

# **Analysing the Wealth Effects of UK Divestitures: An Examination of Domestic and International Sales**

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## **Abstract**

Here we analyse divestiture announcement effects for UK multinational corporations accounting for the location of the unit sold. We find some bias in market reactions with larger abnormal returns for UK divestitures when compared to overseas sales. US sales generate larger returns than those in Continental Europe or the Asia-Pacific region. We analyse the determinants of abnormal returns using accounting and transaction data, supplemented with country specific data for overseas sales. Abnormal returns for UK sales are explained by financial variables but the size of the transaction relative to the selling firm is the most significant factor in overseas divestitures.

**Key words:** Divestiture, Multinational corporations, abnormal returns, announcement effect

**JEL classification:** G32, G34

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## **1. Introduction**

The decision to restructure brings about considerable changes to a firm's structure and operations. As diversification can be a value reducing process if taken to extremes, as noted by Jensen (1986), Montgomery and Wernerfelt (1988), Morck et al. (1990), Lang et al. (1995) and Servaes (1996) amongst others, companies are often forced to sell units to return to a more manageable structure. Here we consider the disposal of subsidiaries through their sale to another company. The effects of divestiture announcements on shareholder's wealth are usually positive and significantly greater than zero, as in papers such as Hite et al. (1987). However, we are not aware of any previous study that has considered the location of the unit as a factor in determining the reaction of the market to the announcement.

Here we examine the announcement effect for the divestment of units located in different geographical regions. We calculate and compare announcement abnormal returns for the sale of domestic and cross-border based units to determine whether there are differences in the market reaction for divestitures occurring in different geographical locations. We find that the market reacts more favourably to the divestiture of units in the UK and also to sales of units located in culturally and linguistically similar regions. We attribute these differences to the cost and difficulties of gathering and processing information originating in countries where the culture, language and accounting standards are different.

Further, we use accounting variables and deal characteristics to explain the announcement returns. We supplement these variables with data on the legal systems and macroeconomic conditions for the divestitures which took place outside the UK. We find

that accounting variables can explain the abnormal returns for domestic sales but the size of the sale relative to the divesting company is the most important factor in determining the returns for divestitures taking place outside the UK.

This paper proceeds as follows: Section 2 reviews the relevant existing literature and Section 3 discussed the selection of the sample. Section 4 contains the results for the abnormal returns and Section 5 gives the results of the regressions carried out on these abnormal returns. Finally, there is the conclusion.

## **2. Existing Literature**

The announcement of divestitures has been found to produce positive abnormal returns on the stocks of selling firms as in Alexander et al. (1984), Jain (1985), Afshar et al. (1992) and Cooney et al. (2004) although none of these papers consider the location of the divested unit. The magnitude of abnormal returns generated by the announcement of a divestiture has been related to the characteristics of both the selling company and the deal itself. For example, both Klein (1986) and Afshar et al. (1992) found that the size of the unit sold was significantly related to the magnitude of the abnormal returns generated by the announcement of the sale. Furthermore, the financial condition of the selling firm is a significant factor in determining the abnormal returns experienced by the bidder. Divestitures that are carried out to increase industrial focus have also been associated with a positive announcement effect as reported by Comment and Jarrell (1995) and John and Ofek (1995).

The increasing integration of global capital markets has enabled corporations to expand into many different countries. Whilst there are advantages to expanding in this

manner there can also be problems with the organisation and control of a company that is operating in several different countries. Aw and Chatterjee (2004) examined the cumulative abnormal returns accruing to UK firms up to two years after an acquisition and found that the returns for companies acquiring UK targets were larger than those acquiring US targets which were, in turn, larger than the returns generated by the announcement of an acquisition in Continental Europe. The authors attributed these results to differences in culture, language, political and accounting systems across the countries in which the target firms were based.

These differences all impact on the ability of market participants to gather and comprehend information and there is a body of work that finds that these issues can have an impact on both the desirability of overseas investment and the returns that it produces. For example, Coval and Moskowitz (2001) found that fund managers generated higher returns when investing in companies located within close geographical proximity to themselves and attributed this to the fact that being physically closer meant that fund managers could monitor the performance of their investment more closely and would have a better understanding of what was going on. Similarly, Ahearne et al. (2001) concluded informational asymmetries encourage investment in the domestic economy as many investors have doubts about the reliability and quality of information originating overseas. This is echoed by Moscarini (2003) who concluded that the cost of gathering and processing information from overseas was sufficiently large to be problematic and result in inertia in decision making.

Combining these areas of the existing literature we derive the following hypotheses:

1. The announcement of a divestiture in the UK will have a significantly higher announcement effect than the announcement of an overseas divestiture.
2. Of the overseas divestitures, sales of units located in the countries that are similar to the UK will have a larger announcement effects than others.

These hypotheses will be tested in the first set of results presented in this paper. Thereafter, we will examine the determinants of the abnormal returns and present the findings as our second set of results.

### **3. Sample Selection**

This study analyses divestiture announcements made by UK multinationals over the 12 year period from 1992 to 2003. To be included in our sample the announcement had to be made by a firm that was listed on the London Stock Exchange and details of the divestiture were available from the Securities Data Corporation (SDC) database. A total of 1887 transactions were recorded by SDC during this period. We then remove all deals that are below \$50 million to capture the effect of major divestitures alone which are more likely to have a significant impact on the selling company, following the rationale given by Mulherin and Boone (2000). Finally, accounting data and share prices for each selling firm had to be available from DataStream. Our final sample contains 668 transactions and the distribution of the divestitures over the sample period is given in Table 1.

