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Sources of shareholders' wealth gains from asset sales

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Abstract

This paper uses an event study approach to examine the performance improvements accruing to those UK firms making assets sales in a single divestiture. It is found that a divestitu ... etween 0.81% a ... source of the weal ... ved by reducing

Acknow...

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Stark, Bob Wearing and seminar participants at the University of Essex. The usual caveat nevertheless applies.

Notes

The total value of the transaction in the divestiture market is about £108 billion while in the merger market the total value is about £262 billion (for the period 1985–1994). Source: Acquisitions Monthly.

See Saadouni et al. (1996).

The characteristics of those firms that engage in asset sales have been examined but the study does not investigate the source of any gains that may accrue (Maksimovic and Phillips, 2001).

Efficiency: Jain (1985), Hite et al. (1987), Makismovic and Phillips (2001); Focus: John and Ofek (1995), Berger and Ofek (1999); Financing: Shleifer and Vishny (1992) and Lang et al. (1995) for the USA and for the UK Afshar et al. (1992), Lasfer et al. (1996).

R_{it} is $\ln(P_{i,t}/P_{i,t-1})$ and $R_{m,t}$ is $\ln(FT_{m,t}/FT_{m,t-1})$ where $FT_{m,t}$ stands for the FT All Share market index on day t.

The Acquisitions Monthly publication defines a divestiture as a firm announcing the divestiture of either a subsidiary of the firm or a division or unit of the company (i.e. any seg

The com t date of the
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When th adjustment
suggeste vent day was
0.81% (z = 3.97) and for day 1 was −2.08% (z = −3.27).

For comparison, Afshar et al. (1992) have reported that on the announcement day, the shareholders' gain was 0.85% ($t = 5.23$) while Jain (1985) reported 0.45% ($t = 5.95$).

For ($t-1$, t_0), the cumulative abnormal return was 0.66% ($t = 1.72$) with the market model 1.04% ($t = 3.09$) with the index model.

The R-squared values are low by conventional standards but not unusual in regressions that use abnormal returns as the dependent variable.