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# Sources of shareholders' wealth gains from asset sales

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Richard Baker, Ephraim Clark, Jo Danbolt, Ronan Powell, Bill Rees, Richard Taffler, Andy 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 Index.

The Acquisition Premium is calculated as the difference between the offer price and the pre-announcement share price of the target company (i.e. the premium paid by the acquirer over the target's pre-announcement share price).

The control premium is calculated as the difference between the offer price and the pre-announcement share price of the target company (i.e. the premium paid by the acquirer over the target's pre-announcement share price).

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When the target company is acquired, the acquirer may adjust the target's capital structure. Suggested by Dimson (1979), the average actual abnormal return for the event 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.

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