[Insert Table 1 here]

The divestitures in our sample are split into those that took place in the UK (398 observations) and other countries (270 observations). We further sub-divide the overseas sub-sample into divestitures taking place in the US, Continental Europe<sup>1</sup>, Asia Pacific and finally a small group of transactions taking place in countries which do not fit in any of the other classifications, which we denote as Others. Table 2 contains details of the overseas portion of our sample and the number of transactions occurring within each country.

[Insert Table 2 here]

#### 4. Divestment Abnormal Returns

We use the standard event study methodology to capture the impact of the announcement on stock returns. In order to separate the security specific return component from each security's total return during the pre-event estimation period, we use the market model in which the abnormal return is measured as the difference between the securities actual daily returns and expected returns as in equation 1.

$$AR_{it} = R_{it} - E[R_{it}] = R_{it} - \hat{\alpha}_i - \hat{\beta}_i R_{mt} \quad (1)$$

where  $AR_{it}$  is the abnormal return of security  $i$  in period  $t$ ,  $R_{it}$  is the actual realised return on security  $i$  in period  $t$  and  $E[R_{it}]$  is the expected return of security  $i$  in period  $t$ .

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<sup>1</sup> Following Aw and Chatterjee (2004) we use the term Continental Europe to denote divestitures taking place in all European countries except the UK.

The parameters  $\hat{\alpha}_i$  and  $\hat{\beta}_i$  are estimated using 250 daily return observations for each security ranging prior to the beginning of the event window where the actual announcement day is defined to be day zero<sup>2</sup>.

We further aggregate the abnormal returns across securities and over time in order to draw inferences about the overall impact of the divestiture announcement. Cumulative abnormal returns (CARs) are calculated to determine the announcement effect over an event window of several days. Table 3 reports the abnormal returns for the announcement of a divestiture over the period -5 to +10 days where day 0 is the announcement day.

[Insert Table 3 here]

As can be seen from these results, the only consistently significant returns occur on the announcement day and this holds for all the samples we present in Table 3. There is no sign of any leakage of information allowing the market to pre-empt the announcement, as often happens with acquisitions, and there is no sign of any delay in incorporating the announcement into market prices as there are virtually no significant abnormal returns before or after the announcement day itself. This is consistent with the findings of both Afshar et al. (1992) and Gadad and Thomas (2005) who also found that abnormal returns were generated predominantly on the announcement day.

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<sup>2</sup> To check the robustness of our results we estimate the abnormal returns again using the market adjusted model instead of the market model. The results we report here are estimated using an equally weighted measure and we estimate the value weighted results as a second robustness check. Our results are consistent throughout and these alternative findings are available from the authors on request.

We now report the cumulative abnormal returns for the various event windows that we estimate in Table 4.

[Insert Table 4 here]

The cumulative abnormal returns are significantly larger than zero for the whole sample, the UK divestitures sub-sample and the combined overseas sub-sample. When the overseas divestitures are split into the different regions, we note that only the announcement of a divestiture in the US generates a significant market reaction. Our results offer considerable support for our first hypothesis as the UK sub-sample produces larger positive CARs than any of the other samples, followed by the US announcements, Continental Europe and the Asia Pacific region all of which generate positive cumulative abnormal returns. The Other sub-sample generates consistently negative cumulative abnormal returns over the various event windows studied. It should be noted, however, that the cumulative abnormal returns are insignificantly different from zero for the sub-samples representing Continental Europe, Asia Pacific and Others. This echoes the findings of Aw and Chatterjee (2004) who found that announcements of UK acquisitions generated larger returns than US purchases which, in turn, exceeded the announcement effect of an acquisition in Continental Europe. These authors contend that their results are due to the differing cultural, language and political frameworks which make it harder to obtain good quality information upon which sound business decisions can be made. This echoes the information asymmetry arguments of Ahearne et al. (2001), Coval and Moskowitz (2001), Portes et al. (2001) and Moscarini (2003) all of whom argue that the



costs of gathering and evaluating information originating in other countries can impact on managerial decision making and company performance.

## **5. Determinants of Divestment Abnormal Returns**

We gather accounting information on the selling firms to include in the regression models presented later in this paper. Return on capital employed is used as a measure of the performance of the selling company and we follow Afshar et al. (1992) in using the market-to-book ratio to represent the expected growth prospects of the firm. The capital structure of the selling company is represented by the ratio of equity to total assets at the end of the year prior to the divestiture and we supplement this by including a liquidity measure calculated as cash plus marketable securities over total assets. The dividend yield at the end of the year prior to the divestiture was found to be significant in Lang et al. (1995) as a measure of the intended use of the proceeds from the sale.. The size of the company is represented by the log of the total value of assets and is included here following Moeller and Schlingemann (2005) who found it to be significant in explaining returns to acquirers in takeovers. The last company characteristic we include is the change in tangible assets which we use as an indicator of the changing composition of the firm. All the company characteristics are transformed to be relative to the average for the industry in which the company operates.

The characteristics of the deal are also important and we include the relative size of the transaction compared to the market value of the selling company to reflect the significance of the sale to the firm as a whole which is consistent with Klein (1986) and Afshar et al. (1992). Finally, we include a dummy variable that takes the value of one if

the two-digit SIC code for the divested unit matches the SIC code for the primary operations of the selling company, and zero otherwise following Kaplan and Weisbach (1992) and John and Ofek (1995). Using divestitures as a way of focusing the company on its primary operations is associated with higher abnormal returns in both Comment and Jarrell (1995) and John and Ofek (1995). We include descriptive statistics for all of these variables in Table 5.

