Universidad Pontificia Icade Comillas Business School

“Is privatization the right solution for public companies? AENA’s case

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Abstract

The objective of this thesis is to analyze the performance of companies that have gone through a process of privatization. The reason behind the privatization of public companies is their need for higher efficiency and better performance. In Spain we have a lot of cases, but this thesis will only focus on one of them, AENA. I have analyzed AENA because it is the most recent and major privatization case that we have in Spain. This thesis will not only analyze the financial sector of the before mentioned company, but also other factors that can affect their performance, such as the government that owns it.

When a company goes through the process of privatization, the results have to be compared and analyzed in the long term. It is necessary for time to pass in order to see the effect of this major change in the company's performance Therefore, when analyzing AENA in the long run after it was privatized, I found that there is a positive correlation between the privatization and its performance. This is because they are in a more competitive market, they can attract more investors to raise the capital and the exposure and expansion the companies can have overseas help them grow exponentially. However, the results of the companies in a competitive market should be followed as a rule to say that private companies perform better than public companies. In this work I talk about the inconclusive results depending on the type of market the companies operate at.

Methodology

I mainly gathered as much information as I could from reliable resources and other studies about the history of privatizations, not only in Spain but worldwide. This study focuses more on history and theories than in quantitative data, which is why there are not a lot of calculations present. Most of the bibliography used is not very recent since most of the privatizations took place before 2000.

The primary objective of this work is to explain whether a privatization can make a state-owned company more efficient and profitable after the transaction or not. There are not many empirical studies that offer clear results to answer this question, however in this study I analyze how different factors can affect the performance of a company in hopes of resolving this query. In order to get to the answer, I have used the overall statistics collected throughout the privatizations period in Spain.

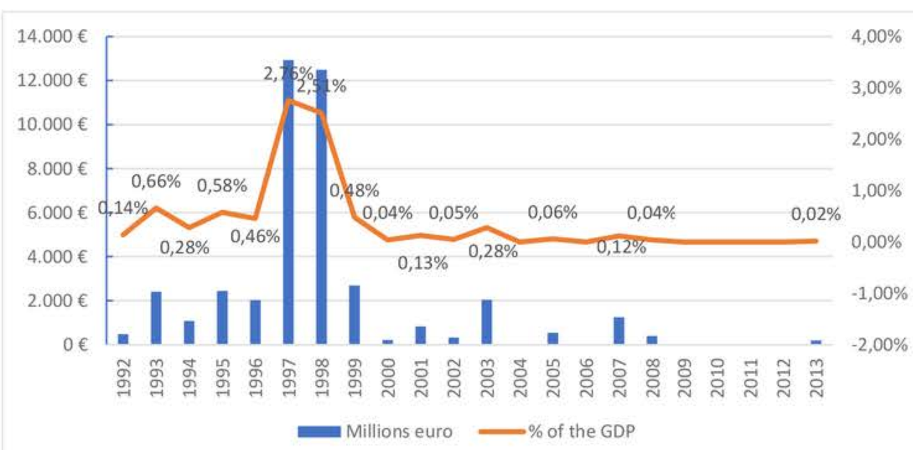
Most of the data was collected from the companies' official websites, as well as the official Spanish institutions. Based on this information and the historical data obtained from other studies, I was able to elaborate my own conclusions. I chose AENA as an example of a company that went through a process of privatization because it provided with the best quality and quantity of information to answer the question. I have conducted a pre and post-privatization performance analysis of AENA in order to achieve a clear conclusion.

1. Introduction

The concept of "privatization" in Spain started in 1985 when the Government started to lose leverage in the management of Spanish companies. Privatization is a wide term that involves a lot of factors and decisions to take in consideration. Technically, it states the transfer of the ownership of an enterprise from the public sector to the private sector, which entitles to the loss of the assets from the State (Carreira). The loss of ownership from the public sector comes from the public debt generated after the seventies crisis, that is when a lot of Spanish companies suffered a huge amount of losses and the State had to help them with grants and subsidies.

In 1985 there were 130 Spanish public companies and around 850 of their subsidiaries (Vergés, 1999). However, throughout the years these numbers have been decreasing gradually due to the privatization of most of these companies. The graph below shows the evolution of the privatizations in Spain based on the revenues generated. The graph also shows the percentage of the total Gross Domestic Product (GDP) that these transactions provided for Spain. We can observe how the number decreases tremendously after 2000. We can also see that the highest revenues took place in 1997 and 1998.

Graph 1: Evolution of revenues generated from the privatizations from 1992-2013 in Spain



Source: own elaboration based on the BOE, Boletín Oficial del Estado

The reason why we see such a high number in these two years is because the Maastricht Treaty was introduced at the end of 1993 in hopes to reduce the level of public debt of the countries that participated. The Spanish government under the mandate of Aznar (1996-2004), increased the number of privatizations in order to reduce their deficit and to try to comply with the treaty. In those two years the privatizations of the biggest companies in Spain provided high revenues and a reduction of the public debt. Telefónica, Argentaria and Endesa are some of the companies that were partially privatized in 1997 and 1998. The government was able to collect a lot of money with these privatizations and therefore reduce the public deficit. In table 1, we can see the evolution of the public deficit (revenue minus expenses) when the privatizations took place. There is correlation between the privatizations done during 1997 and 1998 and the reduction of deficit during the same years. The goal of the government to reduce the public deficit was achieved until the 2008 crisis. Privatizations were not the only factor that provoked the reduction of the deficit; nevertheless, it was one of the main aspects to be taken in consideration when analyzing the evolution of the Spanish deficit.

Table 1: Evolution of the Spanish deficit from 1992-2013

Years	Deficit (M)	Deficit (%GDP)
2013	-71,687	-6,99%
2012	-108,847	-10,47%
2011	-103,214	-9,64%
2010	-101,404	-9,38%
2009	-118,194	-10,95%
2008	-49,343	-4,42%
2007	20,792	1,92%
2006	22,175	2,20%
2005	11,256	1,21%
2004	-338	-0,04%
2003	-2,887	-0,36%
2002	-3,080	-0,41%
2001	-3,813	-0,55%

2000	-7,106	-1,10%
1999	-7,861	-1,32%
1998	-16,338	-2,95%
1997	-20,272	-3,91%
1996	-26,216	-5,37%
1995	-32,327	-7,04%
1994	-28,003	-6,74%
1993	-28,758	-7,34%
1992	-17,273	-4,63%

Source: own elaboration based on INE, Instituto Nacional de Estadística

In order to help the companies and the country itself, the government applied a privatization policy after the crisis of the seventies. This was also a way to reduce the debt originated during the crisis. The justification that they gave had three different aspects: a) economic reasons: to increase the system's efficiency in order to improve the social welfare; b) financial reasons: generate enough resources for the public sector and reduce the public debt; c) politics reasons: to reduce the role that the State had when making business decisions and to limit the public sector in the financial sector (Almón & Domínguez, 2002).

The process of privatization is complicated and long, since it needs the reform of new govern practices that need to be developed inside the company. It causes major changes in the management of the company as well as in the lower levels of the companies, more specifically the employees. When a privatization process takes place, the short-term decision that is always made is laying off employees/reducing personnel. Why? Simply because if the State is going through this process it means that it is not efficient enough to continue managing the company, and then, the new investors come in and they understand that inefficiency is the consequence of having a lot of employees and very little work to do. This idea of more exposure of the private companies did not only exist in Spain, it spread internationally, especially within Europe. Countries had chosen a business model where private ownership and the free market play a bigger role in the economy than the State. Compared to Spain, the business public sector of the rest of the countries in Europe has more importance. To see this difference clearer, table 2 shown below illustrates the percentage of civil servants, percentage of the public sector compared to the total GDP and the investment provided. Spain and United Kingdom are the countries with the lowest number of civil employees. We can also observe that the percentage decreases as time passes due to the privatization process that took place during those years in Europe.

Table 2: % of public sector in Europe

Countries	Employees		GDP		Investment	
	1982	1991	1982	1991	1982	1991
Spain	7,4%	6%	8,2%	8,5%	16,5%	13%
France	16,7%	13,4%	17,3%	15,1%	34,3%	24,2%
Germany	10,1%	8,3%	11,1%	10%	16,3%	14,9%
Italy	28,2%	13,5%	6%	20%	53,8%	23,5%
United Kingdom	7,4%	4,4%	7%	4%	20%	23,5%

Source: own elaboration based on (Myro, 1989)

1.1 Privatizations until 1996

Around 1983 the public sector in Spain was experiencing losses due to the economic crisis. The sector was organized around the Instituto Nacional de Industria (INI). The INI was a Spanish institutional entity created in 1941 and its major function was to promote the industrial development. It disappeared in 1995 and the Sociedad Estatal de Participaciones Industriales (SEPI) took over the functions. Due to the losses that the public sector was experiencing and the entrance in the European Union in 1986, a new type of policy regarding public companies was applied. Inside of this new policy, privatization was one of the main and new aspects taken into consideration. When a new policy comes in, there are always positive and negative effects, and one of the negative effects of the privatization was that some public companies were receiving a lot of grants and subsidies from the government, which were not going to be entitled anymore (Cos, 2004).

There was not a clear strategy of how to privatize the companies, it was more of a necessity process. The selection of companies for privatization depended greatly on what the government needed at that time. The government benefited from the privatization of the companies in two different ways: by reducing the number of subsidies granted to some public companies and by the profits obtained from the sale to a private buyer. There were different methods of privatization, which will be studied later in another chapter of this thesis.

Before this period of privatizations, the INI had around 90% of the industrial public sector under its control. However when this process started, the number of companies under their domain decreased from 65 to 42, its presence on 12 sectors dropped to only 5 and the number of workers also dropped from 262.000 to 130.000 (Comín, 2000). By the end of 1995, the public companies fell to 3,5% from a 5,2% in 1984, a very clear reduction of the importance of the public sector. In terms of benefits, the State collected around 13.200 million euros. As we can see in (Annex 1), privatizations were not concluded in the sale of 100% of the companies. A lot of the companies privatized had several sales throughout the years where they sold just a portion of the total of the company. The companies that were partially sold were of bigger size than the ones sold in their entirety. The government wanted to keep some ownership of the big companies to get the profits generated by the new private management. By selling only portions of the companies, the government assured itself to receive some of the benefits generated from the growth of the company thanks to the private sector.

