as possible, the owner of the company or the prosperity of shareholders and maximizing the value of the company is reflected in its share price. The third goal of this company can be achieved either by leveraged buy out (LBO). LBO is away of creating profit through take over means all shares (buy-out) the target company, which is repaid with surplus cash flow or by collecting funds from the sale of assets, which are often sourced from the target company (wikipedia.org)

The conflict between shareholders and management, and the management is trying to take over ownership of the company by cooperating with a third party to participate in the LBO fund is one of the causes of the LBO, so LBO is often used as atactic to avoid the acquisition of the target company. Therefore, the success or failure is the ability of LBO to restore its debts in accord ance with the loan schedule, which took over the company.The LBO process involve sparties who act as funders, among which are banks, other companies, financial institutions, management ofthe acquirerand institutional investors or individuals who are interested. Such persons benefit or reward requires a higher interest rate compared to the advantage so fo the investments.This is because they consider the risk of failure of non-payment of a loan to finance the LBO while for LBO debt is usually secured by assets of the company in the acquisition.

Suryawijaya (1998), Nurdia (1996), Hutagalung (2002), Saipul (2003), Payamta (2000), Pooja (20012), Kusuma & Wigina (2013), and Payamta & Doddy (2014) which suggested a positive synergy after merger and acquisitions seen from the significant differences in the performance of companies that can directly increase the value of the company itself. Instead, Gurendrawati and Sudibyo (1999), Sutrisno and Sudibyo (1999), Yudyatmoko and Naim (2000), Payamta & Sholikah (2001), Rachmawati and Tandelilin (2001) and Payamta & Setiawan (2004), which states the absence of significant difference (no synergy) before and after mergers and acquisitions (Annisa, 2010).

THEORETICAL FRAMEWORK AND HYPOTHETICAL DEVELOPMENT

Brigham and Houston (2006) stated that the leverage buy-out is the procurement engineering company with the method used loans or debt management to buy another company. Can be said leveraged buy-out is a situation where a small group of investors (which usually includes the company manager) to borrow large amounts of money to buy all the shares of the company. The strategy used in the take over or acquisition of another company or the purchase of a majority stake in the company by another company by way of using borrowed money (eg issue of bonds or loans) the acquiring company to use their assets as security/collateral with their cash flow in the future which will come to cover the payment of the debt obligations. In other words a LBO is financing the acquisition with debt.

If the company will expand with mergers and acquisitions, the company can reduce the company's competitors or reduce competition (Akbarwati, 2010). While in developed countries like USA, Canada and Western Europe, a mergers and acquisitions have become business as usual sights (Darmawan, 2010). Much of the research that examines the performance of the company after the merger or acquisition. Some of them are research by Suryawijaya (1998), Nurdia (1996), Hutagalung (2002), Saipul (2003), Payamta (2000), Pooja (20012), Kusuma & Wigina (2013), and Payamta & Doddy (2014) which stated that there was a positive synergy after merger and acquisitions seen from the significant differences in the performance of companies that can directly increase the value of the company itself.

Ha: Leverage buy outs positive effect of improvement the value of the company

RESEARCH METHODOLOGY

Population and Sample

The object of this research is the company doing mergers and acquisitions. In this study, the sampling is done in a non-probability sampling, ie with purposive sampling approach with the following criteria:

1. The Company's manufacturing industry and other industries in addition to a group of companies engaged in the insurance and finance industry or banking firms and other financial institutions listed on the Indonesia Stock Exchange and carry out mergers and acquisitions between 2012 to 2013
2. The Company has the date of merger and acquisition clear
3. Publish the complete audited financial statements for they ear prior to mergers and acquisitions as well as mergers and acquisitions in the period ended December 31.

Operational Definition and Measurement of Variables

Company values, proxied by Tobin's Q is the ratio between the market value of equity plus debt to book value plus the debt market. While leveraged buyouts using proxy leverage ratio is the ratio of funds provided by the owner of the company with funds from the creditors of the company.

Methods of Data Analysis

Simple Linear Regression

This study uses the technique of simple linear regression analysis, to determine the direct effect of each of the independent variables used in partial or together (Ghozali, 2013). Regression model used is as follows:

$$\mathbf{CV} = \boldsymbol{b_0} + \boldsymbol{b_1}\mathbf{LBO} + \boldsymbol{\varepsilon}$$

Where :

CV = Company Value

LBO = Leverage Buyout

b_1 = Regression coefficient

ε = Error term

DISCUSSION

Leveraged buyouts significant positive effect on company value improvement (sig. 0.002). It means that companies that do it automatically leveraged buyout of the company to acquire other companies. This led the company will increase both in size and in terms of wealth. In addition, management work "underpressure" to not only be able to pay the debt, but also able to generate profits for the company, so managers must work optimally. And, if the manager later turned into the owner, then there is a strong motivation to work because of the benefits the company will be enjoyed by themselves.

The results of this study are consistent with Suryawijaya (1998), Nurdia (1996), Hutagalung (2002), Saipul (2003), Payamta (2000), Pooja (20012), Kusuma & Wigina (2013), and Payamta & Doddy (2014) which suggested appositive synergy after merger and acquisitions seen from the significant differences in the performance of companies that can directly increase the value of the company itself. Instead, Gurendrawati and Sudibyo (1999), Sutrisno and Sudibyo (1999), Yudyatmoko and Naim (2000), Payamta & Sholikah (2001), Rachmawati and Tandelilin (2001) and Payamta & Setiawan (2004), which states the absence of significant difference (no synergy) before and after mergers and acquisitions (Annisa, 2010).

CONCLUSION

This study proves that the leveraged buyout (LBO) has the ability to enhance shareholder value. First, the management work "underpressure" to able to pay the debt, but also able to generate profits for the company, so managers must work optimally. Second, if the manager later turned in to the owner, then there is a strong motivation to work because of the benefits the company will be enjoyed by themselves.

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