[Insert Table 5 here]

As can be seen from the table, divesting firms have higher return on capital employed than the industry average for all samples, except Asia Pacific and Others. Throughout our sample, the divesting firms have more debt in their capital structures than the industry average and this is consistent with Lang et al. (1995), who suggest that the funds raised from divestitures may be used to repay debt. The liquidity of firms selling units is significantly higher than the industry average for all regions except Continental Europe. The divesting companies are significantly larger than their industry peers and those selling overseas units are larger than those firms divesting within the UK. Considering the characteristics of the deal, given in Panel B of Table 5, the relative size variable shows that the impact of the sale on the divesting company is significant for all samples we consider with the sole exception of the Others. Finally, we note that the majority of transactions involve units which are not in the selling company's primary areas of operation, supporting the findings of Comment and Jarrell (1995) and Berger and

Ofek (1999) who both suggest that increasing industrial focus is a potential motive for divestitures.

When examining the overseas divestitures we also use several different variables representing the condition of the country in which the unit is located. Following La Porta et al. (1998) we divide the countries in our sample on the basis of the legal system; English, French or German. These terms have been used as a measure of shareholder rights and corporate governance by Moeller and Schlingemann (2005) in their analysis of cross-border acquisitions. We also capture the level of economic growth and development using measures such as the GNP per-capita and the annual real GDP growth rate, following suggestions in Portes et al. (2001). We extend the existing literature on the use of macroeconomic variables in this context by adjusting these measures so that they represent the performance of the country in which the unit is located relative to the United Kingdom. We include these terms to account for the fact that an overseas divestiture might be caused by the economic situation in the country in which the unit is located rather than the condition of the selling company. Companies may enter an overseas market at one time believing that it is a sensible move but may later regret that decision if the market they have entered performs badly compared to their domestic one. If this is the case, then these considerations should be important in determining the abnormal returns generated by the divestiture announcement. We also include dummies identifying the geographical region in which the unit is located.

We now analyse the determinants of the abnormal returns using these accounting and deal specific terms and the results for the UK divestitures are presented in Table 6.

[Insert Table 6 here]

The first result to note here is the highly significant positive coefficient on the market-to-book ratio. This term is used as an indicator of the growth prospects for the selling firm and suggests that the announcement of a divestiture generates a more favourable response when the firm has higher growth options. This is consistent with the notion put forward by Heath and Zaima (1986) that firms use the proceeds from a divestiture to increase investment in other high yielding areas within the firm. Firms with higher growth prospects will be better able to utilise the proceeds of the divestitures than other companies, thus releasing a positive signal to the market and increasing the abnormal returns generated by the announcement.

The coefficient of equity to total assets is negative and significant in all the event windows implying that firms that are financed with a greater proportion of debt experience higher abnormal returns when announcing the divestiture of a unit within the UK which echoes the results of Gadad and Thomas (2005). The last significant result for the UK divestitures sub-sample is the company size which is consistently negative implying that the announcement of a UK divestiture by a smaller firm will result in a higher abnormal return than the same announcement made by a bigger company.

We now present the determinants of abnormal returns for companies announcing the divestiture of a unit outside the UK and here we supplement the accounting and deal characteristics with dummies representing the location of the unit and dummies representing the nature of the legal system, as in La Porta et al. (1998), as well as

measures of the economic conditions of the country in which the unit is located. Table 7 contains these results.

[Insert Table 7 here]

Surprisingly these additional terms are insignificant as are the accounting variables<sup>3</sup>. The only term that is consistently significant is the relative size variable which is positively related to the abnormal returns in all our results. This is consistent with works by Klein (1986) and Afshar et al. (1992) who both found that the size of the divestiture relative to the selling company was positively related to the announcement effect. The failure of any of the other terms to be important in these results may offer some support for our conjecture that the costs of gathering and processing information about overseas deals is prohibitively high and so market participants are basing their response to the announcement of an overseas divestiture on very limited information.

The abnormal returns presented in section 4 of this paper clearly demonstrate that the US behaves differently from the rest of the overseas sample. As a result, we split the sample of overseas divestitures to isolate the US sub-sample and regress the abnormal returns on the accounting and macroeconomic variables. The results are given in Table 8.

[Insert Table 8 here]

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<sup>3</sup> As a robustness check we ran several different versions of this model replacing the La Porta measures by other similar measures including the World Bank income classifications, as used by Fauver et al. (2003), the economic freedom of the World index, used by Gwartney et al. (1996) and the intensity of capital control variables used by Edison and Warnock (2001). The results are robust to these changes.

The return on capital employed is significant and positive for all the event windows estimated here. This is an indicator of the financial performance of the company and suggests that more profitable companies will experience higher abnormal returns when announcing a divestiture in the US. For some event windows the market-to-book ratio is negative and significant whilst the ratio of equity to total assets is positive suggesting that firms with lower growth rates and low levels of debt receive higher abnormal returns when announcing a US divestiture. As with the results for the overseas divestitures as a whole, the relative size is again significant. Once again the dummy variable representing industry relatedness is insignificant as are the macroeconomic terms implying that these factors have no impact on the magnitude of the announcement effect.

The last table of results represents the divestitures that took place in Continental Europe, Asia Pacific and the Other locations and supplements the accounting variables, deal characteristics and macroeconomic variables with regional dummies, and the legal system dummies<sup>4</sup>. The results are in Table 9.

