Applied Financial Economics ›
Volume 15, 2005 - Issue 2

Original Articles

Sources of shareholders’ wealth gains from asset sales

Abdul Magid Gadad & Hardy M. Thomas *

Pages 137-141 | Published online: 02 Feb 2007
Cite this article https://doi.org/10.1080/0960310042000297917

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.

Ack

We woul
encoura a Adedeji,
Richard affler, 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 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 ... determine. The com... has been received ... when final sale ... e anno...

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.