1.2 Privatizations after 1996

This second period of privatizations is the consequence of new Programa de Modernización del Sector Público Empresarial del Estado (also known as Privatizations Program) that was approved by the Minister Council in June 28th of 1996. As mentioned earlier, the government did not have a clear strategy when it came to carry out the privatizations. The Privatizations Program provided them with a better understanding of the goal, which was to increase the efficiency and competitivity of the companies in the economy at the national and international levels. The Sociedad Estatal de Participaciones Industriales (SEPI), was also created in 1996 to take control over the INI and manage the business participations in the public sector. The SEPI had to face the debt left behind by the INI by selling more of its companies or selling portions of them. According to Garcia (1997), the companies that it held could be grouped by: a) listed companies and easy to privatize; b) companies whose activity was dependent of the public sector and if privatized would lead to internal restructuration; c) companies that could be used as mergers with private companies; and d) the rest of companies that were of smaller size or less important and they would disappear once they finished with the goal that they were created for. Currently, the SEPI only holds 15 major companies and more than 74.000 employees (SEPI), numbers that are very low compared to the numbers that the INI had before the privatizations.

The public holdings were another creation of the Privatizations Program to develop privatizations. These holdings were a management entity whose only function was to administrate the property of other companies. The advantage of this rested on having a sole entity managing these transactions, creating a sustainable and homogenous strategy among public companies.

Since June 1996 until the end of 2003 there were 60 privatizations that provided around 32 million of euros to the state coffers. The main difference between the privatizations done before 1996 and after is the methods used. IPO was the method that generated more profits (76% of the total benefits) although, there were only 13 privatizations done through IPO out of 60. IPO's costs were reduced from 11,5% of the average gross profits to 8,4% after 1996. The reduction of the costs was an incentive to use IPO method over any other, and most of the big companies were privatized through this process. (Annex 2) shows the list of companies that were privatized after 1996 and the method they used. In this second period of privatizations, it is very interesting to see how many different types of methods were used to do the process. In summary, these are the number of times they used each type: a) IPO 15 times, b) direct sale 21, c) auction 5, d) takeover bid 1, e) bankruptcy 4, f) institutional placement g) CCRPN 17. It needs to be taken in consideration that some of the companies used different methods at the same time, for example IPO and direct sale, in this case I counted one for each of the methods.

2. Different methods of privatization

Depending on the countries, we can find different methods or techniques used for the privatization of a State-owned company. However, in this thesis we will explain the ones used in Spain. As we could see earlier, assets can be fully or partially sold. If the transfer of ownership is paid in full, then the private buyer will be entitled to be the owner of the company without sharing any percentage. On the other hand, if the transfer of ownership is made with a partial sale, then private and public owners share the both the tenure and the benefits generated by the company. There are different methods to sell these assets, or what is the same, different methods of privatization:

1. Direct sale: it is also known as negotiated sale of assets, which means that the company is sold directly to the private buyer. Therefore, they do not need to go through the financial market (Berg & Berg, 1997). Being a completely private transaction, the State evaluates all the offers and conditions proposed and selects the buyer that offers the closest deal to the one demanded. Sometimes the State only wants to get rid of a portion of the company and beneficiate from the private management and the advantages this provides.
2. Initial Public Offering (IPO): with this method the State sells the capital (or portions of it) to buyers through the stock market and other financial institutions. Because this technique is public, the information is also public, so the offerings are more transparent than direct sales for example. This method has the goal of “popular capitalism” by avoiding some political parties and groups of interest to be against privatization (Almón M. A., 2003). At the same time, an IPO avoids having massive concentrations of the capital belonging to a unique buyer. It also gives the opportunity to any person to buy a share of these companies. Because an IPO is a more

popular technique among citizens, it has been- and it is still now- the most used method of privatization in developed countries. Since prices are set by the market and information is displayed publicly, the society's concern of corruption is almost eliminated.

An IPO can be launched in two different periods. The first period is done to attract investors and to "test the waters" before "jumping right into the pool" without knowing the level of acceptance that the IPO will have. Once the minimum number of shareholders needed to go to the stock market are obtained, the second tranche of shares can be launched. If the IPO had a good acceptance in the first period, the second IPO can have higher prices and benefit from the information received from the first IPO launched.

IPOs are not exempt from having disadvantages. For example, the success of the IPO depends on the performance and level of revenue of the stock market they are linked to, so when the stock market is on a low, so is the IPO. Another disadvantage is that these offerings also lead to a more disperse ownership than direct sales, therefore it cannot be assured that the companies will be better managed compared to the State's management. A third drawback is related to the costs of this method, which are very high since it is a more complex process than direct sales. The costs of the entire process consist of commissions, costs of management, rights, taxes, and any legal or financial advice (Castedo, 2015) without excluding any additional cost that may erode throughout the process and the risks associated to the stock market.

3. Competitive bidding or auctions: this method was introduced in the second period of privatizations in Spain (after 1996). This was a method used by small companies because of how quick and inexpensive the process is. The entity playing the role of the auctioneer (or in this case, the State) can beneficiate from this process since it involves a group of buyers that are competing to buy the company. Most of the times the price will increase in comparison to the original price due to the competition between parties. The State set the price in these auctions by doing an analysis of the company. All the information collected along with the valuation had to be delivered to the potential buyers before the bidding date. In this type of

privatization, the State may sell assets instead of shares and there are a couple of reasons why they would want to do that. (Berg & Berg, 1997) Firstly, because as we said earlier, the companies that used this method were mostly small firms, so it would be hard for the State to explain and justify why they are privatizing these companies. Secondly, with the sale of assets, the government seeks to spin off unprofitable subsidiaries before selling the central enterprise.

4. Takeover bid: this method is not very used, and it was only used once during the privatization. It is used when the acquiring company makes an offer to the target company's shareholders. They can either be hostile takeovers or friendly. When the bidders make the offer directly to the shareholders because the management does not want to make the deal, it is said to be hostile. On the other hand, when the management is in favor of the deal, it is called friendly takeover.
5. Bankruptcy: when a company can pay its employees anymore and its debt continues to rise, the enterprise goes bankrupt. When this happens, a company can auction the net worth of the company so the can emerge from bankruptcy.
6. Institutional placement: this method is used by companies that want to raise capital without having to do all the legal paperwork required by the market regulators. It is a fast way to raise capital and also cost-efficient.

3. Arguments supporting privatization

As mentioned earlier, privatizations were very important not only in Spain but worldwide. It is very hard to have an exact number of the volume of privatizations and liberalization of companies in the XX century. However, the Organization for Economic Co-operation and Development (OECD) published some numbers regarding the importance of this process at the end of 1997. In this year, privatizations reached 153.000 million of dollars, which was 56% higher than the previous year. There are many factors and reasons behind this boom, but the most common arguments and reasons supporting privatizations are:

1. **Classic arguments of the economic theory**

   We can find these arguments in the book "An Inquiry into the Nature and Causes of the Wealth of Nations" written by Adam Smith, published in 1776. He States that the increase of the debt is one of the primary arguments, which later leads to a massive process of privatization to fix the problem of countries' public debt. Another argument Smith mentions is the higher level of efficiency of the private companies compared to the one seen in the public sector. Higher efficiency leads to higher growth rates and, therefore, higher fiscal revenues for the governments.

2. **Economic reasons**

   As Adam Smith said almost 400 years ago, private companies tend to be more efficient than State-owned enterprises and the reasons behind this are that public companies lack incentives or motivation to reach an optimal level of efficiency, as well as lacking resources to compete in the markets. After a privatization, the owner changes and the new proprietorship goes to the new investors as well as the internal and external control of the company (Almón M. A., 2003). Therefore, the people in favor of the transfer of ownership from the State to private hands argue that the private sector is more efficient in competitive markets. I talk about efficiency more in depth in the next chapter and I will explain all the situations concerning these arguments.

   Regarding the international companies, there a few studies such as (Wolf, 1995) and (Domberger & Piggott, 1994) where they compare the public and private sectors, which is all based on the work done by (Borcherding, Pommerehne, & Schneider, 1982). In this work, fifty empirical studies were done in five different countries (Germany, United States, Canada, Australia and Switzerland) and it is focused on nineteen different fields inside the activity of the companies. The results of these studies were incredibly supportive of the private sector. 40 out of the 50 studies analyzed, the private companies overperform the State-owned in terms of efficiency.

Another study done by (Pryke, 1982) in the United Kingdom, compares the costs and efficiency in activities where both the public and private sector offer the services. Once again, the results showed that the private sector is more profitable, having more positive levels of costs and effectiveness. In the study, we can also see how the State-owned companies had been poorly managed and it showed how the lack of incentives was the principal reason behind it. In summary, if the State-owned company is trying to compete in a liberal and very competitive market, the best option would probably be to become private since it will have a positive impact on the costs and revenues generated by such company. Also, the new investments will show the cost of capital and equity needed to attract more investors and to raise more capital.

3. **Financial reasons**

The most important reason to do a privatization is to reduce the public deficit. A non-State-owned company does not need financing from the State; therefore, it will be one less expense that the public sector must be responsible for. Private ownership brings financing through the capital markets and the shareholders. Privatization provides economic resources that a public company cannot get. It is true that public companies can issue public debt through bonds for example, but it will not have as many options as the private sector does when searching for financial help.

When a public company issues debt it improves the current cash flows in return of rights over a future cash flow that the company will make in the following years. The only difference between doing a privatization and issuing public debt lies on the efficiency and profitability that the private company can reach.

From a financial point of view, the money collected by the State from the transaction of a privatization should be used to control the public expenditure. The money can be put towards the reduction of the fiscal deficit and the elimination the national debt (Almón M. A., 2003). However, this control of the public debt is directly linked to the different political parties that are in the government. The fiscal and economic policies vary depending on the political views of each party, having different effects on the macroeconomy of a country.

4. Political reasons

Nowadays, the international mindset is to a have a free market, with private ownership and with the idea that, in competitive markets, private companies will be the ones able to maximize the benefits. One of the objectives of the privatization is to reduce the power of the syndicates that exist in the public sector. Syndicates look out for the employees by trying to get higher wages and salaries, which leads to inflation if done too frequently. A high percentage of inflation is not good for the government nor for the companies. Therefore, syndicates have much lower weight and power in the private sector.