[Insert Table 9 here]

The variable representing the liquidity of the selling firm is positive and significant for most of the event windows suggesting that more liquid firms receive higher abnormal returns. The dummy for Continental Europe is significant in some of the windows offering some support for our hypothesis that the announcement of a divestiture in Europe would receive a higher abnormal return than an announcement in

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<sup>4</sup> Owing to the small number of observations in each of these sub-samples it is not possible to estimate separate regression models for each of them.

either Asia Pacific or the Other regions. Finally, the relative size variable is highly significant in all event windows once again supporting the notion that a larger divestiture receives a bigger market reaction as discussed previously.

## **6. Conclusion**

Here we extend the existing work on divestiture announcement effects by distinguishing between the various geographical locations of the divested unit. Firms announcing divestitures experienced positive abnormal returns on the day of the announcement. There is no evidence of any significant pre-announcement run-up, as there often is with mergers and acquisitions, and all the information is incorporated into the market price on day zero. Cumulative abnormal returns for UK divestitures were positive and significant for all the event windows we considered.

The analysis of the sub-sample of divestitures that involved units based outside the UK as a whole found that the announcement day abnormal return was both positive and highly significant. These results are driven by the announcement returns for divestitures in the US. We subdivide the sample of overseas sale to isolate the US observations and find that the abnormal return on the announcement day is positive and significant. The announcement day abnormal returns and the cumulative abnormal returns for the other overseas divestitures, those involving units located in Continental Europe, Asia Pacific and Other regions, were insignificantly different from zero. This offers some partial support for our conjecture that the market reacts more favourably towards divestitures in countries that are culturally similar to the UK. Once again we attribute these results to the difficulties that many UK investors would have evaluating

the impact of an event taking place overseas. In particular, cross-country differences in accounting standards, regulatory environments and disclosure rules make it more costly for UK investors to obtain and verify the information needed to fully evaluate the impact of a cross-border divestiture on the market value of the selling firm.

The analysis of the determinants of the abnormal returns demonstrates that the variables that determine the impact of UK transactions are very different to those that determine the abnormal returns generated by the announcement of a cross-border divestiture. When considering UK divestitures the results suggest that relatively small firms with high growth prospects generate higher announcement returns.

The abnormal returns in the international divestitures are driven entirely by the relative size of the unit sold and the variables representing the economic and legal conditions of the countries in which the units are located are insignificant. When considering the US alone, the profitability of the selling company is important in addition to the size of the transaction but, once again, the economic conditions are irrelevant in determining the size of the abnormal returns. Finally, we consider the determinants of the abnormal returns for the remaining international divestitures and find that the liquidity of the selling unit and the relative size of the divestiture are both important suggesting that highly liquid firms making large divestitures will generate larger abnormal returns.

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Table 1. The distribution of divestiture announcements on a yearly basis

Year	Number of announcements	Percentage of total	Value (\$m)	Percentage of total	Number of domestic divestitures	Percentage of total	Number of international divestitures	Percentage of total
1992	29	4.34	7,988	3.44	15	3.8	14	5.2
1993	38	5.69	7,386	3.18	23	5.8	15	5.6
1994	33	4.94	7,893	3.40	21	5.3	12	4.4
1995	45	6.74	8,474	3.65	22	5.5	23	8.5
1996	54	8.08	21,385	9.20	30	7.5	24	8.9
1997	59	8.83	15,120	6.51	39	9.8	20	7.4
1998	79	11.83	23,332	10.04	51	12.8	28	10.4
1999	94	14.07	40,899	17.60	57	14.3	37	13.7
2000	83	12.43	46,642	20.07	55	13.8	28	10.4
2001	58	8.68	16,140	6.94	35	8.8	23	8.5
2002	40	5.99	16,015	6.89	27	6.8	13	4.8
2003	56	8.38	21,130	9.09	23	5.8	33	12.2
Total	668	100	232,404	100	398	100	270	100

This table shows the number and value of divestitures made each year from 1992 to 2003. In addition the number of domestic and international divestitures is also shown for each year in the sample period.

Table 2. Geographical locations of international divestitures

Country	Number of observations	Percentage of the total international divestitures
<b>Panel A: United States of America</b>		
US	150	55.56
<b>Panel B: Continental Europe</b>		
Belgium	3	1.11
Denmark	3	1.11
France	10	3.7
Germany	14	5.19
Guernsey	1	0.37
Ireland	2	0.74
Italy	4	1.48
Jersey	1	0.37
Netherlands	15	5.56
Portugal	2	0.74
Russia	1	0.37
Spain	6	2.22
Sweden	2	0.74
Switzerland	4	1.48
<b>Panel C: Asia Pacific</b>		
Australia	23	8.52
China	1	0.37
Hong Kong	3	1.11
India	3	1.11
Indonesia	1	0.37
Japan	1	0.37
New Zealand	1	0.37
Singapore	3	1.11
Taiwan	1	0.37
<b>Panel D: Other</b>		
Brazil	3	1.11
Canada	6	2.59
Chile	1	0.37
Columbia	1	0.37
Russia	1	0.37
South Africa	2	0.74
United Arab Emirates	1	0.37
Total	270	

Table 3. Distribution of abnormal returns for UK divestitures across event windows

