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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 divestiture announcement leads to an increase in shareholders' wealth of between 0.81% and 1.04% depending on the expected return model employed. The source of the wealth gain can be attributed to the relaxing of credit constraints achieved by reducing the level of debt.

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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 segment of the company other than a subsidiary).

The completion date of divestitures is often the same as the announcement date of the divestiture. The reason for this is that a large number of divestitures do not require shareholder approval and are therefore ‘announced’ at a later stage in the legal process or after

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When the announcement is made, the market reacts to the news. For example, the market adjustment suggested by the market reaction to the announcement of the divestiture on day 0 was 0.81% ($z = 3.97$) and for day 1 was -2.08% ($z = -3.27$).

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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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