Another political reason is to promote popular capitalism through a more widespread ownership of the shares among smaller investors. According to (Vickers, 1993), this idea could be very attractive for a government that is already in power, since it is about including other type of investors, more affordable for the society. If a government wants to privatize a company, the more support they have from political parties and society, the easier the process becomes. With popular capitalism, companies turning private can offer their employees and anybody to be part of it by owning shares of such company. This political idea also involves anybody in the society who wants a piece of the company being privatized. When the society is actively involved in this process and emerges in the business sector, it creates a better attitude towards the financial markets and the enterprise world.

Nowadays, the trend in society is one of being more liberal and less conservative, not only socially but economically as well. The government needs to take into consideration some aspects that affects the direction of their fiscal and economic policies:

- The new technologies used in all aspects in society
- The globalization and the right policies to allow it
- The reduction of the public sector in different countries
- Very important and hard fiscal policies

Globalization affects a lot of aspects such as: politics, social, economics, fiscal, etc. Hence, the government has an important role in dictating how international affairs affect the nation and the society. The new technologies have also influenced the society and the government since the services and programs that they offer need to be updated to the latest technological releases. The public sector needs to evolve like the rest of the companies, and in order to do so they need to be more efficient and innovative than in previous years. Because all these factors make it more difficult for the government to manage competitive companies, the global idea of less weight in the public sector has become stronger. The government seeks for new alternatives such as the management shared with private companies or the outsourcing.

Because the public deficit has been increasing for the past years, the reduction of public costs needs to happen, and some of these reductions come from less programs and less publicly held companies. There are also a few factors that affect the public deficit that did not affect in the past:

- More elder people in the society
- Higher number of immigrants
- More women in the job market
- Higher levels of education

Most of these aspects will provoke a higher expenditure in education, social needs, health system, pensions, etc. which are not compatible with the restrictive policies that governments are trying to implement. Because the public expenses seem to keep increasing in the future, there are some measures that the government needs to consider reducing the public deficit. The measures to be considered are: more privatizations, outsourcing and the reduction of the number of public employees (Almón M. A., 2003). The last measure comes along when there are privatizations, so there will be more sectors that will be privatized in the future. Outsourcing we could say is a type of privatization, but in different forms and managed differently as well.

Although I have talked about all these reasons, the truth is that most of the governments do not give any argument or reason of why a company is being privatized. Because they have the power and the tools to do these transactions, the society just hopes that the market will be efficient enough to manage a new company. Nowadays, it is a fact that the market is efficient, and when it is not, it corrects itself in a matter of time. Because the governments also think that the market is efficient, they rely that the companies that go private will be profitable and will return some of these profits in form of money collected through corporation taxes.

4. Efficiency

Before starting to ask whether private companies or public companies are more efficient, we should explain what it means for a company to be efficient. Efficiency is simply a ratio of useful output to total input. For companies, this concept means to use the minimum resources needed to produce a good or service considering the time worked and the energy spent. As mentioned earlier, some of the reasons public companies are privatized is because they are looking for more efficiency, meaning that public companies are using too many resources to produce the output desired. At the same time, when a company becomes more efficient it is able to obtain more profits, since the same good or service is being produced using less resources (expenses). For public companies and for the government, one way to make them more efficient is to go through the process of privatization. To analyze efficiency in both types of companies, I have divided two different sectors: competitive markets and non-competitive markets to make it easier to evaluate this concept.

4.1 Efficiency in competitive markets

According to this statement, public companies do not achieve the same level of efficiency or maximization of profits due to the following aspects:

- Public companies have a political objective that private companies do not have. This aspect makes it hard for these companies to reach the goal of maximization since they need to take in consideration the political needs that exist in that point in time. Here is where the disparity between the goals of politicians and the goals of citizens arise. Not only there is a difference between politicians and citizens, but also between politicians and executive directors of the companies. Directors will look for the maximization of the company while the politicians may have something else in mind. This situation will create a clear argument between both sides, and it will affect the efficiency and development of public companies negatively.
- Having different people with different interests does not provide any benefits to companies since there are not clear objectives and goals to be reached. Therefore, the objective of the public company is not unique (as it is for the private sector, maximization of the benefits), and what is more concerning, the objectives change every time there is a change of government. The problem is not the number of objectives, but the contradictions of such goals or that they are not well delimited (Cos, 2004). As I mentioned earlier, the change of government brings changes in the direction that the company was following. For the directors of the companies, this is a disadvantage because they cannot set goals for the long term. Private companies do not have this disadvantage since most of the companies keep their owners and CEOs for years unless there is a major change in ownership.
- The uncertainty of the objectives and directors of the public companies makes it hard to attract investors. Moreover, the dissemination of property of these companies is done in a bigger scale than in the private sector (in which the citizens are the last shareholder to receive anything) (Alchian & Demsetz, 1972).
- Private companies are subject to the exposure in the capital markets which public companies do not have. Capital markets give a competitive advantage to private companies because they reduce a lot of the inefficiencies that they have (Estrin & Perotin, 1991). The advantages that the capital markets provide to the private enterprises are the following:
    1. One of the techniques to measure the effects of the decisions made by the directors of the company is to look at the price of the shares. In

capital markets, these shares contain a lot information about the status of the company: they tell the story of what happened in the past, as well as what will happen in the future. Public companies lack this information which sometimes leads to a poor decision-making process.

2. The impossibility of the takeover bids (OPA) of the public company by other investors prevent the directors from losing their jobs due to a change in ownership (Cos, 2004). In the markets, when the price of a share drops it means that the decisions being made are not taking the company in the right direction. When the decline of the price is continuous over time, most of the private companies change directors or CEOs to improve this situation. In summary, the market gives the companies the information on how efficient directors are in their managerial role, and based on that, the owner can make changes. Public companies do not have this type of information, and therefore directors do not feel threatened by the lack of efficiency. The changes they can experience are limited to changes in government, and even this situation does not motivate directors to keep the company efficient.

- Public companies cannot go bankrupt since the government helps when there is deficit between revenues and expenses. Therefore, the inefficiency of the management of the company will not be a concern because the government will always offer its support. Although it is true that the government also helps private companies when needed, it is more probable that the government will help a public company before a private company (Schmidt, 1996).
- Another aspect to add is the remuneration and bonuses that executives receive depending on the performance of the company. These bonuses are lower in the public sector than in the private sector. Furthermore, the remunerations in private companies are in the form of shares of the same company in order to align the objectives of the directors and the shareholders together. Using this method, private companies assure that their directors will have an extra incentive to be as efficient as possible since they will benefit from the higher value of the shares. Also, the selection of directors in public companies is based on what political party they are affiliated to and not based on their performance or previous experience.

All these arguments give a clear view of how private companies have a competitive advantage over the public ones due to the capital markets. It is also clear that private companies have more incentives and motivation to perform at a higher efficiency level than public companies.

4.2 Efficiency in non-competitive markets

Efficiency in this sector is more complicated to compare between both public and private companies because inefficiencies of the private companies are not corrected by the market. In this sector, there is a new aspect that helps to analyze the efficiency of the companies: regulation (Cos, 2004). In the case of the private companies, the inefficiencies that were regulated and fixed by the markets in the competitive market sector cannot be fixed in the non-competitive markets due to the lack of competition. However, the same inefficiencies faced by the public companies mentioned earlier are still the same. As I mentioned earlier, public and private companies face their own problems in competitive and non-competitive markets respectively. When the regulation takes place in these type of markets, private companies experience the following problems:

- Companies that are being regulated have the short-term objectives because these objectives change very often due to the governmental shifts. Regulators and shareholders have a conflict of interests because they both have different objectives, sometimes contradictory. This conflict of interest has a negative impact on the performance of the company.
- The government receives pressure from different sectors of the society to regulate some companies and sectors that will benefit them. This situation will limit some companies when they try to maximize their profits. The objectives that the regulators impose in the companies are different than the ones the company already has. Therefore, in the non-competitive market private companies face the same problem of disparity of objectives between the different parties involved.
- The directors of the regulated companies have an advantage over the regulator since they possess information about the essential variables of the company (Shapiro & Willing, 1990). The information held by the company

can contribute to its own benefit but at the same time it can be inefficient because they are not fully disclosing the information to the regulator and therefore not meeting the goals proposed.

Having displayed all the arguments in both competitive markets and non-competitive markets, we cannot conclude that, in general terms, private companies are more efficient than public companies. In competitive markets we can say that private companies are more efficient than public ones, but in non-competitive markets the arguments explained earlier lead to a conclusion that says there is a higher level of efficiency in private companies.

5. Effects of the privatizations

As explained earlier, there are not many studies with results that can explain if private companies are more profitable than public companies because it depends on a lot of external factors such as the type of market and the macroenvironment at a specific moment. However, the studies mentioned before confirm that private companies are more efficient and therefore perform better than private companies in the competitive market. The effects and the results of these studies are done through two different methodologies (Guillén, 2009):

1. Elaborate an analysis of the companies before and after the privatization to show how the entity has improved or worsen its financials accounts. This is the one I will use to analyze the case of AENA. With this methodology, we can analyze the capital invested, the costs and the profits generated under both managements.
2. Analyzing private and public companies that conduct the same activity in the same sector, thus competing against each other in the same environment.

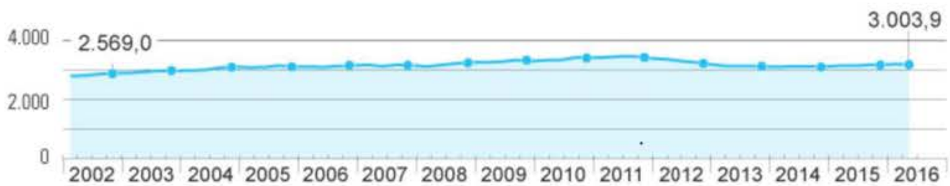
The effects of a privatization can be measured and analyzed from two different perspectives: a) from the company's perspective and how it affected the process directly to its management and benefits, and b) from the State or government's perspective to see how it affected the accounts in the country.

From a company's perspective, we can conclude that companies increase their profitability, efficiency, production and dividends after a privatization (Guillén, 2009). It generally decreases the level of debt of the companies as we will see later when studying AENA's case. According to Cos (2014), when the State is no longer the controlling shareholder, the investment opportunities increase as well as an increase in the capital of the company. However, it is never easy for the State to do a privatization because it brings criticism from different parts of society (Cos, 2004). When doing a privatization, the State loses power and the wealth is more concentrated among the investors, and the society does not see this as a popular policy. Therefore, the government should always have all the support possible to not harm its image. Besides all the economic and social effects mentioned above, the government also needs to implement regulation policies to be applied post-privatization. The company needs to follow the rules of the market, and the State needs to make sure supervisors are monitoring the transaction from publicly held to privately held.