AR	Full sample	UK divestitures	International divestitures	US	Continental Europe	Asia Pacific	Others
-5	0.11 (1.28)	0.23** (2.10)	-0.06 (-0.41)	-0.24 (-1.22)	0.18 (0.54)	0.04 (0.12)	-0.27 (-0.62)
-4	0.01 (0.13)	0.03 (0.28)	-0.001 (-0.01)	-0.04 (-0.22)	-0.08 (-0.24)	0.21 (0.59)	-0.26 (-0.61)
-3	-0.04 (-0.35)	-0.09 (-0.85)	0.06 (0.40)	-0.04 (-0.20)	0.32 (0.94)	0.03 (0.10)	-0.02 (-0.04)
-2	0.17* (1.95)	0.30*** (2.72)	-0.02 (-0.15)	-0.02 (-0.14)	0.01 (0.02)	-0.12 (-0.33)	-0.03 (-0.06)
-1	0.08 (0.90)	0.13 (1.20)	0.01 (0.08)	-0.02 (-0.08)	0.10 (0.29)	-0.14 (-0.38)	-0.16 (-0.37)
+0	1.21*** (13.77)	1.60*** (14.38)	0.65*** (4.16)	0.75*** (3.84)	0.28 (0.83)	0.67* (1.86)	0.74* (1.72)
+1	0.01 (0.14)	-0.17 (-1.56)	0.27* (1.70)	0.32* (1.65)	0.25 (0.74)	0.08 (0.22)	-0.68 (-1.59)
+2	0.02 (0.18)	0.07 (0.66)	-0.09 (-0.55)	0.02 (0.09)	-0.06 (-0.19)	-0.26 (-0.71)	-0.38 (-0.88)
+3	0.11 (1.26)	0.13 (1.18)	0.10 (0.64)	0.12 (0.64)	0.02 (0.06)	0.09 (0.25)	-0.20 (-0.47)
+4	0.10 (1.13)	-0.01 (-0.11)	0.29* (1.85)	0.29 (1.47)	0.23 (0.67)	0.30 (0.83)	-0.06 (-0.14)
+5	0.07 (0.82)	0.05 (0.48)	0.08 (0.52)	0.11 (0.54)	0.28 (0.83)	-0.20 (-0.55)	0.11 (0.25)
+6	0.05 (0.62)	0.03 (0.23)	0.08 (0.54)	0.09 (0.44)	0.0001 (0.0004)	0.30 (0.83)	-0.20 (-0.46)
+7	-0.001 (-0.01)	0.14 (1.23)	-0.21 (-1.35)	-0.41** (-2.11)	0.12 (0.35)	0.03 (0.08)	0.32 (0.75)
+8	0.03 (0.38)	0.01 (0.09)	0.06 (0.38)	0.13 (0.66)	-0.08 (-0.24)	0.13 (0.37)	-0.04 (-0.08)
+9	0.08 (0.91)	0.05 (0.45)	0.13 (0.83)	0.32 (1.63)	-0.13 (-0.40)	-0.06 (-0.17)	-0.78* (-1.82)
+10	0.09 (1.07)	0.11 (1.03)	0.06 (0.36)	0.14 (0.72)	-0.09 (-0.27)	-0.19 (-0.51)	0.65 (1.51)

Abnormal returns to the announcement of a divestiture estimated using the market model. T-statistics are in parentheses and the statistical significance for the null hypothesis that the abnormal returns are equal to zero at the 10%, 5% and 1% level are denoted with \*, \*\* and \*\*\* respectively.

Table 4. Abnormal Returns for the Announcement of a Divestiture

Sample used	Event Window						
	CAR(-5,+5)	CAR(-2,+2)	CAR(-1,+1)	CAR(0,+1)	CAR(0,+2)	CAR(0,+5)	CAR(0,+10)
Full sample	1.87*** (6.39)	1.49*** (7.57)	1.3*** (8.55)	1.23*** (9.83)	1.24*** (8.13)	1.52*** (7.06)	1.79*** (6.11)
UK divestitures	2.30*** (6.24)	1.96*** (7.89)	1.58*** (8.20)	1.44*** (9.20)	1.52*** (7.92)	1.69*** (6.21)	2.03*** (5.50)
International divestitures	1.26** (2.42)	0.80** (2.28)	0.91** (3.36)	0.91*** (4.11)	0.82*** (3.03)	1.30*** (3.38)	1.43*** (2.75)
<i>Of which</i>							
US	1.24* (1.92)	1.05** (2.40)	1.06*** (3.12)	1.07*** (3.88)	1.09*** (3.22)	1.60*** (3.35)	1.87*** (2.88)
Continental Europe	1.52 (1.36)	0.57 (0.76)	0.63 (1.08)	0.53 (1.11)	0.46 (0.80)	0.99 (1.21)	0.81 (0.72)
Asia Pacific	0.72 (0.61)	0.24 (0.29)	0.61 (0.98)	0.75 (1.47)	0.49 (0.79)	0.69 (0.78)	0.90 (0.76)
Others	-1.21 (-0.85)	-0.51 (-0.53)	-0.10 (-0.14)	0.06 (0.09)	-0.32 (-0.43)	-0.48 (-0.45)	-0.53 (-0.37)

Cumulative abnormal returns to the announcement of a divestiture estimated using the market model. T-statistics are in parentheses and the statistical significance for the null hypothesis that the cumulative abnormal returns are equal to zero at the 10%, 5% and 1% level are denoted with \*, \*\* and \*\*\* respectively.

Table 5. Descriptive Statistics

	Domestic divestitures	International divestitures	US divestitures	Continental Europe divestitures	Asia Pacific divestitures	Other divestitures
<b>Panel A: Seller Characteristics</b>						
Return on capital employed	0.03*** (4.48)	0.05** (2.09)	0.05*** (2.82)	0.08** (2.41)	-0.01 (-0.20)	-0.001 (-0.05)
Market-to-book	0.78 (0.16)	1.81 (0.82)	9.15*** (2.61)	2.99 (0.79)	0.18 (0.26)	0.12 (0.09)
Equity / total assets	-0.07*** (-8.78)	-0.08*** (-4.75)	-0.13*** (-8.51)	-0.07*** (-3.61)	-0.18** (-2.42)	-0.09* (-1.78)
Liquidity	0.02*** (4.21)	0.05*** (3.50)	0.07*** (5.28)	0.03 (1.62)	0.07*** (3.61)	0.06** (2.19)
Dividend yield	1.16 (1.12)	0.77 (1.09)	0.20** (2.30)	1.24 (1.03)	0.13 (1.06)	0.59 (0.39)
Assets (\$US million)	2743.07*** (13.20)	6325.75*** (2.68)	5461.84*** (8.54)	7054.44* (1.78)	5009.71*** (3.85)	5794.01*** (2.73)
Change in tangible assets	0.04*** (3.53)	0.32 (1.14)	0.001 (0.09)	0.59 (1.22)	-0.06* (-1.78)	-0.03 (-0.84)
<b>Panel B: Deal Characteristics</b>						
Relative size	0.32*** (7.50)	0.21*** (3.01)	0.14*** (5.00)	0.16** (2.01)	0.25* (1.69)	0.35 (1.40)
Industry related (%)	13.57	22.59	31.78	5.26	5.88	0.00

All values in Panel A are industry relative figures. Return on capital employed is calculated by net profit divided by total capital employed in the fiscal year prior to divestiture announcement. Market-to-book variable is the ratio of book equity value over market equity value in the year prior to divestiture announcement. Liquidity is calculated as cash plus marketable securities over total assets and leverage is the measure of debt to equity ratio. The values of assets are denominated in millions of US dollars. Relative size is the ratio of transaction value reported by SDC (equal to total consideration received by the seller excluding fees and expenses and the market value of assets). Industrial related dummy take the value of 1 is the two digit SIC code of the unit divested is the same as that of the primary operation of the seller and zero otherwise. Here we report the percentage of each sample for which the dummy is one. Statistical significance at the 10%, 5% and 1% level is denoted with \*, \*\* and \*\*\*.



Table 6 Regression results for UK divestitures

	Event Window						
	CAR(-5,+5)	CAR(-2,+2)	CAR(-1,+1)	CAR(0,+1)	CAR(0,+2)	CAR(0,+5)	CAR(0,+10)
Constant	0.04*** (2.89)	0.03*** 3.02	0.02** (2.46)	0.02** (2.21)	0.03** (2.56)	0.03** (2.53)	0.05*** (3.44)
Return on capital employed	-0.09 (-1.47)	-0.04 (-0.68)	-0.01 (-0.13)	0.01 (0.24)	0.02 (0.30)	-0.02 (-0.33)	-0.05 (-0.99)
Market-to-book	0.0002*** (5.94)	0.0003*** (6.02)	0.0003*** (8.24)	0.0002*** (6.98)	0.0003*** (5.78)	0.0002*** (4.44)	0.0002*** (4.38)
Equity / total assets	-0.15*** (-2.76)	-0.12** (-2.57)	-0.11** (-2.44)	-0.09** (-2.12)	-0.08* (-1.92)	-0.11** (-2.56)	-0.13*** (-2.74)
Liquidity	-0.09 (-1.36)	-0.06 (-0.91)	-0.05 (-0.92)	-0.03 (-0.55)	-0.04 (-0.73)	-0.04 (-0.83)	-0.05 (-0.94)
Dividend yield	0.00 (-0.11)	-0.00001 (-0.42)	-0.00004 (-1.30)	0.00003 (0.99)	0.00 (0.16)	0.00001 (0.32)	-0.00003 (-0.60)
Size	-0.01** (-2.03)	-0.01* (-1.80)	-0.01* (-1.90)	-0.01** (-2.00)	-0.01** (-2.21)	-0.01** (-2.16)	-0.01*** (-2.99)
Change in tangible assets	-0.04 (-1.30)	-0.03 (-1.26)	-0.03 (-1.23)	-0.02 (-1.09)	-0.02 (-1.06)	-0.03 (-1.12)	-0.03 (-0.99)
Relative size	0.01 0.71	0.01 (1.04)	0.01 (1.12)	0.01 (1.19)	0.01 (1.08)	0.01 (1.08)	0.005 (0.45)
Industry relatedness dummy	0.0003 0.03	-0.01 (-0.97)	-0.01 (-0.60)	0.001 (0.11)	0.001 (0.07)	0.01 (0.51)	-0.0001 (-0.00)
F test	8.50***	8.46***	10.64***	12.14***	8.21***	7.16***	7.38***
R <sup>2</sup>	0.11	0.15	0.17	0.17	0.16	0.13	0.13

Regression of the abnormal return generated by the announcement of the divestiture within the UK. T-statistics are in parentheses and the statistical significance for the null hypothesis that the coefficients are equal to zero at the 10%, 5% and 1% level are denoted with \*, \*\* and \*\*\* respectively.