We can conclude that if a country goes through a lot of privatizations the size and the weight of the public sector compared to the GDP will be lower. Nevertheless, after the boom of privatizations that happened worldwide at the end of the 20th century, the public sector has been stable and having to spend more and more as time passes. One of the major impacts that privatizations have on the society is the layoffs that employees suffer at the moment of the process. There are a couple of empirical studies that show how the employment has been reduced after privatization: a) In Argentina, there is a study of five major privatization transactions found that around 30% of employees lost their jobs (Kopicki, 1995) and (Shaikh, 2003); b) in Bangladesh, as part of a privatization program more than 22.000 employees were laid off (Kikeri, 1997); c) In Mexico, there is a study of Mexican airlines that suffered layoffs when the privatization took place, for example the airline Mexicana suffered a reduction of more than 40% of workers (Porta & Silanes, 1997).

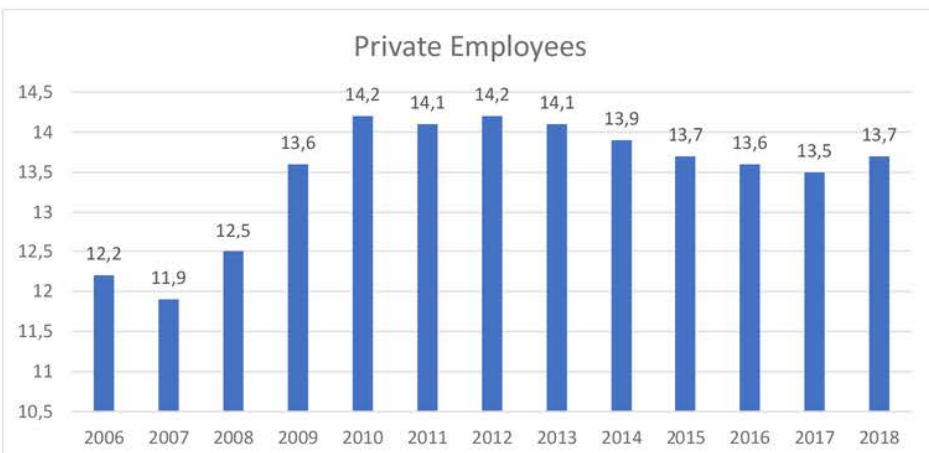
However, when the company starts to function again, and production starts to increase, more people will be hired. There is a comparative study of the pre and post-privatization performance of 61 companies in 18 countries sold through public share offerings showed that almost 66% of the firms increased employment after privatization, by an average of 6% (William L, Robert C, & Matthias, 1996). In the next graphs we can see how the public sector has been stable throughout the years unlike the private sector. Private companies are subject to the economic cycles that a country goes through, therefore we can observe in the graph how the number of private employees vary more than the public sector. However, the public sector is no affected by such situations and continues to have a stable number of public employees even during hard times.

Graph 2: Number of employees in thousands of the private sector and the public sector in Spain.



Source: INE, Instituto Nacional de Estadística

Graph 3: Number of private employees in millions in Spain.



Source: own elaboration based on the Minister of Employment

6. AENA's case

I will analyze the Spanish company AENA through the methodology of comparing its financials accounts in the pre-privatization and post-privatization process. This case is not only about its financials: there are also political reasons behind the transaction, and I will only explain what implications each political party had without showing any type of bias. Because of the complexity of getting information without getting involved on one side or another, my analysis will be solely based on the financial accounts. Therefore, the conclusion I am trying to get from this case is whether the company's performance has improved or worsen since the privatization took place.

6.1 The airport sector in Spain

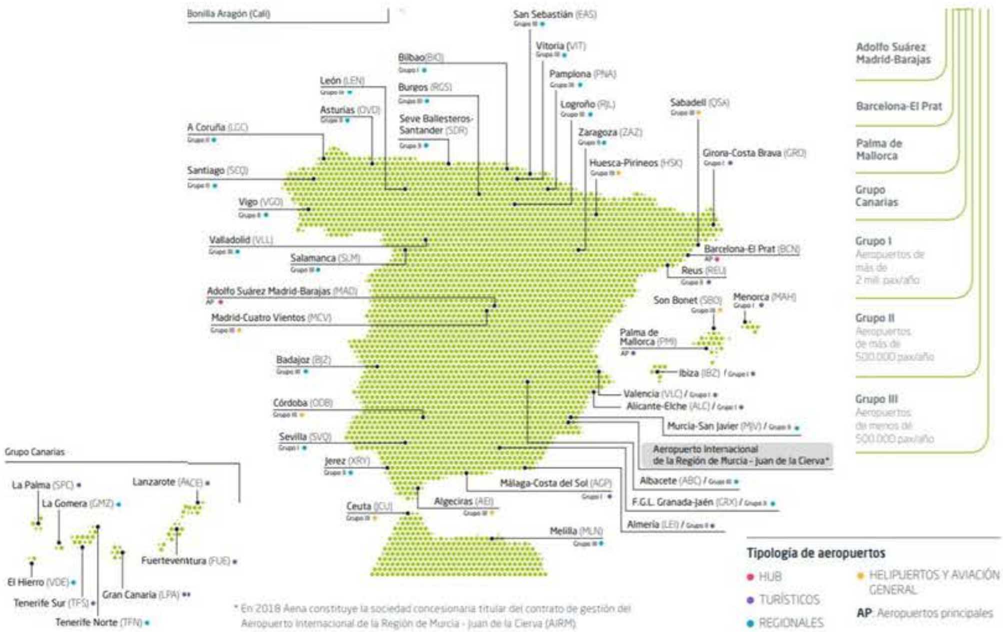
Spain plays a key role in the growth of the air traffic in the last years that we have been experienced worldwide. The growth in international flights has increased faster due to the integration of our country in the global economy. The airports of Madrid and Barcelona are the leaders in our country in terms of number of flights and passengers. These two airports have increased their importance since they are used also as connectors to other international airports. The airport of Zaragoza has increased plays an important role as a logistic base for the merchandise and freight trafficking (Ruiz, 2017).

Spanish airports have always been managed by the government, either through the minister or the public entity AENA that was created by the government in 1990. However, around 2007, the European Union was concerned with the increased in flights delayed in Europe and wanted to finish with the management of the airports by national authorities. Because airports were exposed to more passengers and more flights, it was created a European regulator to control the air traffic without getting involved in the management of each airport.

Currently, AENA is still the only corporation that manages 46 airports and 2 heliports in Spain. It also manages 17 airports in Europe and America. In 2018, 263.8 million of passengers went through the Spanish airports, which it led to a

4,1% growth in international traffic (AENA, Informe anual 2018, 2019). In the illustration shown below, we can see how the airport sector in Spain is composed under AENA's management.

Graphic 1: Structure of the airport sector in Spain under AENA's management



Source: AENA's annual report 2018

6.2 History and background of AENA

The creation of AENA came from the idea of liberalization and access to the market taken place at the of 1988 when the European Committee wanted to improve the management of the international airports by being more flexible and agile. AENA was founded in June of 1991 under the government of Felipe González.

In 2010, the Real Decreto Ley 13 promoted the investment and creation of jobs, which included the upgrade of the airport system along with a new idea of management. During this year, the numbers for the company were not positive. Only 11 airports out of 46 were profitable, the debt reached a total of 12.415 million euros and a net worth of 15.986 million euros (AENA). Consequently in

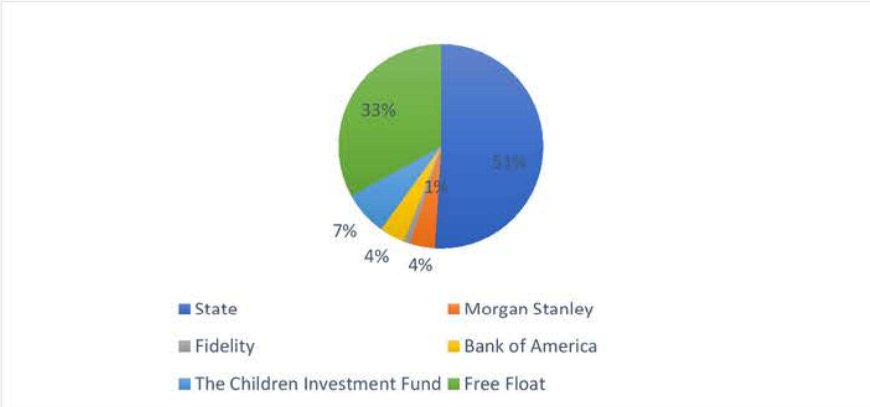
2011, AENA Aeropuertos was created as a mercantile society. In 2014, the name was changed to AENA, S.A. the corporation held 51% of the public business ENAIRE, which is the manager of the air traffic in Spain.

6.3 The process of privatization of AENA

Although the IPO happened in 2015, the process started as early as in 2011. The Partido Socialista Obrero Español (PSOE) proposed the privatization of 49% of AENA in the Minister council. In 2012, there was a proposal to privatize only the airports of Madrid and Barcelona for a price of 230 million euros in total. Due to the high level of debt of the company at the end of 2011, this process was postponed a few months later. However, at the end of 2011 the Partido Popular won the elections and put aside the process of privatization. The reason they gave to not proceed with the transaction was that they did not want both airports to compete against each other. Furthermore, they thought that AENA was more valuable as a whole and not divided in different airports. At the end of 2014, the announcement of the partial privatization was made, 49% and the other 51% was kept by the State. Out of this 49%, 21% would go to professional and known investors and the rest 28% would go into the stock market through an IPO.

The market capitalization of AENA when they launched the IPO was 8.700 million euros. The IPO opened with shares quoting at 58 euros, and the market closed the day quoting the shares at 70,14 euros, thus an increase of 20,9% since the opening. The state received around 4.200 million euros for the 49%, which we can conclude from the behavior of the market of the first day, the valuation was undervalued. To have a clearer picture of how the capital structure of AENA was created, the graph below shows the composition in February of 2015.