Table 7 Regression results for international divestitures

	Event Window						
	CAR(-5,+5)	CAR(-2,+2)	CAR(-1,+1)	CAR(0,+1)	CAR(0,+2)	CAR(0,+5)	CAR(0,+10)
Constant	-0.01 (-0.13)	-0.02 (-0.40)	-0.05 (-0.85)	-0.05 (-1.02)	-0.02 (-0.47)	0.01 (0.13)	0.08 (0.79)
Return on capital employed	0.13 (1.43)	0.07** (2.20)	0.06** (2.06)	0.03 (1.09)	0.04 (1.48)	0.11 (1.26)	0.09 (1.01)
Market-to-book	-0.0004* (-1.78)	-0.0002 (-1.49)	-0.0001 (-1.12)	-0.0002 (-0.29)	-0.00001 (-0.19)	-0.0001 (-0.44)	-0.0001 (-0.42)
Equity / total assets	0.11* (1.77)	0.07 (1.44)	0.06 (1.37)	0.03 (0.82)	0.04 (0.87)	0.08 (1.49)	0.05 (0.78)
Liquidity	0.14* (1.93)	0.07* (1.72)	0.07* (1.82)	0.04 (1.22)	0.05 (1.35)	0.11* (1.70)	0.06 (0.83)
Dividend yield	0.01 (0.70)	0.002 (0.55)	-0.001 (-0.33)	-0.001 (-0.26)	0.002 (0.37)	0.003 (0.45)	0.01 (0.89)
Size	-0.004 (-0.74)	-0.004 (-1.03)	-0.005 (-1.46)	-0.005 (-1.49)	-0.005 (-1.44)	-0.01 (-1.44)	-0.01** (-1.96)
Change in tangible assets	-0.02 (-0.94)	-0.01 (-0.96)	-0.0002 (-0.03)	0.001 (0.14)	-0.06 (-0.55)	-0.01 (-0.68)	-0.02 (-0.92)
Relative size	0.05*** (3.43)	0.04*** (4.00)	0.04*** (4.10)	0.036*** (3.62)	0.04*** (3.43)	0.04*** (3.03)	0.05** (2.45)
Industry relatedness dummy	-0.02 (-1.06)	-0.02 (-1.36)	-0.01 (-1.03)	-0.004 (-0.39)	-0.004 (-0.29)	0.01 (0.75)	-0.00003 (-0.00)
US dummy	0.03 (0.84)	0.03 (1.32)	0.02 (1.39)	0.01 (0.81)	0.01 (0.80)	0.01 (0.45)	0.03 (0.75)
Continental Europe dummy	0.06** (2.09)	0.05** (2.11)	0.01 (0.58)	0.01 (0.71)	0.04** (2.01)	0.02 (0.91)	0.05 (1.43)
Asia Pacific dummy	0.03 (0.67)	-0.0002 (-0.01)	0.02 (0.95)	0.01 (0.63)	-0.01 (-0.30)	-0.01 (-0.30)	0.004 (0.10)
GDP growth	0.001 (0.19)	0.002 (0.57)	0.002 (0.56)	0.001 (0.25)	0.001 (0.29)	0.001 (0.23)	0.01 (1.00)

GNP per capita	-0.003 (-0.39)	-0.003 (-0.56)	0.004 (0.79)	0.01 (1.47)	-0.0002 (-0.07)	-0.003 (-0.55)	-0.01 (-1.49)
English legal system dummy	0.04 (0.56)	0.05 (1.21)	0.02 (0.47)	0.01 (0.37)	0.04 (1.09)	0.04 (0.72)	0.06 (0.86)
French legal system dummy	0.02 (0.32)	0.02 (0.69)	0.01 (0.17)	-0.01 (-0.48)	0.003 (0.09)	0.02 (0.45)	0.03 (0.52)
German legal system dummy	-0.03 (-0.43)	-0.02 (0.56)	0.01 (0.25)	-0.001 (-0.02)	0.01 (0.27)	0.003 (0.05)	0.03 (0.43)
F test	3.02*	3.32*	5.06**	3.55*	2.60	2.24	1.36
R <sup>2</sup>	0.17	0.17	0.21	0.19	0.16	0.18	0.15

Regression of the abnormal return generated by the announcement of the divestiture of an overseas unit. T-statistics are in parentheses and the statistical significance for the null hypothesis that the coefficients are equal to zero at the 10%, 5% and 1% level are denoted with \*, \*\* and \*\*\* respectively.

Table 8 Regression results for US divestitures

	Event Window						
	CAR(-5,+5)	CAR(-2,+2)	CAR(-1,+1)	CAR(0,+1)	CAR(0,+2)	CAR(0,+5)	CAR(0,+10)
Constant	-0.01 (-0.13)	0.004 (0.11)	0.01 (0.54)	0.02 (0.76)	0.02 (0.57)	0.02 (0.66)	0.01 (0.12)
Return on capital employed	0.20*** (3.21)	0.10** (2.06)	0.09*** (2.58)	0.07** (1.96)	0.07* (1.89)	0.17*** (3.45)	0.14** (2.19)
Market-to-Book	-0.001*** (-2.70)	-0.0004* (-1.92)	-0.0002 (-1.45)	-0.0001 (-0.79)	-0.0001 (-0.92)	-0.0003 (-1.27)	-0.0003 (-1.42)
Equity / total assets	0.15** (2.53)	0.09* (1.91)	0.07** (2.10)	0.04 (1.35)	0.05 (1.30)	0.12** (2.31)	0.08 (1.26)
Liquidity	0.11* (1.65)	0.05 (0.98)	0.05 (1.20)	0.03 (0.71)	0.03 (0.65)	0.09* (1.55)	0.02 (0.26)
Dividend Yield	-0.01 (-0.92)	-0.01 (-0.72)	-0.01 (-0.86)	-0.003 (-0.57)	-0.003 (-0.52)	-0.01 (-1.07)	-0.01 (-1.44)
Size	-0.002 (-0.32)	-0.002 (-0.36)	-0.004 (-0.81)	-0.01 (-1.07)	-0.04 (-0.89)	-0.01 (-1.07)	-0.01 (-0.81)
Change in tangible assets	-0.02 (-0.46)	-0.02 (-0.49)	-0.01 (-0.41)	-0.002 (-0.55)	-0.03 (-0.82)	-0.05 (-1.26)	-0.09 (-1.56)
Relative size	0.06* (1.77)	0.06** (2.28)	0.05** (2.27)	0.05** (2.31)	0.06** (2.50)	0.04 (1.41)	0.07** (1.96)
Industry relatedness dummy	-0.02 (-0.99)	-0.02* (-1.88)	-0.02 (-1.27)	-0.01 (-0.91)	-0.01 (-0.61)	0.01 (0.32)	0.002 (0.11)
GDP growth	0.01 (1.55)	0.01 (1.32)	0.01 (1.31)	0.01 (1.03)	0.01 (0.95)	0.01 (0.93)	0.01 (1.62)
GNP per capita	-0.0004 (-0.38)	0.0003 (0.39)	-0.001 (-1.02)	-0.001 (-0.99)	-0.001 (-0.96)	-0.001 (-0.96)	0.0001 (0.15)
F test	2.55***	2.29**	2.55***	2.13**	2.14**	2.69***	2,72***
R <sup>2</sup>	0.14	0.12	0.14	0.11	0.11	0.15	0.15

Regression of the abnormal return generated by the announcement of the divestiture of a US unit. T-statistics are in parentheses and the statistical significance for the null hypothesis that the coefficients are equal to zero at the 10%, 5% and 1% level are denoted with \*, \*\* and \*\*\* respectively.

Table 9. Regression results for divestitures in Continental Europe, Asia Pacific and Other regions

	Event Window						
	CAR(-5,+5)	CAR(-2,+2)	CAR(-1,+1)	CAR(0,+1)	CAR(0,+2)	CAR(0,+5)	CAR(0,+10)
Constant	-0.002 (-0.02)	-0.04 (-0.45)	-0.06 (-0.85)	-0.04 (-0.81)	-0.04 (-0.57)	-0.01 (-0.13)	0.11 (0.93)
Return on capital employed	0.07 (0.74)	0.02 (0.28)	0.003 (0.05)	-0.03 (-0.74)	-0.02 (-0.52)	0.06 (0.85)	0.06 (0.77)
Market-to-Book	-0.0005 (-0.63)	0.0003 (0.57)	0.00001 (0.02)	0.0001 (0.25)	0.0004 (1.13)	-0.0003 (-0.53)	-0.002 (-0.38)
Equity / total assets	-0.07 (-0.85)	-0.05 (-0.87)	-0.02 (-0.48)	-0.02 (-0.43)	-0.04 (-0.89)	-0.06 (-0.97)	-0.11 (-1.52)
Liquidity	0.17* (1.71)	0.12* (1.77)	0.09* (1.70)	0.08* (1.80)	0.11** (2.08)	0.17** (2.25)	0.14 (1.44)
Dividend Yield	0.05*** (3.07)	0.01 (1.25)	0.01 (1.19)	0.01 (0.69)	0.01 (1.07)	0.04*** (2.98)	0.05*** (3.70)
Size	0.001 (0.12)	0.0004 (0.07)	-0.002 (-0.53)	-0.002 (-0.51)	0.001 (0.03)	-0.001 (-0.25)	-0.01 (-1.08)
Change in tangible assets	-0.13*** (-3.01)	-0.04 (-1.28)	-0.03 (-1.18)	-0.01 (-0.59)	-0.02 (-1.01)	-0.09*** (-2.93)	-0.14*** (-3.53)
Relative size	0.04** (2.05)	0.03** (2.34)	0.03*** (3.01)	0.03*** (3.26)	0.03*** (2.87)	0.04** (2.50)	0.03* (1.65)
Industry relatedness dummy	-0.004 (-0.10)	-0.01 (-0.38)	-0.01 (-0.63)	0.003 (0.17)	0.004 (0.17)	0.03 (0.89)	0.05 (1.27)
Continental Europe dummy	0.12** (1.99)	0.07 (1.62)	0.04 (1.10)	0.03 (1.12)	0.05* (1.72)	0.07 (1.57)	0.09* (1.69)
Asia Pacific dummy	0.05 (1.14)	0.01 (0.48)	0.03 (1.49)	0.02 (0.99)	0.003 (0.12)	-0.01 (-0.19)	0.01 (0.30)
GDP growth	-0.01* (-1.66)	-0.003 (-0.75)	-0.003 (-0.86)	-0.003 (-1.16)	-0.003 (-0.84)	-0.005 (-0.91)	-0.01 (-0.86)
GNP per capita	-0.006 (-0.51)	-0.004 (-0.54)	0.003 (0.55)	0.004 (0.69)	-0.002 (-0.33)	-0.004 (-0.54)	-0.02 (-1.58)

English legal system dummy	0.07 (0.90)	0.07 (1.47)	0.04 (0.90)	0.03 (0.88)	0.06 (1.53)	0.07 (1.21)	0.08 (1.18)
French legal system dummy	-0.01 (-0.24)	0.03 (0.84)	0.003 (0.12)	-0.01 (-0.43)	0.01 (0.40)	0.01 (0.24)	0.01 (0.12)
German legal system dummy	-0.08 (-1.47)	0.02 (0.51)	-0.001 (-0.03)	-0.002 (-0.07)	0.01 (0.49)	-0.02 (-0.57)	-0.02 (-0.35)
F test	1.85*	1.19	1.51	1.68*	1.42	1.88*	2.01**
R <sup>2</sup>	0.20	0.05	0.13	0.17	0.11	0.21	0.23

Regression of the abnormal return generated by the announcement of the divestiture of a unit in Continental Europe, Asia Pacific or Other regions. T-statistics are in parentheses and the statistical significance for the null hypothesis that the coefficients are equal to zero at the 10%, 5% and 1% level are denoted with \*, \*\* and \*\*\* respectively.