Graph 4: Capital structure of AENA as of February 2015

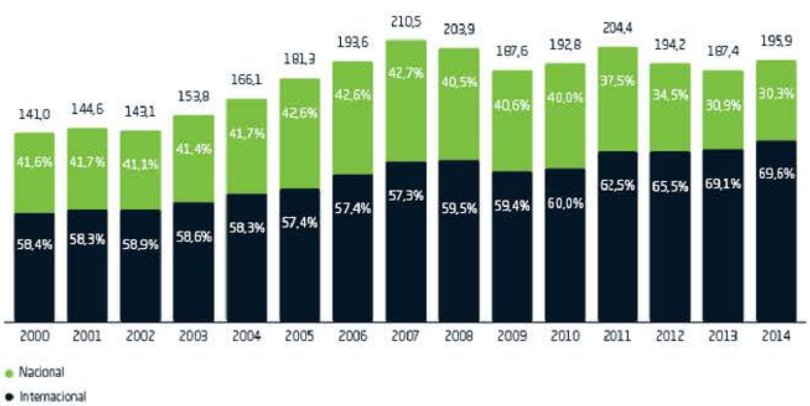


Source: own elaboration based on data from Comision Nacional del Mercado de Valores (CNMV)

6.4 Financial analysis of AENA before the privatization

In 2014, AENA reached the amount of 195,9 million of passengers, which increased a 4,5% from 2013. It had 1,8 million of flights, which also increased by 2,3% since previous year. The evolution of the number of passengers was positive until the crisis of 2008 that affected negatively this aspect. Since 2008, the number of passengers has been unstable and very variable from one year to another. In the graph 5 we can observe this evolution since 2010 to 2014 and the percentage of national and international passengers.

Graph 5: Evolution of the passengers' traffic by types



Source: AENA annual report of 2014

Although aviation is the main activity, commercials activities have been very important for the company reaching the second main source of revenue. The implementation of the tax-free stores is a very attractive method to reach out to more customers. Restaurants and places to eat are very attractive to passengers, and the company offered a variety of Spanish food at the airports, without the need to go in the cities to experience it. AENA mentions the main strategies that used to improve in the commercial business line:

- Redistribution of the stores to occupy a better strategic place, increasing the number of stores offered and the improvement of the passenger traffic through them.
- They upgraded and improved the leasing contracts with the stores by improving equity income and guaranteeing a minimum income.
- They offered more and better brands known worldwide.

6.4.1 Revenues and Costs

In table 3 we can observe the breakdown of the turnover of the commercial business line of AENA.

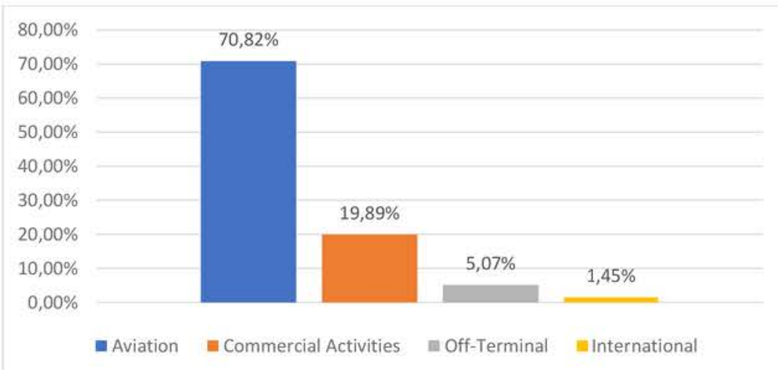
Table 3: Commercial business line, thousand euros

Commercial Services	***2013***	***2014***	***Change***	***% Change***
Leases	30,015	26,917	-3,099	-10.3%
Stores	72,929	69,919	-3,010	-4.1%
Duty Free	140,925	186,054	45,129	32%
Food & Beverages	92,417	112,892	20,476	22.2%
Car rental	98,529	100,355	1,826	1.9%
Advertising	25,904	27,610	1,706	6.6%
Other commercial revenue	92,070	105,671	13,601	14.8%
Commercial ordinary revenue	**552,789**	**629,418**	**76,630**	**13.9%**

Source: own elaboration based on AENA's annual report of 2014

The company has 4 segments regarding its revenues distribution: a) commercial, b) off-terminal services, c) international and d) aviation. Aviation accounts for most of the revenues generated by AENA, totaling a 70,82%. However, aviation's revenue in 2013 was a 74,07% of the total revenue which explains the efforts that AENA put into improving other aspects of the company. On the other hand, commercial activities have increased, which confirms the trend of the airport industry of the importance of non-aviation activities for the excellent performance and success of the airports (Matos, 2015).

Graph 6: Total revenue per segment in 2014 (%)



Source: own elaboration based on AENA's annual report

In terms of revenues and the results at the end of year, AENA has improved since 2011. In 2011 and 2012 the company had negative results due to the low margin between the revenues generated and the costs carried. The company was able to reduce the costs and increase the revenues which allowed them to have a bigger EBITDA in 2014. As mentioned before, the restrictive spending policy that the company applied, it turned out to be positive for the firm as we can see in table 4. Thanks to this trend, AENA has more cash to repay the debt and thus reduce it year by year.

Table 4: Important financial data, numbers in thousand euros

	2011	2012	2013
Total Revenues	2.474.608	2.671.557	2.931.645
Total Costs	(2.439.335)	(2.450.555)	(2.189.857)
EBITDA	869.416	1.054.423	1.559.520
Net Income	(214.522)	(63.526)	596.655

Source: own elaboration based on data from AENA (2105)

As observed in the previous table, there has been a significant cost reduction thanks to the efficiency plan implemented in 2012. Operating expenses is the most important and largest expense on the financial accounts of AENA, and from 2011 to 2014, operating expenses have been reduced. Operating expenses include costs mainly related to security measures, staff costs, amortization and depreciation and all the fees that AENA has to pay to the respective institutions for the regulation and supervision activities performed (AENA, 2015). The decline of these expenses is the result of the centralization and externalization strategies, new contracts with suppliers and contractors and the fully optimization of the resources.

6.4.2 Debt

One of the roughest years for AENA was 2010, when its debt increased to 12.400 million. That is the moment where the government thinks of privatizing the airports of Madrid and Barcelona, although it never happened. Since that moment, AENA improved all its strategies (as we have seen in the commercial area), including the decrease in investments and other costs (such as layoffs of employees), which led to a decrease in total expenses by 2012. AENA was preparing itself for the privatization, and it had to do it under the best circumstances. The level of debt reached at the end of 2010, was the turning point of AENA, since that moment, the goal was to obtain more profits by decreasing costs and expenses.

Regarding the net debt, it has been decreasing since 2011 because it follows the decline in capex. The evolution of Net Debt/EBITDA has also been decreasing due to the decrease in debt and the increase in EBITDA. Because the firm has been able to generate enough free cash flow to pay the debt, the decrease in this ratio is a good sign for the company. Most of the total liabilities come from the net financial debt of the company, around 82% of the liabilities.

Table 5: Important financial data, numbers in thousand euros

	2011	2012	2013
Total liabilities	14.457.249	14.279.689	13.406.211
Net financial debt	12.196.025	12.077.472	11.393.718
EBITDA	869.416	1.054.423	1.559.520
Net financial debt/EBITDA ratio	13,7x	11,1x	6,9x

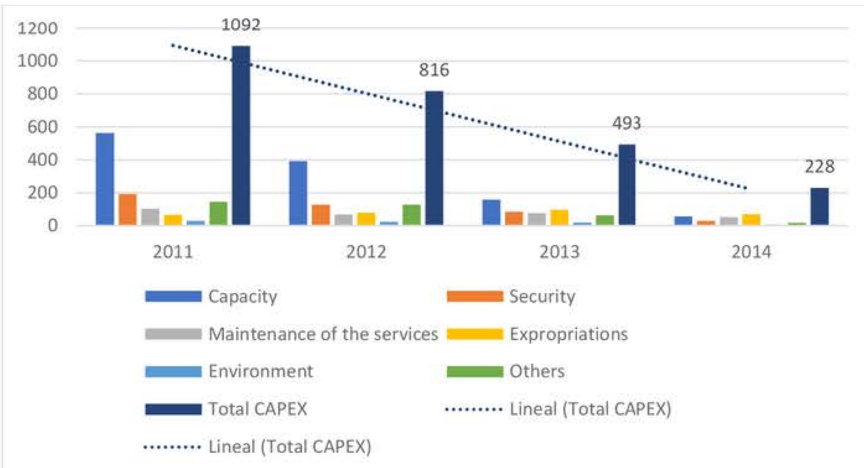
Source: own elaboration based on data from AENA (2105)

One of the main problems that AENA had with its debt came from the unprofitable airports of its corporation. Only 10 out of 46 airports had a positive net result at the end of 2013. Some of these airports are opened too many hours for low air traffic that they have, that is paying for a lot of costs when there is not any type of profits being generated. Annex 3 illustrates what airports were profitable and which ones were not and the benefits generated, if any.

6.4.3 Capital Expenditures and Depreciation & Amortization

There are a few reasons of why the debt of AENA have reached high levels: because the passengers and airlines needs were increasing and demanding innovation and because airports had to fulfill these desires by upgrading the infrastructures. AENA was not going to get behind, so it invested in the improvement of commercial installations (as explained previously), the construction of more terminals or upgrading the existing ones which it led to a construction of new public transportation to get to them. All the investment and effort put by AENA had its compensation, as Madrid and Barcelona are considered ones of the best airports in the world. These investments were reflected in CAPEX up until 2011 (when they finished all the major renovations). We can see in graph 7 where the CAPEX was invested on and the amounts, there is a clear downwards trend in investments as years pass by.

Graph 7: Evolution of CAPEX: 2011-2014 in million euros



Source: own elaboration based on data from AENA (2015)

6.4.4 Working Capital

Regarding working capital, inventory in this case is the least relevant element given the type of activity carried by AENA. On the other hand, we have other elements in the balance sheet important for the working capital of the company, such as Trade and Other Payables and Accounts Receivable. Before 2014, AENA did not have enough working capital to face all the short-term liabilities that the company had. AENA's liquidity and efficiency were in low levels in 2013, however, it looks like AENA has enough working capital in 2014 to all the business needs for a year.

Table 6: Important financial data, numbers in thousand euros

	2013	2014
Current Assets	622.553	1.068.427
Current Liabilities (minus financial debt)	811.479	871.028
Working Capital	-188.926	197.399
Working Capital Needs		386,325

Source: own elaboration based on data from AENA

6.4.5 Cash flows

In this chapter I will analyze the cash flow statement, which includes operating cash flow, financing cash flow and investing cash flow. These three items are very important to asses whether AENA has good liquidity, flexibility and an overall accounting and financial performance. In 2011, although the company generated a positive total cash flow amount, it was a low number for such company. As showed in the table, cash flows were improving thanks to the effective strategy implemented by the company.

Table 7: Cash Flows generated from 2011-2013, numbers in thousand euros

	2011	2012	2013
Operating CF	531.691	913.947	1.196.912
Investing CF	(1.082.666)	(813.312)	(550.219)
Financing CF	548.070	(95.741)	(642.526)
Total CF	3.316	8.210	12.377

Source: own elaboration based on data from AENA (2015)

a) <u>Cash flow generated by operating activities</u>

Most of the payments received by AENA came from clients, from airlines companies and from commercial rents (stores, restaurants, exchange money companies, etc.). On the other hand, the payments made by AENA went to providers, staff and local and state taxes. The increase in this aspect can be explained by the increase in the results of the company before taxes and the positive operating working capital variations, this improvement is also reflected in the EBITDA showed in table 5. All these improvements reflected in the financial accounts are the consequences of the increase in commercial revenues, the reduction in costs and the right implementation of the aeronautics tariffs according to the air traffic.

The interests were also reduced since the debt decreased as well. Most of the interests paid include the net financial debt with Enaire and the interests on the delayed expropriation activities. In 2013, AENA signed a contract with World Duty Free Group España, S.A., which it totaled an amount of 278.933 thousand euros according to the annual report of 2014. The operating cash flow reached in the last year it is a sign that the company can grow its operations without requiring any type of external financing.

b) <u>Cash flow generated by investing activities</u>

The investments made include acquisitions and tangible assets to improve and upgrade the infrastructures of the airports. Once the company completed most of the renovations and acquisitions in 2011, the investments decreased by almost 50% in two years. AENA's investments after 2011 were basically in capital assets, such as plant and equipment, lower the investment in CAPEX the lower the investing cash flows is. All the cash used in investments should deliver value in the future for the company.

c) <u>Cash flow generated by financing activities</u>

These cash flows are used to finance the company, like debt equity or dividends. The positive cash flows came from the new long-term debt contracted with Enaire in 2011 and the negative ones came from the return of some loans to pay the debt in 2012 and 2013. In these years, AENA's capital needs had been fulfilled with the cash generated in operating activities. Thanks to the increase in the operating cash flow, the firm was able to cover both the investing and financing cash flows.

With the positive total cash flow generated at the end of 2013, we can conclude that they have enough money to settle the debts, to pay expenses and to face a negative situation.

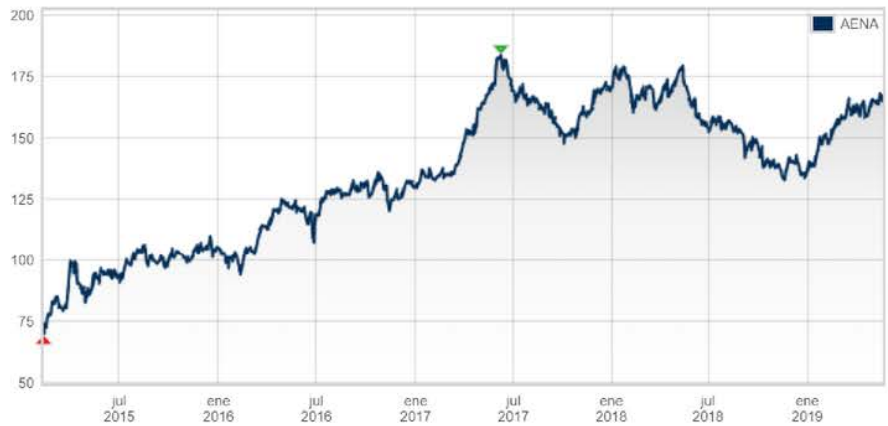
6.5 Review of AENA's situation before the privatization

As I mentioned in the previous chapter, there is a turning point in AENA's history and that is when it reaches high levels of debt at the end of 2010. Since that moment and with the idea of a future privatization, the company changed its strategy and started to reduce costs, optimize their resources and increase revenues. All that helped the company to start repaying its debt, to be more efficient and competitive, and to generate enough cash to maintain its business operations without the need of external financing. It is true that the company changed when they knew it would be privatized, that way the company would value more, and they would get more money for the percentage sold later. Nevertheless, it does not take any credit away from the government, who was able to turn around a company that it seemed to be very leveraged, and who knows if it would have gone to bankruptcy.

6.6 Financial analysis of AENA's situation after the privatization

One of the most successful IPOs in the last years has been AENA's in terms of profitability, since it first opened in the stock market to the first quarter of 2018, the company reached 182% of profitability. It all started in February 11th of 2015 when the share was quoted at 58 euros. As of May 23rd, 2019, the share is quoting at 168,5 euros. We can appreciate the upwards trend that the share has had since it first entered the stock market.

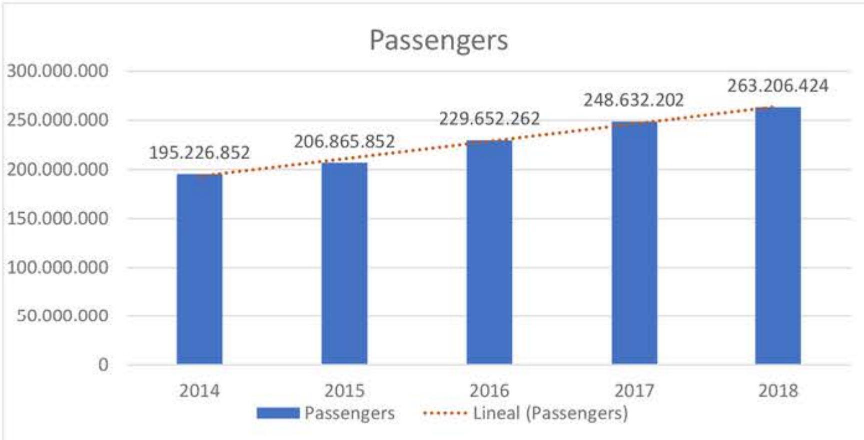
Graph 8: Evolution of the price of AENA's share



Source: bolsas y mercados de madrid

The analysis will be conducted from 2015 to 2018 and it will be compared with previous years to see the differences between both periods of time. The business lines are the same except that they have incorporated real estate services, which in 2018 totals a 1,4% of the EBITDA (Aena, 2018). These real estate services include land, logistics centers, warehouses and hangars and executive aviation. Air traffic has been increasing constantly since 2014, reaching the highest number of passengers in 2018, 263 million passengers, 4,1% more than in 2017 (Aena, 2018). It is the leading airport infrastructure operator in the world in terms of passenger volume. Aena depends on the tourism, specifically in Spain, therefore, if Spain is attracting tourists Aena will grow along with the country. Official numbers from the government, in 2017, Spain was the second most visited country in the world with 82 million tourists (record high), which 82% of them arrived through airplanes. Tourism contributes to 11% of the total Spanish GDP.

Graph 9: Evolution of the passengers from 2014 - 2018



Source: own elaboration based on AENA's annual reports

Company's strategies have changed since the privatization, one of the main strategies is to maximize the value of its shareholders. AENA continue to look and promote new business lines to increase the value and the attractiveness of the company (as they did with the real estate services). AENA divides the strategies in two different pillars: regulated business (aeronautical activity) and non-regulated business (commercials services, real estate and international). According to the strategic plan presented by the company in 2018, AENA is working on different aspects to grow the value of the company: a) continue to expand and adjust the capacity of the airports, b) improve the quality of the services offered, c) innovation of the technologies with the development of the digital business, d) minimize the environment impact, e) redesign and improve the commercial activities, f) capital allocation, g) continue to promote and train their employees to seek for talent.

6.6.1 Revenues and Costs

As the company has increased the business lines, revenues have been increasing since 2014, 32% increase from 2014 to 2018. The activity that has contribute the most to this increase was the commercial services, around 81% of increase since 2014. This was possible thanks to the investment made to increase the number of stores and the quality of the commercial activities offered at the airports.

Table 8: Revenues per business line from 2014 - 2018 in millions

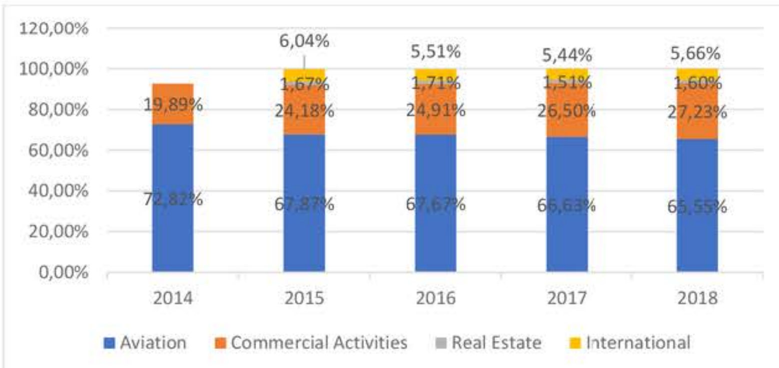
	2014	***2015***	***2016***	***2017***	***2018***
Leases	26,9	25	26,5	32,1	33,6
Stores	70	82,3	89,7	91,7	106,4
Duty Free	186	250,1	285,1	309	318
Food & Beverages	112,9	132,1	164,5	175,6	200,7
Car rental	100,4	104,5	114,5	149,4	152,7
Advertising	27,6	28,6	30,3	31,6	33,2
Parking	*	*	*	132	143,8
VIP Services	*	*	*	41,1	64,2
Other commercial revenue	105,7	114,9	119,2	86,8	91,5
Commercial ordinary revenue	**629,4**	**850,7**	**939,8**	**1.049,3**	**1.144,2**
Aviation Revenue	**2.304,8**	**2.387,6**	**2.553**	**2.638,5**	**2.754,2**
International Revenue	*	**212,5**	**208**	**215,3**	**237,9**
Real Estate Services	*	**58,6**	**64,6**	**59,7**	**67,2**
Total Revenue	**3.165**	**3.517,8**	**3.772,5**	**3.960**	**4.201,4**

Source: own elaboration based on AENA's annual reports

(*): not stated by the company

AENA has implemented real estate services as a new business line to continue to expand its activities to gain more value. Since 2014, international and real services have provided around 7% of the total revenue generated. We can see in the graph below how the aviation drops its contribution to the total revenue in exchange of the increase of the commercial, international and real estate services. The graph illustrates the new strategy that the company has followed since the privatization, which is to increase the number of business lines and to innovate and promote commercial activities.

Graph 10: Total revenue per segment from 2014 - 2018 (%)



Source: own elaboration based on AENA's annual reports

In terms of revenues and net income, the company has increased both numbers by 36% and 179% respectively. The reason why this was possible is because the costs only increased 16%, therefore AENA was able to keep costs low, which means that they are able to generate more revenues at almost the same cost as before. In 2018 the costs suffered a higher increased than in previous years due to the costs of services provided by third parties. The efficiency and optimization strategy applied by the company can be best illustrated in the table shown below.

Table 9: Important financial data, numbers in million euros

	2014	2015	2016	2017	2018
Total Revenues	3.165	3.517,8	3.772,5	4.027,6	4.320,2
Total Costs	(2.113,2)	(2.265,6)	(2.304,7)	(2.310,2)	(2.470)

EBITDA	1.866,7	2.098,4	2.293,6	2.517,4	2.656,6
Net Income	475,7	830,8	1.164,4	1.232	1.327,9

Source: own elaboration based on data from AENA's annual reports

6.6.2 Debt

Debt has been the most improved financial element since the privatization took place. Since 2014, the company has been able to reduce its debt by 36% to a total of 6.573 million euros in 2018. Only 10% of the total debt is current, and the rest is non-current debt which includes loans and borrowings from banks and other financial long-term liabilities. The company decreased both current and non-current debt and increased EBITDA, which the net financial debt to EBITDA dropped from 5,7x to 2,5x in 2018. The decrease in the financial debt is due to the increase in revenues and keeping the costs low, and the generation of more cash at the end of the year. Unfortunately, AENA does not publish the financial results of each airport, it publishes the results as a company, so we cannot conclude if the airports individually are reducing its debt or not.

Although AENA has dropped the level of debt, it is still considered a high leverage company, as most of the large capitalization companies. This statement is not surprising since for large-caps businesses it is often more expensive to issue equity than debt. For analysts, to asses if a company can sustain its level of debt is by comparing earnings before interest and taxes (EBIT) and net interest payments. At the end of 2018, the ratio was 10,59x which suggests that interest is well covered by the earnings of the company.

Table 10: Important financial data, numbers in million euros

	2014	**2015**	**2016**	**2017**	**2018**
Total liabilities	13.838,6	12.663,1	10.488	9.619,6	8.875,3
Net financial debt	10.382,3	9.401,7	8.228	7.276	6.573

EBITDA	1.866,7	2.098,4	2.293,6	2.517,4	2.656,6
Net financial debt/EBITDA ratio	5,7x	4,5x	3,6x	2,8x	2,5x

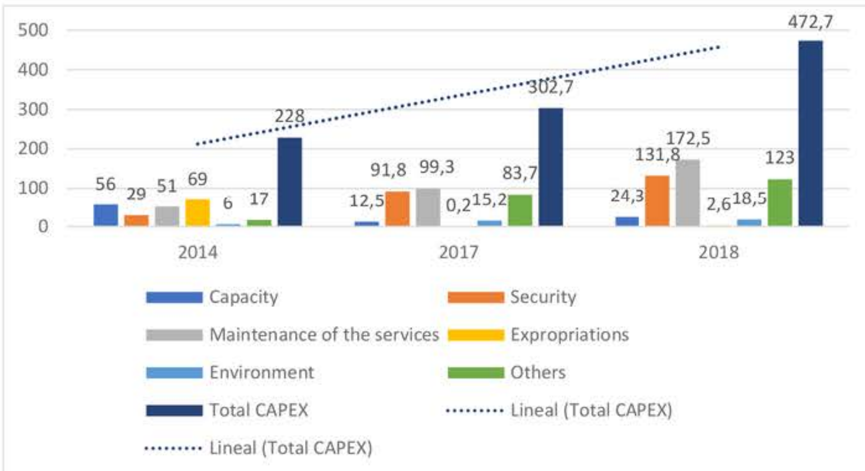
Source: own elaboration based on data from AENA's annual reports

6.6.3 Capital Expenditures and Depreciation & Amortization (CAPEX)

Before the privatization, AENA was looking to expand its capacity by either expanding the existing airports or buying new land and terrains to develop other type of services. As we ca observe in the graph, AENA has changed its strategy towards the expenditure of capital. In previous years, CAPEX was put towards capacity, but in the last years, money has been spent on security and maintenance of the services. Regarding the CAPEX spent in security, AENA improved the safety in the aircraft movement area at the airports of Fuerteventura, Tenerife South, Girona and Bilbao. The company also allocated the money towards new automatic systems (mobile X-ray, access control and passport access control) implemented inside the airports to provide more security to the passengers. CAPEX in security represented 28% of total capital expenditure. However, the biggest capital expenditure in 2017 and 2018 was in maintenance of the services, representing a 33% and 37% respectively. It was used to improve the aprons and the footbridges of some of the airports: Tenerife South, Palma de Mallorca, Lanzarote and Malaga.

The other segment or area that AENA has spent more capital on compared to before the privatization is other investments, which represented 26% of the total CAPEX. This area includes information technologies, projects for improving commercial and real estate profits and the improvement of parking systems throughout all the airports. These improvements help to store information and to have a better communication infrastructure that ensures the functionality of the airports. As technologies have become more relevant in our lives, they are so for companies, no matter the industry they belong to. In 2018, AENA invested in this segment more than 600% than in 2014, which represents how fast the technologies are moving and how the companies invest on them to continue to be competitive.

Graph 11: Evolution of CAPEX: 2014 and 2017 - 2018 in million euros



Source: own elaboration based on data from AENA's annual reports

6.6.4 Working Capital

Although AENA has been able to reduce its debt after the privatization, current liabilities have been exceeding current assets, which means that the company may not be able to meet short-term obligations easily. The reason why current liabilities are higher than current assets these past few years is because the account "Trade and other payables" has increased due to the increase of suppliers of fixed assets linked to the increased also to the volume of investment. We can see a clear change in working capital before the privatization and after, AENA experiences negative working capital due to the change in the capital structure. Nevertheless, the cash generated from operating activities is more than enough to cover the short-term obligations that the company carries.

Table 11: Important financial data, numbers in thousand euros

	2014	2015	2016	2017	2018
Current Assets	1.068,4	1.087,8	1.011,1	1.213,8	1.113,5

Current Liabilities (minus financial debt)	871	1.842,9	1.525,9	1.484,4	1.503,4
Working Capital	197,4	-755,1	-514,7	-270,6	-385
Working Capital Needs		-952,5	240,4	244,1	-114,4

Source: own elaboration based on data from AENA's annual reports

6.6.5 Cash Flows

As mentioned earlier, AENA has generated enough operating cash to cover the current debt or liabilities in order to not be in a bad financial situation. Since 2014, the company has improved the ability to generate more cash flow at the end of the years. The main cash inflows from operating activities come from payments from customers (airlines and commercial tenants), however, since AENA has more capacity to hold more airlines and more flights and it also has more commercial services, there are bringing more cash into its accounts.

Regarding the cash flow from investment activities, as we saw in the section of CAPEX, the company has made various investments on acquisitions and replacements of airport infrastructures. These investments also focus on improvements of facilities and security at the airports.

The main difference from the period of pre-privatization and post-privatization is the outflows corresponded to the payment of dividends. Payments of dividends were a total of 993,4 million euros in 2018, which is a 60% of the total of the financing cash flow. The positive increase of total cash flow leaves AENA in a very healthy position to face any challenge it may have in the future, since it has proven that it has generated enough cash to stay liquid.

Table 12: Cash Flows generated from 2014-2018, numbers in million euros

	2014	2015	2016	2017	2018
Operating CF	1.346,2	1.629	1.834,7	2.014,6	1.947,6

Investing CF	(280,9)	(254,4)	(291,6)	(361,6)	(502,3)
Financing CF	(642,5)	(1.109,7)	(1.533,1)	(1.364,3)	(1.648,9)
Total CF	290,3	556,7	564,6	855	651,4

Source: own elaboration based on data from AENA's annual reports

7. Conclusions of AENA's case

As I have tried to explain throughout the case, AENA suffered a major change of strategy and management of the company when they knew the company was going to be privatized in 2011. Before this date, AENA was in "red numbers" meaning that the net income was negative due to the high number costs. In 2012 the efficiency plan was implemented to reduce the costs and expenses that the company carried. Another big concern was the high level of debt, which they reduced right before the privatization to have a better value and therefore, to try to get the best valuation possible from future investors. Regarding the cash flows generated by AENA before 2012 were barely positive and if they had had to face any unexpected event, they would have had liquidity problems. These major changes that the company made were a consequence of the new objective: to maximize the value of the company before the privatization. I ask myself then: with the right incentives and motivations, are public companies able to perform at the same level of efficiency and competition as the private companies? AENA has showed evidences that it could have done it, so why were not they managing the company the same way?

AENA has become one of the companies listed in Ibex 35 and it is experiencing good numbers in terms of net worth and cash flows. After the privatization, AENA continued to decrease its debt reaching low levels. Net income has increased over 64% since the privatization and the cash flows generated have doubled since 2014. The strategies of the company have changed, but the major objective is to maximize the value of the company, thus maximizing the value of the shareholders.

In summary, with the data analyzed we can conclude that in this case, AENA has had a positive outcome from the privatization. What we cannot answer is whether the company could have reached the same results or not under the full control of the government.

8. Conclusions

The privatization of the public companies was very used by a lot of countries that wanted to improve and update the economy, to improve the management of the companies or to collect revenues to reduce the deficit and public debt. In Spain, in terms of reasons, there were two types of privatizations: a) the sale of public companies that were experiencing losses or that needed new capital investments, b) the sale of the companies by phases in a monopolistic market or where they were the leader of the sector. Most of the privatizations in Spain where of this type “b”, which leads us to conclude that the main reason of the Spanish government to privatize was to collect funds for the State budgets.

The purpose of this thesis was to answer the question if privatization is the right solution for public companies that are not experiencing financial health. To answer this question, it was needed to analyze all the possible factors that can affect such process. As other studies have tried to analyze whether private companies are more efficient or not, the results are inconclusive. As I have explained earlier, it depends whether the companies are in competitive markets or not, the lack of incentives and clear objectives and other factors already mentioned. In competitive markets we can say that private companies do have a better performance and efficiency than public ones, however, in non-competitive markets there are not clear evidence that support that argument.

When talking about the performance and the efficiency of a company, we cannot only focus on the privatization, since other factors need to be taken into consideration: a) how much of the control the State continues to have after the privatization, b) the contribution of capital by foreign investors, c) the economic, political and competitive environment, d) size of the company (Garcia & Anson).

The improvement of the efficiency after privatization is one of the most challenging arguments to be answered yet. The study done by Cos in 2004 where 33 privatized companies were analyzed, shows that the is a positive effect on the productivity factor, not the efficiency.

Nevertheless, the study shows how the cash flow improves under the private management which agrees with my analysis of AENA. Therefore, more cash flow means more resources that leads to better levels of productivity. The studies that show a better efficiency after privatizations focus on one sector, therefore, we cannot extend the analysis to the rest of the sectors and make a false assumption that companies experience a higher level of efficiency after privatizations.

The general results are again inconclusive in terms of efficiency; however, it has been proven that there is a positive effect on productivity and sales. This thesis has proven that in the case of AENA, privatization has had a positive effect on the company, but we cannot expand this hypothesis to the rest of privatizations. It has also showed that to be able to study such complex concept, it is required to study the economic and political environment as well as the characteristics of the company to see the success or failure of the privatizations.

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Annex

1: Privatizations from 1985-1996 in Spain

Year	Company	% Sold	Type of Privatization
1985	Cesquisa	45	Direct Sale
	Gossypium	100	Direct Sale
	Igfisa	100	Direct Sale
	Ingenasa	65	Direct Sale
	Marsans	100	Direct Sale
	Secoinsa	69	Direct Sale
	SKF Española	99	Direct Sale
	Textil Zaragoza	70	Direct Sale
1986	Aluflet	40	Direct Sale
	Entursa	100	Direct Sale
	Fovisa	100	Direct Sale
	Frigsa	100	Direct Sale
	Gesa	39	Initial Public Offering
	Gypsia	100	Direct Sale
	Indugasa	50	Direct Sale
	Ingenasa	14	Direct Sale
	Insisa	60	Direct Sale
	Issa	100	Direct Sale
1986	La Luz	100	Direct Sale
	Motores MBD	38	Direct Sale
	Pamesa	100	Direct Sale
	Remetal	61	Direct Sale
	Seat	75	Direct Sale
	Telesincro	71	Direct Sale

1987	Acesa	29	Initial Public Offering
	Alumalsa	44	Direct Sale
	Amper	68	Initial Public Offering
	Dessa	80	Direct Sale
	Diasa	50	Direct Sale
	Evatsa	100	Direct Sale
	Litofan	100	Direct Sale
	Miel Española	51	Direct Sale
	Miraflores		Direct Sale
1988	Aluasur	67	Direct Sale
	Ence	39	Initial Public Offering
	Endesa	20	Initial Public Offering
	Intelhorce	100	Direct Sale
	Telesincro	34	Direct Sale
1989	Ancoal	75	Direct Sale
	Astican	91	Direct Sale
	Ateinsa	85	Direct Sale
	Enfersa	80	Merger with FESA
	Ingenasa	2	Direct Sale
1989	Motores MBD	22	Direct Sale
	MTM	85	Direct Sale
	Oesa	100	Direct Sale
	Pesa	97	Direct Sale
	Repsol	26	Direct Sale
1990	Adaro Indonesia	80	Direct Sale
	Coifer	50	Direct Sale
	Dirsa	75	Direct Sale

	Hytasa	100	Direct Sale
	Imepiel	100	Direct Sale
	Remetal	1	Direct Sale
	Repsol	5	Direct Sale
	Salinas Torrevieja	39	Direct Sale
	Seat	25	Direct Sale
	Seb. De la Fuente	100	Direct Sale
1991	Ateinsa	15	Direct Sale
	Coisa	100	Direct Sale
	Enasa-Pegaso	60	Direct Sale
	Enfersa	20	Merge with FESA
	Fridarago	100	Direct Sale
	Grupo Empresas Álvarez	90	Direct Sale
	Jobac	70	Direct Sale
	TSD	100	Direct Sale
1992	Grupo Empresas Álvarez	10	Direct Sale
	Icuatro	100	Direct Sale
1992	MTM	15	Direct Sale
	Repsol	10	IPO convertible bonds
1993	Grupo Royal Brands	100	Direct Sale
	Argentaria	50	Initial Public Offering
	Automoción 2000	100	Direct Sale
	Enasa	40	Direct Sale
	F. San Carlos	100	Direct Sale
	Ibermática	100	Direct Sale
	Ineco	55	Direct Sale
	Palco	50	Direct Sale

	Repsol	14	Initial Public Offering
1994	ASDL	88	Direct Sale
	Arteespaña	100	Direct Sale
	Caivasa	100	Direct Sale
	C. Transatlántica	100	Direct Sale
	Enagás	91	Direct Sale
	Endesa	9	Initial Public Offering
	Gyconsa	9	Direct Sale
	Ineco	11	Direct Sale
	Palco	50	Direct Sale
	RJR	11	Direct Sale
	Telesincro	26	Direct Sale
1995	Ence	12	Initial Public Offering
	Indra	25	Direct Sale
	Jobac	30	Direct Sale
	Lesa	100	Direct Sale
1995	Refinalsa	50	Direct Sale
	Repsol	19	Initial Public Offering
	Sidenor	100	Direct Sale
	Telefónica	11	Initial Public Offering

Source: own elaboration based on (García Á. C., 1997), (Gámir, 1999)

2: Privatizations from 1985-1996 in Spain

Year	Company	% Sold	Type of Privatization
1996	Argentaria	23	Initial Public Offering and direct sale
	Auxini	40	Initial Public Offering
1996	Gas Natural	4	Initial Public Offering
	Repsol	11	Initial Public Offering and direct sale
	Sagane	91	Direct Sale
	Sefanitro	53	Takeover bid
1997	Aldeasa	75	IPO (80%) and direct sale
	Almagrera	100	Direct Sale
	Auxini	60	Direct Sale
	CSI (Aceralia)	100	IPO (52,8%) and direct sale
	Elcano	100	Direct Sale
	Enagás	9	Direct Sale
	Endesa	28	Initial Public Offering
	Ferroperfil	100	Direct Sale
	Hijos J.Barreras	100	Direct Sale
	Longraf	100	Direct Sale
	Infoleasing	100	Direct Sale
	Repsol	10	Initial Public Offering
	Retevisión	70	Bankruptcy
	Sodical	51	Direct Sale
	Surginic Plus	50	Direct Sale
	Telefónica	21	Initial Public Offering
	TISA	24	Direct Sale
1998	Aldeasa	5	Institutional Placement

	Argentaria	27	Initial Public Offering
	Comee	100	Auction
	Endesa	30	Initial Public Offering
1998	Grupo potasas	100	
	Inespal	100	Direct Sale
	Inima	100	
	Productos tubulares	100	Direct Sale
	Serausa	100	Auction
	Tabacalera	51	Initial Public Offering
	Tabacalera	3	Institutional Placement
1999	Astander	100	CCRPN
	Enatcar	100	CCRPN
	Iberia	40	Direct Sale and CCRPN
	ICSA/AYA	100	CCRPN
	Indra	66	Initial Public Offering
	Initec	100	CCRPN
	LMT	50	Direct Sale
	REE	35	Initial Public Offering
	Retevisión	30	Auction
	Telefónica	0	Institutional Placement
	TGI	100	CCRPN
2000	CASA	100	Shares exchange
	COPE	2	Direct Sale
2001	Iberia	49	Initial Public Offering
	Conversion Aluminio	100	CCRPN
	Santa Bárbara	100	CCRPN
	Ence	51	CCRPN

	Interinvest	99	CCRPN
	Expasa	7	Auction
2001	Babcock & Willcox	100	CCRPN
2002	Coosur	89	CCRPN
	Olcesa	100	CCRPN
	Expasa	8	Auction
	Trasmediterránea	94	CCRPN
	Químico del Estroncio	51	CCRPN
2003	ENAUSA	100	CCRPN
	Musini	100	Bankruptcy
	Musini Vida	92	Bankruptcy
	Ebro-Puleva	4	CCRPN
	TURBO 2000	50	Bankruptcy

CCRPN: Concurso con convocatoria restringida y procedimiento negociado. In English, competitive bidding

Source: own elaboration based on data from (García Á. C., 1997), (Gámir, 1999)

Annex 3: Spanish airports financial results as of 2013, numbers in million euros

AIRPORTS	NET RESULT	DEBT
ALBACETE	-2,87	33,68
ALGECIRAS	-0,65	6,81
ALICANTE	25	83,98
ALMERIA	-5,99	128,33
ASTURIAS	-3,64	93,21
BADAJOZ	-1,93	33,15
BARCELONA	168,27	1.368,27
BILBAO	5,46	180,88
BURGOS	-2,69	82,33

CEUTA	-1,58	23,4
CORDOBA	-4,14	126,75
CORUÑA	-4,77	182,24
CUATRO VIENTOS	-4,6	105,97
FUERTEVENTURA	51,13	85,04
GIRONA	1,32	47,16
GRANADA	-5,32	100,06
EL HIERRO	-1,54	73,83
IBIZA	12,76	3,65
JEREZ	-6,76	142,27
LANZAROTE	35,46	0
LA PALMA	48,9	189,36
LOGROÑO	-5,5	78,84
LA GOMERA	-1,27	49,15
LEON	-4,94	120,41
LAS PALMAS	81,42	0
MADRID	84,7	5.374,02
TORREJON	-2,69	58,48
MENORCA	-6,06	164,55
MALAGA	-4,96	924,85
MELILLA	-6,99	150,94
HUESCA	-3,31	75,32
PALMA DE MALLORCA	97,61	0
PAMPLONA	-7,33	138,06
REUS	-6,21	160,57
SABADELL	-4,77	101,3

SALAMANCA	-4,01	53,61
SAN JAVIER	-0,19	64,46
SAN SEBASTIAN	-3,86	73,42
SON BONET	-0,8	23,68
TENERIFE SUR	79,65	0
TENERIFE NORTE	26,78	126,91
SANTANDER	-3,18	111,73
SANTIAGO	-10,65	348,85
SEVILLA	8,18	0
VALENCIA	4,68	213,79
VALLADOLID	-5,61	75,73
VIGO	-8,59	163,64
VITORIA	-8,63	152,55
ZARAGOZA	-5,17	170,26
TOTAL	**580,08**	**12.065,55**

Source: own elaboration based on data from AENA